Report on Trend and Progress of Banking in India for the year ended June 30, 2006 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 2005-06

RESERVE BANK OF INDIA

Sale Price:

In India	–	Rs. 400	(Normal)
	–	Rs. 450	(Inclusive of Postal Charges)
	–	Rs. 300	(Concessional)
	–	Rs. 350	(Concessional – Inclusive of Postal Charges)
Abroad	–	US $ 40	(Inclusive of Air Mail Courier Charges)
	–	US $ 25	(Inclusive of Air Mail Book-Post Charges)

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LETTER OF TRANSMITTAL

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November 14, 2006
Kartika 23, 1928 (Saka)

The Secretary,
Department of Economic Affairs (Financial Sector),
Ministry of Finance,
Government of India,
New Delhi - 110 001.

Dear Mr. Secretary,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 2006.

Yours faithfully,

(Y.V. Reddy)

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Overview

Global Economy

1.1 The phase of high economic growth continued during 2005 with global economic growth at 4.9 per cent[1]. This was the third year in succession when the world GDP growth exceeded 4.0 per cent level. The strength of world GDP growth, well above its long-run average of 3.8 per cent, was accompanied by a growing resilience to large systemic shocks, particularly the rise in international oil prices. The growth in the world output was led by emerging Asia, accounting for more than half of the increase in global output in 2005, while the US and Europe grew at a somewhat lower rate during the year. Robust growth in Asia in 2005 was led by China (10.2 per cent), India (8.4 per cent) and Hong Kong (7.3 per cent). The long-awaited revival of Japan is expected not only to add to the dynamism of the Asian region but also strengthen growth in the OECD countries. In Russia and Latin America too, growth has been buoyant. In the United States, high oil prices, rising short-term interest rates, slackness in housing markets and the hurricanes in September contributed to slowing down of real GDP growth to 3.2 per cent in 2005 from 3.9 per cent in 2004. In the euro area, a recovery is underway with real GDP growth rising to 1.3 per cent in 2005.

1.2 Headline inflation firmed up in a number of economies in 2005, reflecting price pressures emanating mainly from spiraling oil prices. Supported by rapid demand growth (especially in emerging Asia), non-energy commodity prices also displayed rising trend through 2005. The oil market faced extreme uncertainty during 2005 on account of two destructive hurricanes in the US Gulf Coast, tensions in the Middle East, political unrest in some other oil exporting countries and limited spare capacity. The international pass-through of oil prices to domestic retail prices has, however, varied across countries with varying implications for future inflation. The inflation expectations during 2005 remained relatively contained, despite strengthening of oil and non-oil prices.

1.3 Global financial imbalances widened further during 2005 with the US current account deficit surpassing US$ 800 billion level in an environment of rising interest rates worldwide and ample liquidity in global financial markets. Financial markets stayed calm despite further deterioration in the US current account balance.

1.4 In an environment of above trend growth in the world economy, unusually low volatility in financial markets and strong profitability, investors purchased risky assets at relatively high prices in 2005. Measures of implied volatility extracted from option prices in major foreign exchange, interest rate and equity markets have been at their lowest levels in several years, suggesting that these favourable developments are expected by the markets to continue. Real short-term and long-term interest rates in the major currency areas stayed well below long-term averages. Ten-year bond yields in Japan, the euro area and the US were at 1.9 per cent, 3.9 per cent and 5.0 per cent, respectively. Associated with this development, low risk premia supported asset values across the board. Housing prices boomed in many countries. Equity prices increased to multi-year highs in the major economies. Unusually tight credit spreads accompanied an acceleration of credit growth to rates comparable to those observed in the late 1990s. The main exception to this general pattern was commodity prices, which showed considerable volatility in recent years.

1.5 However, large fiscal deficits, household savings at unsustainably low levels in some of the developed economies (especially the US), low corporate investment and high global current account imbalances still pose a challenge to the current global upswing.

Developments during 2006

1.6 Global growth accelerated in the first half of 2006 and appears to be getting diffused across the main economic regions. Global growth is expected to pick up from 4.9 per cent in 2005 to

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

5.1 per cent in 2006 (IMF, 2006). In the US, real GDP growth in the third quarter (July-September) was recorded lower at 1.6 per cent as compared with 5.6 per cent and 2.6 per cent in the first and second quarters, respectively. The slowdown in the US economy is expected to be offset by stronger growth in other parts of the world. According to the World Economic Outlook of the IMF released in September 2006, while the growth in the euro area is expected to increase to 2.4 per cent in 2006 – its highest rate in six years – before moderating to 2.0 per cent in 2007, the Japanese economy would grow by 2.7 per cent in 2006, based on strong domestic demand, before easing to 2.1 per cent in 2007. Growth in emerging markets and developing countries is expected to remain very strong at 7.3 per cent in 2006, and moderate only marginally to 7.2 per cent in 2007.

1.7 Consumer price inflation in the advanced economies accelerated in the second quarter of 2006; there was, however, some easing during September 2006 on the back of base effect as well as the sharp decline in international crude oil prices. In the US, consumer prices rose to 4.3 per cent in June 2006 from 3.5 per cent in April, 2006 but eased to 2.1 per cent in September 2006 broadly in tandem with movements in oil prices. In the euro area too, inflation rose to 2.5 per cent in May and June from 2.4 per cent in April; it was 1.8 per cent in September 2006. In major industrial countries, movements in inflation have been driven mainly by movements in oil prices. Crude oil prices started increasing from April 2004 and almost doubled in little over next two years, touching a high of US$ 78.7 per barrel on July 14, 2006. Since then, prices eased sharply to reach around US$ 60 per barrel in the second half of September 2006 and fell below US$ 60 a barrel in early October 2006 on the back of signs of slowdown of global demand, easing of tensions over Iran's nuclear programme and substantial build-up of US inventories. Although prices have eased significantly over the past one month, they still remain quite high. Substantial increases have occurred in a wide range of commodity prices. While prices of oil and metals continue to be the main drivers, food prices have also started edging up. Inflation expectations have also been reflected in the gap between nominal and inflation-indexed bonds which hovered in the range of 2.2-2.7 per cent in the US during May-July, 2006.

1.8 In fact, the recent turmoil in global markets appears to have been triggered by key commodity prices. In addition, risks loom large in the form of lagged second order effects of oil price increases, geo-political tensions, the probability of disruptive adjustment of current account imbalances and the cooling of global housing market.

1.9 Global imbalances, emanating mainly from the twin deficits of the US, continued to widen during 2006 in an environment of rising interest rates worldwide and prospects of contraction of liquidity in the global financial markets. This was matched by increased current account surpluses elsewhere, particularly in Japan, Europe, China and other parts of emerging Asia and oil-exporting countries. The sharp rise in the net foreign liability position of the US raises the risks of an abrupt and disorderly adjustment of major currencies.

1.10 Financial markets are becoming increasingly apprehensive about the risks of a disorderly adjustment of the widening global imbalances. Adverse expectations of markets were recently evident in the large declines in stock exchanges across the globe and a visibly increased preference for debt. Long-term sovereign bond yields, which had moved up briefly, have again fallen well below their long-run averages. Yield curves have either flattened or inverted in major industrial economies. Against the background of these global developments, a large number of central banks recently raised their official interest rates from the unusually low levels that they had reached earlier in the decade.

Indian Economy

Macro Environment

1.11 The Indian economy recorded a strong growth rate of 8.4 per cent during 2005-06 on top of 7.5 per cent growth in the previous year. Real GDP growth between 2003-04 and 2005-06 averaged at 8.1 per cent. The real GDP growth in 2005-06 was contributed by the recovery in agriculture and sustained expansion in industry and services. Real GDP originating from agriculture and allied activities registered a growth of 3.9 per cent, recovering from a low of 0.7 per cent in the previous year. The growth of real GDP originating from industry is estimated by Central Statistical Organisation (CSO) to have moved up to 7.6 per cent in 2005-06 from 7.4

per cent in the previous year. The industrial production, based on index of industrial production (IIP), recorded an impressive growth of 8.2 per cent during 2005-06 on top of 8.4 per cent growth a year ago. Sustained expansion in domestic as well as export demand and increased capacity utilisation underpinned the strength of the manufacturing sector. The services sector maintained a double-digit growth of 10.3 per cent during 2005-06, which was marginally higher than 10.2 per cent growth in the previous year. The services sector, with almost three-fifth of share in the GDP, led the Indian economic growth in 2005-06.

1.12 Headline inflation, measured by year-on-year variations in the wholesale price index (WPI), was lower at 4.1 per cent at end-March 2006 compared with 5.1 per cent a year ago. In April 2005, inflation ruled high at around 6.0 per cent, reflecting increase in prices of fruits and vegetables, iron and steel and select petroleum products. Subsequently, with the revival of the monsoon, inflation began to ease and reached an intra-year low of 3.3 per cent by August 27, 2005. Inflation again edged up during the third quarter of 2005-06 – but remained below 5.0 per cent - under the impact of the hike in petrol and diesel prices in early September 2005 as also higher vegetable prices. During January-March 2006, seasonal easing of vegetable prices as well as reduction in domestic iron and steel prices offset upward pressures from non-ferrous metals and electricity. Despite dominance of supply-side pressures emanating from oil price increases, headline inflation for 2005-06 turned out to be lower than anticipated. Several factors helped in containing inflation such as pre-emptive monetary policy actions in the form of reverse repo rate hikes, the incomplete pass-through of international oil prices to domestic prices, productivity gains in several sectors and improved corporate profitability.

1.13 The gross fiscal deficit (GFD) to GDP ratio for 2005-06 was at 4.1 per cent as against the budget estimate of 4.3 per cent. The improvement in the GFD was facilitated by a decline in capital outlay and the availability of disinvestment proceeds. The revenue deficit, though lower in absolute terms, remained at budgeted level of 2.7 per cent of GDP in 2005-06.

1.14 Broad money (M3) registered a higher growth of 17.0 per cent during 2005-06 compared with 12.1 per cent during the previous year and 14.5 per cent projected in the Annual Policy Statement for 2005-06. The year-on-year increase in bank credit to the commercial sector, was higher at 27.0 per cent compared with the increase of 22.8 per cent in the previous year. The overall net bank credit to the Government increased by Rs.20,386 crore during 2005-06, as compared with Rs.1,670 crore in 2004-05, reflecting the liquidity injection operations mainly undertaken from November 2005 to March 2006. The banking sector's net foreign exchange assets increased reflecting primarily the increase in net foreign exchange assets of the Reserve Bank. The non-resident foreign currency deposits of scheduled commercial banks declined by Rs.16,876 crore during 2005-06 as against an increase of Rs.802 crore during 2004-05 mainly due to the India Millennium Deposits (IMD) redemption (US $ 7.1 billion or Rs.31,959 crore) in December 2005.

1.15 The Reserve Bank continued to take measures to increase depth and liquidity in the money, the Government securities and the foreign exchange markets during the year. Financial markets generally remained orderly during 2005-06 although interest rates firmed up across the spectrum in the second half of the year. Liquidity conditions were generally comfortable, except for some tightness in the fourth quarter due to redemption of IMDs, amidst sustained credit growth and build up of cash balances by the Government. The total overhang of liquidity as reflected in outstandings under the Liquidity Adjustment Facility (LAF), the Market Stabilisation Scheme (MSS) and surplus cash balances of the Central Government increased marginally from March to October 2005, but declined steadily thereafter till February 2006. The overnight rates in the call money, market repo and collateralised borrowing and lending obligations (CBLO) segments, which were around the lower end of the LAF rate corridor till October 2005, started hardening in November as the shift in liquidity conditions from surplus to deficit rendered a few market participants short of both liquidity and collateral securities. The overnight rates, which were around the LAF reverse repo rate, registered a sharp rise responding to the underlying liquidity conditions. While on many occasions the overnight rates in the call money segment went above the LAF corridor during the third quarter of 2005-06, rates in the collateralised markets moved towards the upper end of the LAF corridor during the same quarter. Interest rate in the call market moved up from an average of 5.12 per cent in October 2005 to 6.93 per cent in February 2006, before moderating to 6.58 per cent in March 2006. A noteworthy development during the year was the substantial migration from the uncollateralised call money segment to the CBLO market.

1.16 The weighted average discount rate (WADR) on commercial paper of 61-90 day maturity rose to 8.72 per cent in March 2006 from 5.89 per cent in March 2005. As on July 15, 2006, the WADR of CPs of same tenor declined by 176 basis points to 6.96 per cent. In the Government securities market, the primary market yields of 91-day and 364-day Treasury Bills increased from 5.12 per cent and 5.60 per cent at end-April 2005 to 6.11 per cent and 6.42 per cent, respectively, at end-March 2006. The 182-day Treasury Bill yield moved up from 5.29 per cent to 6.61 per cent during the same period. The primary market yields of 91-day, 182-day and 364-day Treasury Bills were 5.49 per cent, 6.14 per cent and 6.06 per cent, respectively, in the auctions held in April 2006. The yield on Government securities with 5-year and 10-year residual maturity hardened by 87 and 84 basis points, respectively, during 2005-06.

1.17 The equity market witnessed strong rallies with intermittent corrections. The BSE Sensex (1978-79=100) increased sharply by 73.7 per cent, on a point-to-point basis, during 2005-06, fuelled largely by large investments by foreign institutional investors (FIIs) and domestic investors on the back of strong macroeconomic fundamentals.

1.18 India's balance of payments (BoP) position remained comfortable during 2005-06, despite pressures from record high international crude oil prices. India's merchandise exports remained robust for the fourth year in succession, averaging 24.0 per cent per annum, reflecting increasing competitiveness of the technology intensive domestic manufacturing. Growth in non-oil imports also remained strong on the back of buoyant investment activity. The surplus on the invisibles account expanded led by exports of software and other business services, and private remittances, thereby financing almost four-fifth of the trade deficit. The current account deficit widened during 2005-06, reflecting the cumulative impact of high level of international crude oil prices and growth in imports underpinned by strong industrial activity. As a proportion of GDP, the current account deficit, however, remained modest. Net inflows under major components of capital flows, foreign direct investment (FDI), portfolio investment and NRI deposits were higher than a year ago, reflecting increased appetite for domestic financial assets and growing interest in the economy's growth. Both FDI and foreign portfolio investment flows increased during 2005-06. FDI registered a robust growth of 28.0 per cent during 2005-06 on the back of positive investment climate, improved growth prospects and initiatives undertaken aimed at rationalising and liberalising the FDI policy and simplifying the procedures. Portfolio equity flows increased further during 2005-06, mainly on account of higher inflows from FIIs.

1.19 India's balance of payments position has continued to remain comfortable during 2006-07 so far. Merchandise exports recorded a strong growth during April-September 2006, *albeit* lower than last year. Growth in non-oil imports registered a sharp deceleration, partly on account of decline in imports of gold and silver. Imports of capital goods increased on the back of investment demand, notwithstanding some deceleration on a high base. Oil imports remained large in view of further hardening of international crude oil prices. The surplus on the invisibles account remained buoyant during the first quarter of 2006-07, led by exports of software and other business services, and the private remittances. It financed two-thirds of the trade deficit. The current account deficit during the first quarter of 2006-07 widened from a year ago, reflecting higher trade deficit.

1.20 India remained one of the largest recipients of portfolio inflows during 2005. With capital inflows substantially higher than the current account deficit, the overall BoP recorded a surplus during 2005-06. Consequently, India's foreign exchange reserves increased by US$ 10.1 billion during 2005-06 to reach US$ 151.6 billion at end-March 2006, which was the fifth largest stock of international reserve assets among emerging market economies.

Scheduled Commercial Banks

1.21 The banking sector reflected a pick-up in the real economic activity during 2005-06. In the backdrop of robust macroeconomic environment, bank credit witnessed a strong expansion for the second year in succession. The demand for credit was also broad-based led by the housing and the retail sectors. The growth in deposits, though higher than the previous year, was insufficient to meet the high credit demand forcing the banks to liquidate their holdings of Government securities. It was the first time since the nationalisation of banks in 1969 that investment by commercial banks in Government securities declined in absolute terms (by Rs.19,514 crore) in any single year. Similarly, investments by the commercial banks in bonds/debentures/shares of the corporate sector also declined during the year.

1.22 Commercial banks' holdings of Government and other approved securities declined from 38.2 per cent of their net demand and time liabilities (NDTL) at end-March 2005 to 31.3 per cent at end-March 2006. While the excess SLR holdings amounted to Rs.1,45,297 crore at end-March 2006, several banks now seem to be operating their SLR portfolios close to the statutory minimum level of 25.0 per cent.

1.23 Interest rates on deposits of over one year maturity of public sector banks (PSBs) moved up from 5.25-7.25 per cent in April 2005 to 5.50-7.75 per cent in March 2006. During the same period, the benchmark prime lending rates (BPLRs) of public sector banks and foreign banks remained unchanged in the range of 10.25-11.25 per cent and 10.00-14.50 per cent, respectively. The BPLRs of private sector banks moved up to a range of 11.00-14.00 per cent from 11.00-13.50 per cent in the same period. The median lending rates for term loans (at which maximum business is contracted) in respect of major PSBs, which remained unchanged at 8.00-11.63 per cent during December 2005 to March 2006, increased to 8.00-12.00 per cent in June 2006 and further to 8.50-12.00 per cent in September 2006 (provisional).

1.24 The net profits of the scheduled commercial banks (SCBs) as a group increased during 2005-06 (Table I.1). The sharp rise in credit growth was a accompanied by a significant improvement in asset quality as reflected in the decline in the gross and net non-performing assets (NPAs) of SCBs, both in absolute terms and in relation to loans and advances. This trend was witnessed across all the bank groups. Robust macroeconomic environment and various institutional measures put in place by the Reserve Bank/Government have improved the recovery climate significantly.

1.25 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, increase in risk weights on lending to certain sectors and application of capital charge for market risk. Tier I capital adequacy ratio increased significantly to 9.3 per cent in March 2006 from 8.4 per cent in March 2005, partly due to transfer of IFR from Tier II capital and partly due to increase in reserves and surplus, and fresh resources raised from the capital market, both domestic and international. The higher Tier I ratio implies the availability of more headroom for raising capital funds through the Tier II route.

Co-operative Banks

1.26 Operations of the urban co-operative banks (UCBs) witnessed a moderate growth during 2005-06 financed mainly by deposits growth. While loans and advances as well as investments witnessed a moderate growth, non-SLR investments grew substantially. Sharp growth was also noticed in short-term deployment of funds. The financial performance of scheduled UCBs improved significantly. Asset quality of UCBs improved markedly, both in absolute terms and relative to the loan portfolio.

1.27 Business operations of all segments of rural co-operative banks expanded during 2004-05. Sharp growth in credit was observed in sync with other segments of the financial sector, while deposits grew moderately. There were wide variations, however, across institutions. Within the short-term rural structure, while the state co-operative banks earned lower profit, district central co-operative banks earned higher profit. Primary agricultural credit societies (PACS), on the whole, continued to record overall losses, although many of them earned profit. In the case of long-term co-operative structure, while the state co-operative agriculture and rural development banks made losses, primary co-operative agriculture and rural development banks (PCARDBs) made a turnaround. Asset quality of

Table I.1: Select Financial Sector Indicators: 2005-06

Category		Indicator	2004-05	2005-06
1		2	3	4
1. Scheduled Commercial Banks	a)	Growth in Major Aggregates (per cent)		
		Aggregate Deposits	16.6	17.8
		Loans and Advances	33.2	31.8
		Investment in Government Securities	9.4	-1.0
	b)	Financial Indicators (as percentage of total assets)		
		Operating Profits	2.2	2.0
		Net Profits	0.9	0.9
		Spread	2.8	2.8
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	5.2	3.3
		Net NPAs	2.0	1.2
2. Urban Co-operative Banks	a)	Growth in Major Aggregates (per cent)		
		Deposits	-4.7	6.9
		Credit	-1.6	5.2
	b)	Financial Indicators (as percentage of total assets)@		
		Operating Profits	0.8	1.1
		Net Profits	0.2	0.5
		Spread	1.8	1.9
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	23.4	19.7
		Net NPAs	12.5	9.6
3. Rural Co-operative Banks	a)	Number	1,09,924	–
	b)	Growth in Major Aggregates (per cent)		
		Deposits	3.3	–
		Credit	9.0	–
	c)	Financial Indicators (as percentage of total assets)@		
		Societies in Profit (Number)	47,610	–
		Societies in Loss (Number)	61,872	–
		Overall Profit/Loss (Rs. crore)	232	–
	d)	Non-Performing Assets (as percentage of advances)*	24.4	–
4. All-India Financial Institutions	a)	Growth in Major Aggregates (per cent)#		
		Sanctions	-45.1	38.9
		Disbursements	-37.0	33.9
	b)	Financial Indicators (as percentage of total assets)**		
		Operating Profits	1.2	1.4
		Net Profits	0.8	1.0
		Spread	1.6	1.8
	c)	Non-Performing Assets (as percentage of advances)**		
		Net NPAs	4.0	1.1
5. Non-banking Financial Companies (excluding RNBCs)	a)	Growth in Major Aggregates (per cent)		
		Public Deposits	-9.1	-32.1
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	1.6	0.4
	c)	Non-Performing Assets (as percentage of advances)##		
		Net NPAs	2.5	0.4
6. Residuary Non-banking Companies (RNBCs)	a)	Growth in Major Aggregates (per cent)		
		Deposits	8.3	21.5
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	0.5	0.7

@ : Relating to scheduled urban co-operative banks.
* : Includes overdues amount for PACS.
\# : Relating to IFCI, IIBI, SIDBI, IVCF, ICICI Venture, TFCI, LIC, and GIC.
** : Relating to seven FIs, *viz*., IFCI, IIBI, Exim Bank, TFCI, SIDBI, NABARD and NHB.
\#\# : For reporting companies with variations in coverage.

short-term rural co-operative institutions improved, while that of long-term institutions deteriorated during the year. Improvement in the recovery performance of the PACS brought down their overdues ratio.

Financial Institutions

1.28 Financial assistance sanctioned and disbursed by all-India financial institutions (AIFIs) registered a sharp turnaround during 2005-06. Financial assistance sanctioned and disbursed by FIs increased by 38.9 per cent and 33.9 per cent, respectively, during 2005-06 as compared with a sharp decline of 45.1 per cent and 37.0 per cent, respectively, during the previous year. Almost all categories of financial institutions witnessed a high growth during 2005-06 as against the varying performance witnessed during 2004-05.

1.29 Capital adequacy ratio of FIs, barring the two loss-making institutions, continued to be significantly higher than the prescribed norms. However, CRAR of IIBI and IFCI eroded further during the year on account of continued financial losses.

1.30 The higher lending rates accompanied with reduced costs resulted in higher spread for FIs as the net interest income as percentage of total assets increased to 1.8 per cent in 2005-06 from 1.6 per cent in 2004-05. Non-interest income of FIs also registered a significant increase during the year. However, near doubling of operating expenses resulted in erosion of profitability of FIs.

Non-banking Financial Companies

1.31 Total assets/liabilities of NBFCs (excluding RNBCs), which had increased by 9.9 per cent during 2004-05, declined by 1.2 per cent during 2005-06. Borrowings, which represent a major source of funds for NBFCs, increased at a lower rate of 2.6 per cent during 2005-06 compared with a growth of 10.5 per cent in the previous year. While owned funds (capital and reserves) registered a marginal increase, public deposits declined by 32.1 per cent during 2005-06. On the asset side, loans and advances and hire purchase assets together accounted for more than three-fourth of total assets. While loans and advances declined by 27.8 per cent, hire purchase assets increased by 38.1 per cent during 2005-06.

1.32 Among NBFC groups, while assets/liabilities of hire purchase finance companies increased, those of equipment leasing companies, investment and loan companies declined during the year ended March 2006. This broadly reflected the impact of resources raised through deposits and borrowings. Hire purchase finance companies was the largest NBFC group, constituting 80.7 per cent of total assets/liabilities of all NBFCs at end-March 2006, followed distantly by equipment leasing companies (9.8 per cent), investment companies (4.5 per cent) and loan companies (3.9 per cent).

Developments during 2006-07

1.33 Real GDP growth during Q1 2006 (April-June) was placed at 8.9 per cent over the corresponding quarter of the previous year. Accordingly, the CSO, in September 2006, revised the estimates of real GDP growth for 2005-06 to 8.4 per cent - up from the advance estimates of 8.1 per cent released in February 2006. Led by manufacturing, which returned to double-digit growth in April-August, 2006 (11.8 per cent), mining and electricity, the index of industrial production (IIP) rose by 10.6 per cent during April-August 2006, higher than 8.7 per cent in April-August 2005. The services sector recorded an impressive double-digit growth at 10.5 per cent in April-June 2006 (10.1 per cent in April-June 2005) on the back of impressive growth in ‘trade, hotel, restaurants, transport, storage and communication’ (13.2 per cent in April-June 2006). Lead indicators of services sector activity suggest that the robust growth recorded in 2005-06 would be sustained in 2006-07.

1.34 Inflation, measured by variations in the wholesale price index (WPI), on a year-on-year basis, rose to 5.4 per cent as on October 21, 2006 from 4.1 per cent at end-March 2006. During the current financial year 2006-07 (up to October 14, 2006), prices of primary articles, manufactured products and ‘fuel, power, light and lubricants’ registered increases of 7.8 per cent, 4.5 per cent and 5.5 per cent, respectively, as against 2.8 per cent, 2.8 per cent and 10.6 per cent, respectively, in the corresponding period of last year. Prices of primary food articles lead by wheat, pulses, fruits and milk have posed upward pressures on headline inflation during 2006-07 so far. Manufactured products inflation has been mainly on account of higher prices of metals.

1.35 During the fiscal year 2006-07 (up to October 13, 2006), M3 increased by 7.8 per cent as compared with an increase of 6.1 per cent in the corresponding period of the previous year. On a year-on-year basis, money supply (M3) increased by 19.0 per cent as compared with 16.8 per cent last year. Net bank credit to the Government increased by 4.7 per cent during the financial year (up to October 13, 2006) as compared with an increase of 3.0 per cent in the corresponding period of the previous year. Bank credit to the commercial sector, on a year-on-year basis, increased by 26.4 per cent on top of the increase of 26.9 per cent a year ago. The movements in reserve money during 2006-07 (up to October 20, 2006) largely reflected in liquidity management operations of the Reserve Bank. The overhang of liquidity in the system, as reflected in the outstanding balances under LAF, the Market Stabilisation Scheme (MSS) and the Central Government's cash balances with the Reserve Bank was Rs.69,153 crore as on October 20, 2006 as compared with Rs.85,140 crore at end-March 2006.

1.36 Bank deposits as well as credit recorded a strong growth during the fiscal year 2006-07. Bank deposits and bank credit increased by Rs.1,85,244 crore (8.8 per cent) and Rs.1,36,643 crore (9.1 per cent), respectively, during the fiscal year 2006-07 (up to October 13, 2006) so far as compared with Rs.1,15,309 crore (6.5 per cent) and Rs.1,19,168 crore (10.3 per cent), respectively, during the corresponding period of 2005-06. Demand for bank credit continued to remain high in view of strong macroeconomic activity. Scheduled commercial banks' non-food credit, on a year-on-year basis, expanded by 30.5 per cent as on October 13, 2006 on top of the increase of 31.8 per cent a year ago. Provisional information on sectoral deployment of bank credit indicates that retail lending rose by 47.0 per cent at end-June 2006, year-on-year, with growth in housing loans being 54.0 per cent. Loans to commercial real estate grew by 102.0 per cent. The year-on-year growth in credit to industry and agriculture was 27.0 per cent and 37.0 per cent, respectively, at end-June 2006.

1.37 Indian financial markets remained largely orderly during 2006-07, although some pressures were observed in the Government securities market. Call money rates eased by 52 basis points from 6.6 per cent at end-March 2006 to 6.1 per cent during August 2006. In September 2006, the monthly average call money rate increased to 6.3 per cent mainly due to the transient liquidity pressure on account of advanced tax outflow amidst high credit growth and festival season currency demand during the second half of the month. The monthly average call rate increased further to 6.8 per cent in October 2006. Call money rates remained generally close to the reverse repo rate. Activity in the CP market picked up with an increase in the outstanding amount by 90.0 per cent to Rs.24,419 crore by end-September 2006 from Rs.12,718 crore at end-March, 2006. The weighted average discount rate on CP declined from 8.6 per cent to 7.7 per cent during the period. The weighted average discount rate on certificates of deposit (CDs) declined marginally to 8.5 per cent as on September 15, 2006 from 8.6 per cent at end-March 2006. The outstanding amount of CDs increased by 46.6 per cent to Rs.63,864 crore during the financial year so far (up to September 15, 2006).

1.38 The primary yields on 91-day Treasury Bills increased to 6.6 per cent as on October 26, 2006 from 6.1 per cent at end-March, 2006. Yields on 10-year Government securities, on the other hand, increased to 7.6 per cent as on October 30, 2006 from 7.5 per cent at end-March 2006. The hardening was due to a variety of factors such as: (i) unsettled inflation expectations in the wake of soaring international crude oil prices feeding into interest rate uncertainty; (ii) sustained credit growth and competing demand for funds between public and private sectors; and (iii) apprehensions of additional pressures on market resources from perceptions of possible higher borrowings by the Centre in the second half of the year.

1.39 In the credit market, deposit and lending rates edged up as credit demand remained strong. Banks generally increased their deposit rates by about 50-175 basis points across various maturities between March 2006 and October 2006. Many public and private sector banks increased their benchmark prime lending rates by 50-100 basis points over the same period. Foreign banks kept their BPLR unchanged at 10.00-14.50 per cent over the period.

1.40 The Indian foreign exchange market generally witnessed orderly conditions during the current financial year so far (up to October 27, 2006). The exchange rate of the rupee which was at 44.61 per US dollar at end-March 2006, depreciated by 1.4 per cent to 45.22 by October 27, 2006. The rupee depreciated against major international currencies such as euro, pound sterling and Japanese yen. During the current financial year (as on October 27, 2006), the rupee depreciated by 5.5 per cent against euro, 9.0 per cent against pound sterling and 0.5 per cent against Japanese yen. The behaviour of Indian rupee against other major currencies was largely a reflection of the movements of US dollar against these currencies. Forward premia declined during the first quarter of 2006-07 in tandem with the narrowing of interest rate differential following easing of domestic money market interest rates coupled with further monetary tightening in the US. However, forward premia moderately firmed up during the second quarter of 2006-07.

1.41 The equity markets witnessed significant swings during 2006-07 (up to October 31, 2006). The stock markets witnessed a sharp correction during May-June 2006 in line with the trends in major international markets. However, the markets recouped losses thereafter as the BSE Sensex firmed up to reach an all-time high of 13131 on November 3, 2006, on account of net investments by FIIs, strong corporate financial results, firm trend in major Asian equity markets, US Federal Reserve's decision to keep interest rates unchanged in the last three FOMC meetings and decline in global crude oil prices.

1.42 India's merchandise exports recorded a strong growth of 22.9 per cent during April-September 2006 as compared with 34.2 per cent in the corresponding period of the previous year. The overall growth in imports moderated during April-September 2006 mainly due to deceleration in non-oil imports growth (11.5 per cent compared with 47.9 per cent a year ago). The trade deficit widened to US $ 24.6 billion during April-September 2006 from US $ 22.3 billion during April-September 2005. The buoyancy witnessed in the capital inflows to India during the year 2005-06, continued in the current financial year as well. Inflows under FDI, NRI deposits and issuances under ADRs/GDRs during April-August 2006 were higher than those in the corresponding period of 2005. On the other hand, FIIs recorded net outflows of US$ 29 million during 2006-07 so far (up to October 13, 2006). India's foreign exchange reserves increased to US $ 167.1 billion as on October 27, 2006.

Chapter II

Policy Developments in Commercial Banking

Introduction

2.1 Globalisation, financial deregulation and improvement in technology have had a profound effect on the financial landscape in recent years. These developments have intensified competition and resulted in financial engineering through product innovation and business strategies. While market participants have now greater scope to diversify risk and manage it efficiently, this has also posed new risks and challenges to the financial system. Growth of financial firms across different business lines and across national boundaries has made the task of designing appropriate policies more challenging. Regulatory and supervisory policies are, therefore, constantly assessed regarding their capabilities to meet the challenges of containing systemic risk in the financial system. The main challenge for the supervisory authorities has been to maintain financial stability without curtailing the incentive to innovate.

2.2 Keeping in view the changing landscape in the financial sector, the Reserve Bank has been suitably foscusing its regulatory and supervisory framework to promote a stable and efficient financial sector. The main focus of the Reserve Bankís recent regulatory and supervisory initiatives has been on prudential regulation and financial infrastructure broadly in line with international best practices. However, while focusing on a globally competitive and the robust banking sector, the Reserve Bank has also emphasised financial inclusion, whereby banking services are accessed easily by the under-privileged sections of the society. The overall approach to reforms has been sequenced and arrived at through consultative process with all the stakeholders. Various reform measures initiated from time to time have imparted resilience to the financial system.

2.3 The Reserve Bank had indicated on February 15, 2005 that banks in India would start implementing Basel II with effect from March 31, 2007. Several initiatives, therefore, were taken during the year to facilitate the smooth transition to Basel II. The Reserve Bank permitted banks to raise capital through new instruments to enable them to meet capital requirements prescribed under Basel II. The Reserve Bank also issued a guidance note for operational risk management. Taking into account the state of preparedness of the banking system, however, it was announced in the Mid-term Review of the Annual Policy for 2006-07 on October 31, 2008 that Indian banks with presence outside India and foreign banks operating in India would be required to migrate to Basel II framework with effect from March 31, 2008, while all other Indian banks would be encouraged to migrate to these norms by March 31, 2009.

2.4 With a view to providing basic banking services to common man, the Reserve Bank took several measures to incentivise banks. Improvement in customer service was another area of focus of the Reserve Bankís regulatory policy during 2005-06.

2.5 This Chapter provides an account of various policy measures undertaken by the Reserve Bank in the Indian commercial banking sector during 2005-06 (July-June) and major policy developments during 2006-07 (up to October 31, 2006). The stance of monetary policy as evolved during the year together with monetary policy measures is presented in Section 2, followed by a review of the measures initiated in the area of credit delivery in Section 3. Initiatives taken in the areas of prudential regulation and supervision are set out in Section 4 and Section 5, respectively. Section 6 details policy developments in the area of financial markets, *i.e.*, the money market, the Government securities market and the foreign exchange market. This is followed by an account of the measures initiated in the area of customer service by banks in Section 7. Section 8 elaborates the policy initiatives on financial inclusion. Policy measures relating to payment and settlement systems and technological developments are outlined in Section 9 and Section 10, respectively. Section 11 details the measures undertaken to strengthen the legal infrastructure.

2. Monetary and Credit Policy

2.6 The framework for the monetary, structural and prudential measures that are initiated during the course of the year is provided in the policy Statements comprising Annual Policy Statement in April, Mid-term Review in October/ November and two quarterly reviews in January and July.

2.7 Consistent with the overall objectives of achieving growth while ensuring price and financial stability, monetary management during the year had to be proactive in keeping pace with the evolving domestic and international challenges, arising out of increasing sophistication of domestic financial markets and its integration with international markets. Overall activity in the banking sector, as in the rest of the financial system, was influenced by slight change in emphasis of priorities in the stance of monetary policy during 2005-06. A shift in the underlying trends of macroeconomic and financial conditions necessitated timely rebalancing of weights assigned to the key objectives of growth, adequate liquidity, price and financial stability, inflationary expectations and interest rate environment throughout the year. The uncertainty surrounding global economic prospects was amply reflected in the Annual Policy Statement for 2005-06 and Quarterly Reviews thereof. The relative emphasis on growth in the Annual Policy Statement of April 2005 gave way to increasing considerations for price stability in the hierarchy of policy priorities in the Mid-term Review of October 2005. Financial stability emerged as a key concern in the January review and continued to be a priority in the policy matrix right till the Mid-term Review of Annual Policy for 2006-07 (October 2006). By April 2006, however, growth regained eminence and began to share equal emphasis with price stability in the policy stance (Box II.1).

2.8 In April 2005, the Reserve Bank faced two major challenges, *viz*., (a) reining in inflationary expectations so as to ensure stability in the financial markets and to maintain appropriate levels of financing conditions to lend support to the ongoing growth momentum; and (b) appropriate liquidity management in the context of budgeted Government borrowings in the backdrop of strong credit growth. Accordingly, the Annual Policy Statement for the year 2005-06 emphasised the maintenance of appropriate liquidity in the system, ensuring macroeconomic and price stability, and stabilisation of inflation expectations. The Reserve Bank sought to moderate inflation expectations by a demonstrable commitment to price stability. The policy rate, *i.e.*, the reverse repo rate under the Liquidity Adjustment Facility (LAF) was raised by 25 basis points while maintaining the repo rate at 6.0 per cent, thereby reducing the spread between reverse repo and repo rates to 100 basis points. The financial markets responded positively to the monetary policy stance. In response to resurgence of capital flows, the cap on Market Stabilisation Scheme (MSS) was retained at Rs.80,000 crore, in order to modulate liquidity conditions during 2005-06.

2.9 In the ensuing months, the balance of risks appeared tilted to the external sector with widening global imbalances, persistent currency misalignments, upward trajectory of the policy rate in the US, and high and volatile international prices of oil. In addition, there were pressures from domestic factors in the form of overhang of liquidity, rising credit growth due to sustained industrial growth and capacity pressures, widening trade deficit, infrastructural constraints and delayed monsoon. The initiation of monetary and fiscal measures to mitigate the impact of the administered oil price hike in June 2005, sustained corporate earnings and profits, and moderate inflation favoured *status quo* in the monetary policy stance in the First Quarter Review of Annual Policy Statement in July 2005.

2.10 In the following period, several factors posed risks to the outlook on inflation and growth such as credit quality, rising asset prices, high and volatile international oil prices with a substantial permanent component, the widening trade deficit and the upturn in the international interest rates. The Mid-term Review in October 2005 reaffirmed the stance set out in the Annual Policy Statement while placing greater emphasis on price stability. Recognising that without an immediate policy response, it would be difficult to contain inflation within the projected range of 5.0-5.5 per cent, the fixed reverse repo and the repo rates under the LAF were increased in the Mid-term Review by 25 basis points while retaining the spread between the rates at 100 basis points.

2.11 In the following quarter, inflation expectations stabilised in a manner consistent with policy projections. First, demand pull factors

Box II.1: Stance of Monetary Policy during April 2005 to October 2006

Annual Policy Statement, 2005-06 (April 2005) and the First Quarter Review (July 2005)

- Provision of appropriate liquidity to meet credit growth, and support investment and export demand in the economy while placing equal emphasis on price stability.
- Consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth.
- To consider measures in a calibrated manner, in response to evolving circumstances, with a view to stabilising inflationary expectations.

Mid-term Review of Annual Policy Statement, 2005-06 (October 2005)

- Consistent with emphasis on price stability, provision of appropriate liquidity to meet genuine credit needs, and support export and investment demand in the economy.
- Ensuring an interest rate environment that is conducive to macroeconomic and price stability and maintaining the growth momentum.
- To consider measures in a calibrated and prompt manner in response to evolving circumstances with a view to stabilising inflationary expectations.

Third Quarter Review of Annual Policy Statement, 2005-06 (January 2006)

- To maintain the emphasis on price stability with a view to anchoring inflationary expectations.
- To continue to support export and investment demand in the economy for maintaining the growth momentum by ensuring a conducive interest rate environment for macroeconomic, price and financial stability.
- To provide appropriate liquidity to meet genuine credit needs of the economy with due emphasis on quality.
- To consider responses, as appropriate, to evolving circumstances.

Annual Policy Statement, 2006-07 (April 2006)

- To ensure a monetary and interest rate environment that enables continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflationary expectations.
- To focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic, in particular, financial stability.
- To respond swiftly to evolving global developments.

First Quarter Review of Annual Policy Statement, 2006-07 (July 2006)

- To ensure a monetary and interest rate environment that enables continuation of the growth momentum while emphasising price stability, with a view to anchoring inflationary expectations.
- To reinforce the focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic and, in particular, financial stability.
- To consider measures as appropriate to the evolving global and domestic circumstances impinging on inflationary expectations and the growth momentum.

Mid-term Review of Annual Policy Statement, 2006-07 (October 2006)

- To ensure a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum while reinforcing price stability with a view to anchoring inflation expectations.
- To maintain the emphasis on macroeconomic and, in particular, financial stability.
- To consider promptly all possible measures as appropriate to the evolving global and domestic situation.

remained reasonable, although there was a significant pick-up in overall activity. The modest ebbing of crude prices from their highs in August-September 2005 and the softening of global prices of agricultural products also mitigated the pressures from imported inflation. Second, the widening of the trade deficit on account of high crude prices and buoyant industrial demand for imported inputs was adequately financed by capital flows. The rupee appreciated against the US dollar by about 2.0 per cent between early November 2005 and mid-January 2006. Third, appropriate and flexible liquidity management by the Reserve Bank matched financial market sentiments, enabling market expectations on inflation to evolve synchronously with the policy stance. This was reflected in decline in the overhang of liquidity by about Rs.60,500 crore between September 2005 and January 2006. In response to the needs of market participants, the Reserve Bank introduced a second LAF with effect from November 28, 2005, as an additional instrument to fine-tune liquidity management.

2.12 The Third Quarter Review of January 24, 2006 noted that risks to growth and stability were high emanating from rising domestic demand, the incomplete pass-through of crude prices into domestic prices and global developments. Emphasising the need to consolidate the gains of recent high growth, the monetary policy stance placed greater emphasis on price stability and towards containing inflation expectations. Developments in the ensuing months vindicated the policy response as inflation was contained and inflationary expectations stabilised.

2.13 An important aspect in the conduct of monetary policy in the latter period of 2005-06 was the modulation of liquidity in tune with the evolving situation. Pressures on liquidity, which were in evidence in the fourth quarter of 2005-06 (January-March 2006) were partly frictional, arising from seasonal and transient factors such as the redemption of India Millennium Deposit (IMD), and partly cyclical, associated with the upturn in credit demand. Since mid-January 2006, the recourse of market participants to primary liquidity support from the Reserve Bank suggested that there was also some overlap between frictional and cyclical liquidity on account of two factors. First, some market participants had not prepared for the liquidity implications of the movements in the interest rate cycle as also the one-off impact of IMD redemption and, as a consequence, found themselves facing a shortage of liquidity as well as eligible securities with which to access the Reserve Bankís liquidity facilities or even the collateralised money market. Second, the banking system as a whole was significantly overdrawn in order to sustain the credit disbursements. Consequently, mismatches between the sources and uses of funds became persistent, forcing them to seek recourse to borrowing and rolling over, on an overnight basis, thereby putting pressure on interest rates and liquidity conditions.

2.14 The Annual Policy Statement for 2006-07 announced in April 2006 had stated that in the context of macroeconomic developments and the global scenario, it was necessary to be in readiness to act as warranted by the challenges posed by the evolving situation given the unfolding of the risks. Risks to both growth and stability from domestic and global factors were, however, recognised with the balance of risks tilted towards the global factors. The adverse consequences of further escalation of international crude prices and/or of disruptive unwinding of global imbalances were seen as likely to be pervasive across economies, including India. Moreover, in a situation of global tightening of monetary policy, India could not afford to be out of step. Therefore, the overall stance of monetary policy for 2006-07 assigned more weight to global factors than before while also keeping in view the dominance of domestic factors. The Reserve Bank indicated its resolve to act in a timely and prompt manner on any sign of heightened inflationary expectations. A key element was the focus on credit quality, even while supporting export and investment demand and macroeconomic and financial stability.

2.15 After the announcement of the Annual Policy Statement, the edging up of inflation across the world and marked and heightened volatility in the financial markets posed a threat to the domestic economy which, thus far, had been spared of turbulence in the debt and foreign exchange markets. These developments, viewed in the light of the prevailing monetary and credit environment underscored a compulsion for swift action, as indicated in the Annual Policy Statement. Accordingly, on June 8, 2006 the LAF reverse repo/repo rates were increased by 25 basis points while retaining the spread between the repo and the reverse repo rate at 100 basis points.

2.16 In the First Quarter Review of 2006-07, it was underlined that while the prevailing assessment pointed to the domestic economy exhibiting strong fundamentals and displaying considerable resilience, at the same time, there was continued evidence of demand pressures, especially continuing high growth that could exert upward pressure on prices when associated with supply shocks. These pressures were indicated to have the potential to impact stability and inflationary expectations. It was noted that while domestic developments dominate the economy, global factors tend to gain more attention than before. The global outlook for growth was positive but downside risks with regard to inflation and re-pricing of risks in financial markets needed to be recognised. Hence, it was felt necessary to strike a balance between reinforcing the resilience of the domestic economy and global risks. The Review also noted that both domestic and global factors were delicately balanced in terms of growth *vis-‡-vis* price stability with the likely possibility of identified downside risks materalising in the near term than before. Accordingly, the need for careful and continuous monitoring of both global and domestic factors was reflected in the stance of the First Quarter Review of the Annual Statement for 2006-07. On balance, a modest pre-emptive action in monetary policy was considered appropriate, while being ready to respond flexibly and promptly by closely monitoring the domestic developments.

2.17 In the Mid-term Review of Annual Policy Statement released on October 31, 2006, it was indicated that the Reserve Bank will ensure to maintain appropriate liquidity in the system so that all legitimate requirements of credit are met, particularly for productive purposes, consistent with the objective of price and financial stability. In view of the prevailing current macroeconomic and overall monetary conditions, the fixed repo rate under the LAF was raised by 25 basis points from 7.0 per cent to 7.25 per cent. The reverse repo rate, the Bank Rate and the CRR were left unchanged. As a result, the spread between the repo and reverse repo rate increased to 125 basis points. Several measures were also announced to (i) further develop and integrate financial markets, with a view to enhancing allocative efficiency; (ii) improve and expand credit delivery oriented towards financial inclusion and extension of financial services to the under-privileged segments of the population; (iii) strengthen the capital base of banks with a view to preparing them to migrate to Basel II norms and implement prudential measures in consonance with international best practices in the financial sector; and (iv) keep up the pace of liberalisation of the external sector within the framework for fuller capital account convertibility recommended by the Committee (Chairman: Shri S.S. Tarapore) appointed by the Reserve Bank with the objectives of promoting economic growth, improving financial sector efficiency and providing opportunities for diversification of investments by residents (Box II.2).

Statutory Pre-emptions

2.18 Since June 1991, there has been a distinct move away from the use of direct instruments of monetary policy to market-based indirect instruments. As a result, the statutory pre-emptions in the form of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have been significantly reduced in phases. The SLR was progressively brought down from the peak rate of 38.5 per cent of net demand and time liabilities (NDTL) in February 1992 to the statutory minimum of 25 per cent by October 1997. While the stipulated level of SLR has remained unchanged since then, banks on their own volition have been holding investments in Government and other approved securities in excess of the stipulated level. During 2005-06, while banks considerably reduced their holding of SLR securities because of upturn in the interest rate cycle and surge in credit demand, it was still higher than the statutory minimum level at 31.3 per cent at end-March 2006. In terms of volume, such holdings above the minimum SLR level amounted to Rs.1,45,297 crore.

2.19 Pursuing the medium-term objective of reducing the CRR, the Reserve Bank had reduced the CRR progressively from the peak of 15 per cent of NDTL in 1992 to 4.5 per cent by 2003. The CRR, however, was raised by one-half of one percentage point of NDTL in two stages of 0.25 percentage points each to 4.75 per cent effective September 18, 2004 and further to 5.0 per cent effective October 2, 2004 to combat inflationary expectations. The CRR has remained unchanged since then. However, the recent amendment to Section 42 of the RBI Act, 1934, in June 2006, vests the Reserve Bank with the power to prescribe CRR for scheduled banks without any floor or ceiling rate. Further, the amendment removes the statutory minimum CRR and the Reserve Bank cannot pay interest on any portion of CRR balances of banks once the Act comes into force (see Box II.28, Section 11).

Interest Rate Structure

2.20 Consistent with the growing market orientation of monetary policy operations and the increasing reliance on indirect instruments of monetary control, rationalising and refining the interest rate structure in the economy has been a key objective of financial sector reforms initiated by the Reserve Bank in the early 1990s. Deregulation of interest rates has helped in improving the competitiveness of the financial system and resource allocation process through efficient price discovery, besides strengthening the transmission mechanism of monetary policy. All interest rates have been deregulated except (i) savings deposit accounts, (ii) non-resident Indian (NRI) deposits, (iii) small loans up to Rs.2 lakh, and (iv) export credit.

Box II.2: Major Policy Announcements in the Mid-Term Review of Annual Policy for the Year 2006-07

1. Monetary Measures

ï Bank Rate left unchanged at 6.0 per cent.

ï Repo Rate under the LAF increased by 25 basis points from 7.0 per cent to 7.25 per cent effective October 31, 2006. Reverse Repo Rate left unchanged at 6.0 per cent.

ï The cash reserve ratio (CRR) left unchanged at 5.0 per cent.

2. Government Securities Market

ï ëWhen Issuedí trading to be extended in the case of fresh issues of Central Government securities on a selective basis.

ï Scheduled commercial banks and primary dealers are allowed to cover their short positions in Central Government securities within an extended period of five trading days and to deliver a shorted security by borrowing it through the repo market.

3. Foreign Exchange Market

ï Resident individuals allowed to remit up to US $ 50,000 per financial year for any current or capital account transaction or a combination of both, as against the earlier limit of US $ 25,000.

ï Large turnkey/project exporters/service exporters with satisfactory track record allowed to operate one foreign currency account with inter-project transferability of funds/machinery in any country, subject to specified reporting requirements.

ï Large turnkey/project exporters/service exporters with good track record allowed to deploy their temporary cash surpluses in either short-term bank deposits or AAA-rated short-term paper abroad, subject to monitoring by the authorised dealer bank(s).

ï Prepayment of ECB up to US $ 300 million, as against the earlier limit of US $ 200 million, to be allowed by authorised dealer banks without prior approval of the Reserve Bank subject to the stipulated minimum average maturity period as applicable to the loan.

ï Authorised dealer banks to allow remittances on behalf of their customers up to 15 per cent of the average annual sales/ income or turnover during the last two financial years or up to 25 per cent of their net worth, whichever is higher, for initial expenses, and allow remittances up to 10 per cent of the average annual sales/income or turnover during the last two financial years for recurring expenses. They are also allowed to permit remittances for acquisition of immovable property for the overseas office, within these limits.

ï The existing limit of US $ 2 billion on investments in Government securities by foreign institutional investors (FIIs) to be enhanced to US $ 2.6 billion by December 31, 2006 and further to US $ 3.2 billion by March 31, 2007.

ï The extant ceiling of overseas investment by mutual funds of US $ 2 billion enhanced to US $ 3 billion.

ï Authorised dealer banks are permitted to issue guarantees/letters of credit for import of services up to US $ 100,000 where the guarantee is intended to secure a direct contractual liability arising out of a contract between a resident and a non-resident.

ï The lock-in period eliminated for sale proceeds of the immovable property credited to the NRO account, provided the amount being remitted in any financial year does not exceed US $ one million.

4. Credit Delivery Mechanisms

ï Consistent with the notification of the Micro, Small and Medium Enterprises Development Act, 2006, the definition of small-scale industry and micro and small enterprises engaged in providing or rendering of services for the purpose of priority sector lending modified.

ï Banks to formulate a transparent policy, with approval of their boards, for providing One Time Settlement facility to those farmers whose accounts have been rescheduled/restructured due to natural calamities as also those who have defaulted on account of circumstances beyond their control.

5. Prudential Measures

ï Foreign banks operating in India and Indian banks having presence outside India are allowed to migrate to the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009.

ï Prudential limit on credit and non-credit facilities to Indian Joint Ventures/Wholly Owned Subsidiaries abroad extended by banks enhanced from the existing 10 per cent to 20 per cent of unimpaired capital funds (Tier I and Tier II capital).

6. Financial Inclusion

ï For opening small accounts, banks need to seek only a photograph of the account holder and self-certification of address.

ï Outstanding balances in these accounts at any time will be limited to Rs.50,000 and the total transactions limited to Rs.2,00,000 in one year.

7. Payment and Settlement Systems

ï Banks urged to harmonise their IT-based initiatives to ensure that the objective of greater financial inclusion is achieved.

8. Urban Co-operative Banks

ï UCBs registered in States that have signed Memorandum of Understanding with the Reserve Bank and those registered under the Multi-State Co-operative Societies Act, 2002 are allowed to convert existing extension counters into full-fledged branches.

ï The Reserve Bank to place a model draft Fair Practices Code for consideration of Task Forces for UCBs set up in the States that have signed MoU for deliberation and adoption.

9. Non-Banking Financial Companies

ï NBFCs allowed to issue co-branded credit cards with banks without risk sharing; and to market and distribute mutual fund products as agents of mutual funds.

ï NBFCs engaged in financing real/physical assets supporting economic activity such as automobiles and general purpose industrial machinery to be re-grouped as asset financing companies.

10. Committee on Financial Sector Assessment

ï The Committee on Financial Sector Assessment to undertake a self-assessment of financial sector stability and development.

Bank Rate and Repo/Reverse Repo Rate

2.21 The Bank Rate (BR) was reactivated in April 1997 as a signaling mechanism to convey the stance of monetary policy. The rates of various standing facilities of the Reserve Bank were linked to the BR. The BR has served well as a signaling rate for the medium-term.

2.22 In the recent period, however, short-term liquidity adjustment is being conducted through the repo/reverse repo rates under the LAF. The LAF scheme is being operated through overnight fixed rate repo and reverse repo from November 1, 2004. In view of the changing macroeconomic and overall monetary conditions, reverse repo and repo rates were regularly revised (Table II.1).

Deposit Rates

2.23 The interest rates on domestic term deposits, except for saving bank accounts, have been deregulated since October 1997. Banks are now free to determine their own deposit rates depending on commercial judgment, subject to the approval of their boards. Banks have also been given the freedom to decide the rates on various non-resident deposits, subject to the ceiling prescribed by the Reserve Bank. Banks were also allowed to offer differential rates of interest on wholesale domestic term deposits of Rs.15 lakh and above, *i.e.*, the interest rate offered on the wholesale domestic term deposits can differ from those offered on the retail domestic term deposits.

2.24 The interest rate on savings bank deposits is regulated by the Reserve Bank and is currently prescribed at 3.5 per cent per annum. Based on a review of prevailing monetary and interest rate conditions, including a careful consideration of the suggestions received from the Indian Banksí Association (IBA), the Annual Policy Statement for 2006-07 considered it appropriate to maintain *status quo* while recognising that the deregulation of savings bank deposit rate was essential for product innovation and price discovery in the long run.

2.25 The ceiling on interest rates on non-resident external rupee deposits (NRE) and foreign currency non-resident (Bank) [(FCNR(B)] deposits are linked to the LIBOR/SWAP rates and are reviewed regularly, depending on the monetary and macroeconomic developments. In response to the upturn in international interest rates and the firming up of forward premia in the domestic foreign exchange market, interest rate differentials on NRE deposits turned progressively unattractive. Accordingly, the ceiling interest rate on NRE deposits for one to three year maturity was increased in November 2005 and again in April 2006. The ceiling interest rate on FCNR(B) deposits was raised for the respective currency/maturities on March 28, 2006 (Table II.2).

2.26 On July 26, 2005, banks were allowed to accept FCNR(B) deposits denominated in Canadian and Australian dollars in addition to the four currencies, *viz.*, US dollar, pound sterling, euro and yen, up to a maximum maturity period of five years. In February 2006, banks were advised that the Foreign Exchange Dealers Association of India (FEDAI) would quote/display the LIBOR/SWAP rates to be used for fixing interest rates on NRI deposits in order to ensure uniformity and transparency. FEDAI publishes the deposit rates for five maturities in six currencies prevailing on the last working day of each month.

Table II.1: Repo and Reverse Repo Rate
(since April 2005)

(per cent)

	Effective Date	Repo Rate	Reverse Repo Rate
1	2	3	4
1.	April 29, 2005	6.00	5.00
2.	October 26, 2005	6.25	5.25
3.	January 24, 2006	6.50	5.50
4.	June 9, 2006	6.75	5.75
5.	July 25, 2006	7.00	6.00
6.	October 31, 2006	7.25	6.00

Table II.2: Ceiling Interest Rate Prescriptions for NRE/FCNR(B) Deposits

	Earlier Ceiling	Revised Ceiling
1	2	3
NRE deposit	LIBOR/ SWAP rates plus 75 basis points (close of business on November 17, 2005)	LIBOR/ SWAP rates plus 100 basis points (close of business on April 18, 2006)
FCNR (B) deposit	LIBOR/ SWAP rates minus 25 basis points (close of business on April 29, 2002)	Within the ceiling of LIBOR/SWAP rates (close of business on March 28, 2006)

Note: Dates in brackets indicate effective dates for change in the rates.

Lending Rates

2.27 The lending rates have been gradually deregulated beginning October 1994. The lending rates currently regulated by the Reserve Bank are the ceiling rates for export credit and small loans up to Rs.2 lakh.

2.28 The scheme for export credit has been under constant review with a view to ensuring that the Indian exporters have access to bank credit at internationally competitive terms so as to support export promotion. In this context, the Working Group to Review Export Credit (Chairman: Shri Anand Sinha) in its Report submitted in May 2005 recommended that the interest rates in respect of export credit in foreign currency may be raised by 25 basis points, *i.e.*, to LIBOR + 100 basis points for the first slab and additional 200 basis points for the second slab, subject to the condition that the banks will not levy any other charges in any manner under any name such as service charge and management charge, except for recovery towards out-of-pocket expenses incurred. Accordingly, the ceiling interest rate on export credit in foreign currency was increased by 25 basis points with effect from April 18, 2006. Similar changes were effected in interest rates in cases where EURO LIBOR/ EURIBOR have been used as benchmarks.

2.29 The Reserve Bank currently announces the ceiling rates on pre-shipment rupee export credit up to 180 days and post-shipment rupee credit up to 90 days, linked to the Benchmark Prime Lending Rate (BPLR). The validity of the reduction in the interest rate ceiling to 250 basis points below BPLR on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days was extended up to October 31, 2006.

2.30 In order to help farmers obtain credit at a reasonable rate, the Union Budget, 2006-07 proposed provision of short-term credit to farmers up to Rs.3 lakh, at interest rate of 7 per cent per annum with effect from 2006-07, with the Government agreeing to provide budgetary resources to co-operative banks appropriately.

3. Credit Delivery

2.31 A critical issue facing the banking sector is the flow of credit to all productive sectors of the economy. Therefore, it has been the endeavour of the Reserve Bank to create a conducive environment for banks to provide adequate credit to all productive sectors at reasonable cost. In continuance with the general focus on sectoral credit allocation, especially to the priority sector, the Reserve Bank took several measures to improve credit delivery mechanism during the year. Several relief measures were also initiated by the Reserve Bank to mitigate the impact of natural calamities/disasters that struck the country during the year. Special plans were worked out for improving credit flow to trade and industry in the State of Jammu and Kashmir. The priority sector norms were further fine-tuned to focus on implementation of various Government schemes, improvement in credit delivery channels for small and marginal borrowers, inclusion of additional channels within the priority sector and simplified norms for NPA resolution. For improving the flow of credit to the agriculture sector, a follow-up action was taken in line with the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) and the measures announced in the Union Budget for 2006-07. A debt restructuring mechanism for small and medium enterprises (SMEs) and ëone time settlementí scheme for SME accounts were devised subsequent to the announcement made by the Union Finance Minister for stepping up credit to SMEs.

Priority Sector Lending[1]

2.32 A target of 40 per cent of net bank credit has been stipulated for lending to the priority sector by domestic scheduled commercial banks, both in the public and private sectors. Within this, sub-targets of 18 per cent and 10 per cent of net bank credit, respectively, have been stipulated for lending to agriculture and weaker sections, respectively. A target of 32 per cent of

[1] 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, loans to software, and food and agro-processing sector.

net bank credit has been stipulated for lending to the priority sector by foreign banks. Of this, the aggregate credit to small scale industries should not be less than 10 per cent and to the export sector not less than 12 per cent of the net bank credit.

2.33 In order to align bank credit to the changing needs of the society and enhance the flow of credit to the priority sector, the following policy initiatives were taken during 2005-06:

(i) Banks were advised that fresh investments made by them on or after July 1, 2005 in venture capital would not be eligible for classification under priority sector lending. Investments already made up to June 30, 2005 would not be eligible for classification under priority sector lending with effect from April 1, 2006.

(ii) Detailed guidelines were issued to banks for stepping up credit to SMEs.

(iii) A One-time Settlement Scheme for recovery of NPAs below Rs. 10 crore for SME accounts were communicated to public sector banks for implementation.

(iv) Banks were advised to ensure restructuring of debt of all eligible SMEs at terms which are, at least as favourable as the Corporate Debt Restructuring mechanism in the banking sector.

(v) In order to offer small borrowers an opportunity to settle their NPA accounts with banks and to become eligible for fresh finance, banks were advised in December 2005 to provide a simplified mechanism for one-time settlement of loans where the principal amount is equal to or less than Rs.25,000 and which have become ëdoubtful or loss assetsí as on September 30, 2005. In the case of loans granted under Government-sponsored schemes, banks were advised to frame separate guidelines following a State-specific approach to be evolved by the State Level Bankersí Committee (SLBC).

(vi) Banks were allowed in December 2005 to introduce a General Credit Card (GCC) Scheme for issuing general credit cards to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household, and without any insistence on security and the purpose or end-use of the credit. Banks could utilise the services of local post offices, schools, primary health centres, local government functionaries, farmersí associations/clubs, well established community-based agencies and civil society organisations for sourcing of borrowers for issuing cards. To incentivise the implementation of the scheme, fifty per cent of the credit outstanding under loans for general purposes under GCC scheme was made eligible for classification as indirect finance to agriculture within the priority sector.

(vii) Banks were advised that loans to power distribution corporations/companies, emerging out of bifurcation/restructuring of State Electricity Boards (SEBs), for reimbursement of the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energising their wells, may also be classified as indirect finance to agriculture.

Credit to Agriculture and Allied Activities

2.34 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. Keeping this in view, the Reserve Bank took several measures to enhance credit flow to agriculture. As against a target of Rs.1,05,000 crore to the agriculture sector for 2004-05, banks (including co-operative banks and RRBs) disbursed Rs.1,15,243 crore, a growth of 32.0 per cent over the actual disbursement of Rs.86,981 crore during 2003-04. For 2005-06, banks were advised to increase the flow of credit to agriculture to Rs. 1,42,000 crore. As against this target, the disbursement by all banks during 2005-06 was Rs.1,57,480 crore, a growth of 37.0 per cent over the disbursement during the previous year.

2.35 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), set up by the Reserve Bank to examine the problems relating to agricultural credit have been implemented by the Reserve Bank and NABARD (Box II.3).

Box II.3: Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System ñ A Status Report

The Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof V.S. Vyas) had made 99 recommendations. Out of these, 31 recommendations were accepted by the Reserve Bank and communicated to banks for implementation. These included *inter alia*: (i) waiving margin/security requirements on agricultural loans up to Rs.50,000 and in the case of agri-clinics, up to Rs.5 lakh; (ii) providing loan for storage facilities, irrespective of location under priority sector lending; (iii) including of investment by banks in securitised assets in agriculture under the priority sector; (iv) revising NPA norms for agricultural finance; (v) dispensing with the Service Area Approach except for the Government sponsored schemes; (vi) reviewing systems and procedures of banks to make lending cost-effective as well as saving avoidable expenses for borrowers; (vii) exploring the financing models for oral lessees such as self-help groups (SHG) and joint liability groups (JLG); (viii) preparing long-term plans in consultation with the State governments for wasteland/ watershed development and providing resource support; (ix) posting technical staff at head/controlling offices and changing the mindset of bankers with regard to agricultural lending; (x) appointing of direct selling agents by banks, subject to guidelines as approved by their boards; (xi) formulating time-bound programme for using IT in general branches; (xii) constituting local advisory committees for branch/group of branches comprising users of banksí services as members; and (xiii) restructuring of loans in the absence of *Annewari*.

Four of Committeeís recommendations were not accepted by the Reserve Bank. These were: i) restricting the framework of special agricultural credit plan (SACP) of direct lending to the agricultural sector, comprising both production and investment credit, while banks could have their own separate review mechanism for indirect lending to agriculture; (ii) retaining the earlier norm of 180 days default for classifying a loan as NPA for loans to agriculture and allied activities; (iii) considering only the account with default for NPA classification and not the outstandings, when a farmer has availed both production and investment loans; and (iv) holistic monitoring of the entire rural credit situation by NABARD.

Action on 43 other recommendations has already been initiated by NABARD. These mainly included: (i) constituting a core group of bank and state government officials as well as experts from agriculture universities to look into the scope of communication and information technologies in transforming agriculture; (ii) making *Kisan* credit cards (KCC) ATM-enabled and convertible to smart card with a view to reduce transaction costs and improve customer service; (iii) restructuring of farm loans at reasonable rates of interest; (iv) offering SHGs need-based savings and credit products, and possibility of offering them credit cards similar to KCC and *Swarojgar* credit cards; (v) ensuring that institutions lending to MFIs determine the rate of interest charged to their clients on a cost plus reasonable margin basis; (vi) focusing on promotional initiatives to create replicable models with a clear built-in exit strategy that will improve credit absorption, outreach of the formal banking system, production process, productivity, and sensitisation of the formal credit delivery system in rural areas; and (vii) reviewing the refinance products of NABARD in line with market expectations.

Seven recommendations were accepted by the Ministry of Finance, Government of India. These mainly related to: (i) introduction of negotiable warehousing receipt system; (ii) reduction of stamp duty in connection with agricultural loans; (iii) legal recognition of rights of tenant farmers and sharecroppers; and (iv) extending financial support in collecting dues as the Securitisation and Asset Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002,

Six recommendations were not accepted by the Ministry of Finance, Government of India. These were: (i) increasing their direct lending by all public and private sector banks to agriculture to 12 per cent of net bank credit in the next two years and to 13.5 per cent in the two years thereafter; (ii) reckoning indirect lending to agriculture to the extent of 6.0 per cent in the first two years for assessing banksí performance against the 18 per cent target; (iii) allowing competitive external commercial borrowings to NABARD for justifiable purposes; and (iv) differing imposition of corporate income tax on NABARD for five years and a review in this respect in 2007. Two recommendations have been referred to the Ministry of Agriculture and the Ministry of Rural Development. These related to suggestions in respect of (i) banksí associating with contract farming and putting in place a mechanism for proper certification of produce quality to avoid disputes; and (ii) need to relook into the design of the *Swarnajayanti Gram Swarojgar Yojana* (SGSY) and moderating the timing and quantum of subsidies to make it more effective.

Six recommendations concerned RRBs. These mainly related to the restructuring of the RRBs through merger, amalgamation and consolidation, and alternative models for effective implementation. These recommendations are at various levels of implementation.

2.36 In December 2005, banks were advised that officers-in-charge of Small Farmersí Agri-Business Consortium (SFAC) at the State level and nodal officers of SFAC may be invited in the Sub-Committee of State Level Bankersí Committee (SLBC) as ëspecial inviteesí to discuss the problems, if any, faced in the implementation of Scheme for establishment of agri-clinics/agri-business in rural areas.

2.37 The Union Budget for the year 2006-07 announced the interest relief at two percentage points on the principal amount up to Rs.1 lakh on crop loans availed of by the farmers for *Kharif* and *Rabi* seasons 2005-06. Accordingly, banks were advised on March 9, 2006 to credit the amount of relief to the borrowerí accounts before March 31, 2006 and thereafter seek reimbursement. For this purpose, out of a grant of Rs.1,700 crore, funds aggregating Rs.840 crore were placed with NABARD and claims of Rs.375 crore have been reimbursed to public and private sector banks as on October 31, 2006.

2.38 Consequent upon the announcement made by the Union Finance Minister in his Budget Speech for the year 2006-07, the public sector banks and regional rural banks were advised that with effect from *Kharif* 2006-07, Government will provide interest rate subvention of 2 per cent per annum to them in respect of short-term production credit up to Rs.3 lakh provided to farmers. This amount of subvention is calculated on the amount of crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the due date, *i.e.*, March 31, 2007 for the *Kharif* and June 30, 2007 for the *Rabi*, respectively, whichever is earlier. This subvention is available on the condition that they make available short-term credit at ground level at 7 per cent per annum. In the case of RRBs, this is applicable only to short-term production credit disbursed out of their own funds and excludes such credit as supported by refinance from NABARD.

2.39 The All-India Debt and Investment Survey (NSS Fifty-Ninth Round) revealed that the share of money lenders in total dues of rural households increased from 17.5 per cent in 1991 to 29.6 per cent in 2002. Considering that high indebtedness to money lenders can be an important reason for distress of farmers, it was decided in the Annual Policy Statement for the year 2006-07 to set up a Technical Group (Chairman: Shri S.C. Gupta) to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States. The Group is also expected to make recommendations to the State Governments for improving the legal and enforcement framework in the interest of rural households.

Relief Measures for Persons Affected by Natural Calamities

2.40 The Reserve Bank had issued standing guidelines to banks in August 1984 and June 1998 for providing relief in areas affected by natural calamities. These guidelines, *inter alia*, permitted banks to convert/reschedule loans for periods ranging from three to nine years depending upon the successive crop failure/intensity of damage to crops, banks were also allowed to grant fresh crop loans to affected farmers, relax the security and margin norms, and provide consumption loans to the affected persons.

2.41 In view of the loss of life and property caused by *Tsunami* in December 2004 in the States of Andhra Pradesh, Tamil Nadu, Kerala, and the Union Territories of Pondicherry, and Andaman and Nicobar Islands, the convenor banks of respective State Level Bankersí Committees in the concerned States/Union Territories were advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of the standing guidelines. 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.

2.42 The relief package evolved by the Government of India for the write-off of outstanding debt of *Tsunami* affected persons in the Union Territory of Andaman and Nicobar Islands was not implemented although the average amount involved was very small. As a follow up of the discussions held by the Governor of the Reserve Bank with bankers and senior officials of the Union Territory of Andaman and Nicobar Islands at Port Blair in February 2006, an Empowered Task Force (ETF) was constituted to accelerate resolution of relief measures to *Tsunami* affected borrowers, adopting a bank-specific approach. Taking note of the revival package announced by the Government of India for small traders and businessmen in Andaman and Nicobar Islands, the Task Force made certain additional recommendations (Box II.4).

2.43 A spate of natural calamities during 2005-06, *viz.*, floods in Maharashtra (July 2005), earthquake in Jammu and Kashmir (October 2005) and unprecedented rainfall in Tamil Nadu (November/December 2005) affected the lives of people. In all these cases, the Reserve Bank advised the convener bank of the State Level Bankersí Committee to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of the standing guidelines on relief measures by banks in areas affected by natural calamities. The measures included: rescheduling/restructuring of existing loans; accounting for such loans as current dues; non-compounding of interest;

Box II.4: Additional Relief Measures for Persons Affected by the *Tsunami*

The additional recommendations made by the Task Force (Chairman: Shri B. Mahapatra) to provide relief measures for persons affected by *Tsunami* are set out below:

- Since the extent of damage and destruction of life and property in Southern group of islands and entire Nicobar district was much more severe compared to the damage in the Northern group of islands, there should be a complete waiver of all loans, irrespective of outstanding amounts in the Southern group of islands.
- Housing loans in the personal segment, not covered by insurance claim payment, may be considered for relief, as applicable to respective outstanding amounts envisaged in the revival package of the Government of India.
- The borrowers with outstanding loans of above Rs.5 lakh in the Northern group of islands, except those under personal segment and covered by financial securities, should be given interest remission on the balance outstanding as on December 26, 2004 for one year up to December 31, 2005, subject to a minimum benefit of Rs.1.80 lakh. Housing loans were also recommended to be included to the extent they were not covered by insurance claim payments.
- The entire additional burden arising out of implementation of the above recommendations may be considered by banks/other financial institutions at their option.

The Union Territory Level Bankersí Committees (UTLBC) convener bank for Union Territory of Andaman and Nicobar Islands was advised in May 2006 to bring the recommendations of the Task Force to the notice of the banks in the Union Territory for early implementation. Progress made in this regard is required to be invariably monitored in the quarterly UTLBC meetings.

The Ministry of Home Affairs, Government of India, announced a revival package of Rs. 57.5 crore for small traders and businessmen in Andaman and Nicobar Islands, who had suffered direct and indirect losses due to the devastation caused by *Tsunami* on December 26, 2004, were granted loans by commercial banks/other financial institutions. The Government of India has since revised the revival package to Rs. 79.5 crore. Out of the total package, 66.7 per cent is borne by the Government of India, while the remaining 33.3 per cent is borne by banks/financial institutions.

offering financial assistance to artisans, self-employed, traders, tiny and small scale industrial units affected by the unprecedented calamity; increasing the limit of consumption loans; and granting financial assistance for the purpose of repairs/reconstruction of dwelling units.

2.44 The Reserve Bank has issued guidelines/ instructions to banks from time to time for providing relief to bank customers in areas affected by natural calamities. These guidelines are largely confined to agricultural and priority sector loans. However, during natural calamities such as *Tsunami*, heavy rains, floods and earthquakes in some parts of the country, a number of banking activities were affected such as functioning of ATMs, opening of accounts of small customers, operations of accounts in the absence of documents and failure of computer networks. Therefore, the Mid-term Review of the Annual Policy Statement for 2005-06 announced that an Internal Working Group would look into the whole gamut of issues involved and suggest suitable revisions and additions to the existing guidelines to make them comprehensive. Accordingly, the Reserve Bank constituted an Internal Working Group (Chairman: Shri G. Srinivasan). The Group, which submitted its final report on June 12, 2006, made several recommendations to provide relief in areas affected by natural calamities (Box II.5).

2.45 Based on the recommendations of the Group, the Reserve Bank issued some additional guidelines to banks on August 9, 2006 to provide special relief measures in areas affected by natural calamities. The guidelines included: (i) operating from temporary premises in areas where the bank branches are affected by natural calamity and are unable to function normally; (ii) waiving the penalties relating to accessing accounts such as fixed deposits to satisfy customerís immediate requirements; (iii) restoring the functioning of ATMs at the earliest and putting in place arrangements for allowing customers to access other ATM networks and mobile ATMs; (iv) simplifying the procedure for opening of new accounts for persons affected by natural calamities; (v) restructuring the existing loans; and (vi) enhancing the limit on consumption loans. Further, banks were advised on September 4, 2006 that the instructions on moratorium, additional collateral for restructured loans and asset classification in respect of fresh finance would be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture.

2.46 Banks were advised in July 2006 to ensure that loan accounts of farmers, which are overdue as on July 1, 2006, be rescheduled on the lines of the package of ëRelief Measures to the Vidarbha Region in Maharashtraí announced by the Honíble

Box II.5: Internal Working Group on Special Relief Measures by Banks in areas affected by Natural Calamities

The Internal Group (Chairman: Shri G. Srinivasan) made the following recommendations:

- To allow opening of new accounts.
- Customers of one bank to be allowed to use ATM networks of other banks for cash withdrawals with charges being borne by the parent bank.
- To increase daily cash withdrawal limits from ATMs.
- To dispense cash through mobile ATMs.
- To defer payments and waiving of late fees and penalties related to the non-payment of the dues in respect of credit card holders residing in areas affected by natural calamity for a period of one to two months.
- To avoid reporting of adverse credit information by credit card issuing banks.
- To raise consumption loan limit from Rs.250 to Rs.10,000 without any collateral, with a provision for further enhancement to Rs.25,000 at the bankís discretion.
- To allow freezing of loan accounts and lowering of interest rates.
- To formulate a full-fledged comprehensive business continuity plan which should include opening of temporary branches for a period of 30 days, opening of satellite offices, extension counters or mobile banking facilities, alternative arrangements for supply of currency notes in the affected areas, opening of repositories at post offices and treasuries, and facilitating expeditious opening of bank accounts.
- To set up a control room/helpline at the SLBC convenor bank and a helpline each in the Reserve Bank and nodal offices of banks in affected areas.

Prime Minister and the interest thereon (as on July 1, 2006) be waived. Fresh finance was to be ensured to such farmers. The total amount of credit of Rs.1,275 crore envisaged to be released by banks was allocated by Bank of Maharashtra (as SLBC Convenor) among the banks functioning in the districts.

2.47 Some parts of the country witnessed the *Avian flu* (bird flu). Keeping in view the loss of income that had occurred due to culling of birds as well as steep fall in the demand for poultry products and their prices, banks were advised on April 4, 2006 to consider extending the relief to poultry units financed by them. Banks were advised that principal and interest due on working capital loans as also instalments and interest on term loans, which had fallen due for payment on/after the onset of bird flu, *i.e.*, February 1, 2006 and remaining unpaid be converted into term loans. The converted loans were required to be recovered in instalments based on projected future inflows over a period of up to three years with an initial moratorium of up to one year. The remaining portion of the term loan was required to be rescheduled with a moratorium period up to one year, depending upon the cash flow generating capacity of the unit. The reschedulement/conversion was to be completed by June 30, 2006. The borrower was made eligible for fresh need-based finance. The relief measures as above were extended to all accounts of poultry industry, which were classified as standard accounts as on March 31, 2006.

2.48 Guidelines were also issued to banks on May 23, 2006 on the scope of subvention, its calculation and disbursement. The Central Government had placed Rs.80 crore with the Reserve Bank for reimbursing the claims submitted by banks. For this purpose, claims aggregating Rs.75 crore were reimbursed to public sector banks, private sector banks and foreign banks.

Credit Flow to Small and Medium Industries

2.49 Unlike large industries, which have access to various domestic and international sources of finance, small and medium enterprises (SMEs) are dependent largely on bank finance. However, credit to the SME sector has tended to stagnate in recent years. This is a cause of concern given the importance of small scale industries in the overall economy, especially its employment generating potential. The Reserve Bank, therefore, has been making constant efforts to increase the credit flow to SMEs.

2.50 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 in August 2005 to take measures to improve the flow of credit to the SME sector. A reporting and monitoring system for the same was also prescribed (Box II.6).

2.51 Consequent upon the announcement made by the Union Finance Minister on August 10, 2005, a one-time settlement scheme for recovery of NPAs

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

In pursuance of the recommendations of the Internal Group on Credit Flow to the SME sector (Chairman: Shri C.S. Murthy), the Union Finance Minister had announced certain measures in the Parliament on August 10, 2005 for stepping up credit to SMEs. As a follow-up to the announcement made, all public sector banks were advised on August 19, 2005 to take the following measures:

- Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as Medium Enterprises (MEs). Only SSI financing will be included in the priority sector.
- All 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 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 showing 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.
- In order to increase the outreach of formal credit to the SME sector, all scheduled commercial 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 issued on lending to the SSI sector, the boards of directors of banks may formulate comprehensive and more liberal policies than the existing ones in respect of loans to the SME sector. Till such time 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.
- Banks may ensure specialised SME branches in identified clusters/centres with preponderance of medium enterprises to enable SME entrepreneurs to have an 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 the instructions/guidelines issued by the Reserve Bank may be displayed on the respective websites of banks as well as on website of SIDBI. Banks may also prominently display all the facilities/schemes offered by them to small entrepreneurs at each of their branches.

The above measures, except setting up of specialised SME branches in identified clusters/centres with preponderance of medium enterprises, were communicated to all banks for necessary action - private, foreign, regional rural and local area - in August 2005.

The Reserve Bank has constituted empowered committees at the Regional Offices to review the progress in SME financing and rehabilitation of sick SSI and ME units, and coordinate with other banks/financial institutions and the State Governments in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. These regional level committees may decide the need to have similar committees at cluster/district levels.

below Rs.10 crore for SME accounts was formulated and advised for implementation by public sector banks (Box II.7).

2.52 In pursuance of the announcement made by the Union Finance Minister for improving flow of credit to small and medium enterprises, detailed guidelines on debt restructuring mechanism for units in the SME sector were issued†on September 8, 2005 to all scheduled commercial banks to ensure restructuring of debt of all eligible SMEs at terms which are, at least, as favourable as the corporate debt restructuring

Box II.7: One-Time Settlement Scheme for SME Accounts

The one-time settlement scheme for recovery of NPAs below Rs.10 crore provides for a simplified, non-discretionary and non-discriminatory mechanism for one-time settlement of chronic NPAs in the SME sector. The scheme, however, does not cover cases of wilful default, fraud and malfeasance. The scheme covers all NPAs in the SME sector, which have become ëdoubtfulí or ëlossí as on March 31, 2004 with outstanding balance of Rs.10 crore and below on the date on which the account was classified as ëdoubtfulí. The scheme also covers NPAs classified as ësub-standardí as on March 31, 2004, which have subsequently become ëdoubtfulí or ëlossí where the outstanding balance was Rs.10 crore or below on the date on which the account was classified as ëdoubtfulí. The scheme covers cases in respect of which banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before courts/Debt Recovery Tribunals (DRTs)/Board for Industrial and Financial Reconstruction (BIFR), subject to consent decree being obtained from the courts/DRTs/BIFR. The last date for receipt of applications from borrowers was March 31, 2006. The processing under the revised guidelines was required to be completed by June 30, 2006.

mechanism in the banking sector. These guidelines are applicable to the following entities, which are viable or potentially viable: (i) all non-corporate SMEs, irrespective of the level of dues to banks; (ii) all corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank; and (iii) all corporate SMEs, which have funded and non-funded outstanding debt†up to Rs.10 crore under multiple/consortium banking arrangement. Accounts involving wilful default, fraud and malfeasance, and accounts classified by banks as ëloss assetsí are not eligible for restructuring under these guidelines. However, banks should review, especially the old cases, where the manner of classification of a borrower as a wilful defaulter was not transparent, and admit deserving cases, subject to the approval of their board of directors, for restructuring. In respect of BIFR cases, banks were required to ensure completion of all formalities in seeking approval from Board for Financial and Industrial Reconstitution (BIFR) before implementing the package. Banks were advised to decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years. Banks were required to work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

2.53 As announced by the Reserve Bank in the Annual Policy Statement for 2005-06, a scheme for Small Enterprises Financial Centres (SEFCs) was worked out in consultation with the Ministry of SSI, the Ministry of Finance, SIDBI, IBA and select banks, and circulated to all scheduled commercial banks for implementation. The Scheme encouraged banks to establish mechanisms for better coordination between their branches and those of SIDBI, which are located in the clusters identified by the Ministry of SSI, for co-financing of the SME sector (including tiny and the services sector). Under the SEFCs Scheme, SIDBI has executed Memoranda of Understanding with 16 banks so far (Bank of India, UCO Bank, Yes Bank, Bank of Baroda, Oriental Bank of Commerce, Punjab National Bank, Dena Bank, Andhra Bank, Indian Bank, Corporation Bank, Industrial Development Bank of India Ltd., Indian Overseas Bank, Union Bank of India, State Bank of India, State Bank of Saurashtra and Federal Bank).

2.54 With a view to ensuring larger flow of credit to trade and industry in the State of Jammu and Kashmir on the one hand and bringing about appropriate changes in the monitoring mechanism on the other, the position in regard to relaxations/ concessions announced from time to time was reviewed. A comprehensive package of concessions/credit relaxations to borrowers/ customers was announced in April 2004 for immediate implementation by banks operating in the State of Jammu and Kashmir. The package covered, *inter-alia*, sanction of increased working capital facilities depending on the merits of each case; review of all borrowal accounts within a period of 3 months; encouraging finance against accepted usance bills; offering concessional service tariffs for remittances; honouring small fixed deposit receipts (up to Rs.10,000) of the Kashmiri migrants at the designated branches without verifying details from the branch of origin against indemnity bond, where necessary; allowing rescheduling of the repayment programme in deserving cases; and extension of liberal acceptance of credit/letter of credit facilities to facilitate purchases on credit. In March 2006, these concessions/relaxations were made operative for a further period of one year, *i.e.*, up to March 31, 2007.

Export Credit

2.55 In pursuance of the recommendations of the Working Group to Review Export Credit (Chairman: Shri A. Sinha), scheduled commercial banks (excluding RRBs) were advised in February 2006 to review their existing procedure for export credit, Gold Card Scheme (GCS), export credit for non-star exporters and certain other aspects. The review of existing procedure for export credit was required to include the following: (i) attitudinal change in the approach to small and medium exporters; (ii) putting in place a control and reporting mechanism for early disposal of application; (iii) raising all queries in one shot while processing applications as opposed to piece-meal queries; (iv) facilitating training along with SSI/export organisations; (v) devising of a simplified loan application form by IBA; (vi) evolving guidelines to obviate need for collateral security; and (vii) promoting coordination between banks and exporters through the mechanism of State Level Export Promotion Committees (SLEPCs), which have been reconstituted as sub-committees of the SLBCs.

2.56 The review of the GCS is required to include: (i) completing the process of issuance of cards to all eligible exporters within a period of three months and confirming the compliance to the Reserve Bank;

and (ii) simplifying the procedure by IBA and implementing the exemption granted under the GCS of all deserving Gold Card holder exporters from the Packing Credit Guarantee Sectoral schemes of Export Credit and Guarantee Corporation (ECGC) on the basis of their track record. Banks were advised to 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 were also required to consider extending export credit at rates lower than the ceiling rates prescribed by the Reserve Bank taking into account the cost of funds, margin requirements and risk perception. Banks were asked to give priority for the foreign currency export credit requirements of exporters over foreign currency loans to non-exporter borrowers.

Expert Group on Credit-Deposit Ratio

2.57 In order to monitor the credit-deposit (CD) ratio and to draw up monitorable action plans (MAPs) to increase the CD ratio, banks were advised in November 2005 to set up special sub-committees (SSCs) of District Level Co-ordination Committee (DLCC) in the districts having CD ratio of less than 40. The districts having CD ratio between 40 and 60 will be monitored under the existing system by the DLCC. The number of districts with CD ratio of less than 40 declined to 180 at the end of June 2006 from 196 at end-December 2005. Special sub-committees of DLCC have been formed in 133 districts out of 180 districts to draw up monitorable action plans to increase the CD ratio.

4. Prudential Regulation

2.58 As a part of the ongoing efforts to strengthen the banking system through adoption of policies aimed at both improving the financial strength of the banks and bringing about greater transparency in their operations, the Reserve Bank initiated various measures during the year. Strengthening the capital base of banks with a view to preparing them to migrate to Basel II norms and putting in place the appropriate financial architecture for risk management continued to be the focus of attention of the Reserve Bank. Guidelines were issued for capital charge for market risk, raising of capital through innovative and hybrid instruments and management of operational risk. Risk mitigation measures continued through enhancement of risk weights for certain sectors, higher provisioning for standard assets, business continuity plans and guidelines on outsourcing of financial services. Accounting standards and disclosure norms were strengthened further with a view to improving governance and bringing them in alignment with the international norms. Banks were accorded greater flexibility to manage their assets by permitting securitisation of standard assets and allowing sale/purchase of NPAs. The corporate debt restructuring (CDR) scheme was modified.

Capital Adequacy

2.59 The Reserve Bank is committed to the adoption of Basel II by the banks and had earlier indicated March 31, 2007 as the intended date for adoption by all commercial banks. Taking into account the state of preparedness of the banking system, however, it was decided to provide banks some more time to put in place appropriate systems so as to ensure full compliance with Basel II. Foreign banks operating in India and Indian banks having presence outside India are to migrate to the standardised approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009. The Steering Committee of banks would continue to interact with banks and the Reserve Bank, and guide the smooth implementation of Basel II. They are required to follow standardised approach for credit risk and basic indicator approach for operational risk.

2.60 In view of transition to the new capital adequacy framework, banks would need to further shore up their capital funds to meet the requirements under the revised Framework. Under Basel II, the capital requirements are not only more sensitive to the level of credit risk, but are also applicable to operational risks. Thus, banks would need to raise additional capital for Basel II requirements, as well as to support the expansion of their balance sheets. For smooth transition to Basle II and with a view to providing banks in India additional options for raising capital funds, banks were advised in January 2006 that they could augment their capital funds by issue of additional instruments such as (i) innovative perpetual debt instruments (IPDI) eligible for inclusion as Tier I capital; (ii) debt capital instruments eligible for inclusion as Upper Tier II capital; (iii) perpetual non-cumulative preference shares eligible for inclusion as Tier I capital; and (iv) redeemable cumulative preference shares eligible for inclusion as Tier II capital. Detailed guidelines for instruments at (i) and (ii) above have already been issued (Box II.8). Guidelines for instruments at (iii) and (iv) will be issued separately in due course.

2.61 The Basel Committee on Banking Supervision (BCBS) had undertaken the Fifth Quantitative Impact Study (QIS-5) to assess the impact of adoption of the revised Framework. Eleven Indian banks, accounting for about 50 per cent of market share (by assets), participated in the QIS-5 exercise. An empirical analysis indicates that the combined capital adequacy ratio of these banks is expected to come down by about 100 basis points when these banks apply Basel II norms for standardised approach for credit risk and basic indicator approach for operational risk. Although

Box II.8: Enhancement of Banksí Capital Raising Options for Capital Adequacy Purposes

I. Innovative Perpetual Debt Instruments

The innovative perpetual debt instrument (IPDI), which is perpetual in nature, is allowed to be issued up to 15 per cent of total Tier I capital. While IPDI is not allowed to be issued with a ë*put option*í, it could be issued with ë*call option*í and ë*step up option*í. However, c*all option* can be exercised after the instrument has run for at least ten years and with the prior approval of the Reserve Bank. S*tep-up option* could be exercised only once during the whole life of the instrument, in conjunction with the call option, after the lapse of ten years from the date of issue. Further, the step-up should not be more than 100 basis points. As this instrument is eligible to be included as Tier I capital, it would have ë*loss absorption*í feature. Interest due on IPDI is not payable and is also non-cumulative in case the CRAR of the issuing bank is less than regulatory minimum prescribed or the impact of such payment results in bankís CRAR falling below or remaining below the minimum regulatory requirement prescribed. However, banks would be allowed to pay interest due with the prior approval of the Reserve Bank even when the payment of interest results in net loss/increase, provided CRAR remains above the regulatory norm. As regards s*eniority of claim*, the claims of investors in innovative instruments will be superior to the claims of investors in equity shares and subordinated to the claims of all other creditors. Investment in these instruments by FIIs and NRIs are allowed within an overall limit of 49 per cent and 24 per cent, of the issue, respectively, subject to the investment by each FII not exceeding 10 per cent of the issue and investment by each NRI not exceeding 5 per cent of the issue.

Investment in IPDI raised in Indian rupee by FIIs is outside the ECB limit for rupee denominated corporate debt (currently US $ 1.5 billion) fixed for investment by FIIs in corporate debt instruments. Banks could also augment their capital fund to issue IPDI in foreign currency, without approval of the Reserve Bank, subject to terms and conditions. Not more than 49 per cent of the eligible amount can be issued in foreign currency.

II. Upper Tier II Instruments

The amount of Upper Tier II instruments issued by a bank along with other components of Tier II capital cannot exceed 100 per cent of Tier I capital and these instruments shall have a minimum maturity of 15 years. Similar to IPDI, Upper Tier II instruments cannot be issued with a ë*put option*í; they could be issued with ë*call option*í and ë*step up option*í. As in the case of IPDI, c*all option* can be exercised only after the instrument has run for at least ten years and with the prior approval of the Reserve Bank and s*tep-up option* can be exercised only once during the whole life of the instrument, in conjunction with the call option, after the lapse of ten years from the date of issue. Further, the step-up should not be more than 100 bps. Unlike IPDI, loss absorption capacity of Upper Tier II instruments is limited. Interest due on this instrument and principal on redemption can be deferred, but would be cumulative. Interest due and principal on redemption can be deferred, only if, CRAR of the issuing bank is less than regulatory minimum prescribed or the impact of such payment results in bankís CRAR falling below or remaining below the minimum regulatory requirement prescribed. However, banks are allowed to pay with the prior approval of the Reserve Bank, when the payment of interest results in net loss/increase in net loss, provided CRAR remains above the regulatory norm. While paying such unpaid interest and principal, banks are also allowed to pay compound interest at a rate not exceeding the coupon rate of the relative Upper Tier II bonds on the outstanding principal and interest. The Upper Tier II instrument is not repaid at maturity without prior approval of the Reserve Bank. The claims of the investors in Upper Tier II instruments are deemed superior to the claims of investors in instruments eligible for inclusion in Tier I capital, but subordinate to the claims of all other creditors. As in the case of short-term subordinated debt, Upper Tier II instruments are also subjected to a progressive discount for capital adequacy purposes during the last five years of their tenor. These instruments are open for FIIs/NRI investment, subject to certain restrictions. While investments by FIIs are allowed within the limits as laid down in the ECB Policy for investment in debt instruments, NRIs investments are subject to the existing policy in force.

Investments by FIIs in Upper Tier II instruments raised in Indian rupee is outside the limit for investment in corporate debt instruments, *i.e.*, US $ 1.5 billion. However, investment by FIIs in these instruments is subject to a separate ceiling of US $ 500 million. The total amount of Upper Tier II instruments issued in foreign currency cannot exceed 25 per cent of the unimpaired Tier I capital. This eligible amount is computed with reference to the amount of Tier I capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments. This is in addition to the existing facility for foreign currency borrowings by Authorised Dealers.

none of the banks which participated in the exercise would be breaching the minimum capital adequacy ratio under the new framework, the net impact reflects a wide range.

2.62 Banks were advised in January 2002 to build up investment fluctuation reserve (IFR) which should be at least 5 per cent of their investments in ëheld for tradingí (HFT) and ëavailable for saleí (AFS) categories within five years so that they are in a better position to meet the market risk (Box II.9). Banks were also encouraged to build IFR up to a maximum of 10 per cent of their AFS and HFT investments. It was advised in October 2005 that banks which have maintained capital of at least nine per cent of the risk weighted assets for both credit and market risks and 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 were allowed to transfer the entire balance in the IFR ëbelow the lineí in the ëprofit and loss appropriation accountí to statutory reserve, general reserve or the profit and loss account. Banks were further advised that in the

Box II.9: Capital Charge for Market Risks

The Basel Committee on Banking Supervision (BCBS) of BIS had issued the ëAmendment to the Capital Accord to Incorporate Market Risksí containing comprehensive guidelines to provide explicit capital charge for market risks. These guidelines seek to address the issues involved in computing capital charges for interest rate related instruments in the trading book, equities in the trading book and foreign exchange risk (including gold and other precious metals) in both trading and banking books. Trading book for the purpose of these guidelines include: (i) securities included under the HFT category; (ii) securities included under the AFS category; (iii) open gold position limits; (iv) open foreign exchange position limits; (v) trading positions in derivatives; and (vi) derivatives entered into for hedging trading book exposures.

The minimum capital requirement is expressed in terms of two separately calculated charges, *viz*., (i) ëspecific riskí charge for each security, which is akin to the conventional capital charge for credit risk, both for short and long positions; and (ii) ëgeneral market riskí charge towards interest rate risk in the portfolio, where long and short positions (which is not allowed in India except in derivatives) in different securities or instruments can be offset.

In India, as an initial step towards prescribing capital charge for market risks, banks were advised to: (i) assign an additional risk weight of 2.5 per cent on the entire investment portfolio; (ii) assign a risk weight of 100 per cent on open position limits on foreign exchange and gold; and (iii) build up investment fluctuation reserve up to a minimum of five per cent of investments in HFT and AFS categories in the investment portfolio.

In the Monetary and Credit Policy Statement for the year 2002-03 announced in April 2002, it was mentioned that it would be appropriate for banks to adopt the BCBS norm on capital charge for market risk. Accordingly, the Reserve Bank issued draft guidelines on computing capital charge for market risks, on the lines of the Basel Committee framework, in May 2003, to select banks seeking their comments. The draft guidelines were reviewed in June 2004 in the light of the comments received and as announced in the Annual Policy Statement for 2004-05, banks were required to maintain capital charge for market risks in a phased manner over a two-year period. Banks were required to maintain capital for market risks on securities included in the HFT category, open gold position limit, open foreign exchange position limit, trading positions in derivatives and derivatives entered into for hedging trading book exposures by March 31, 2005. In addition to above, banks were required to maintain capital for market risk on securities included in the AFS category by March 31, 2006.

The Basel Committee suggested two broad methodologies for computation of capital charge for market risks. One is the standardised method and the other is the banksí internal risk management models. As banks in India are still in a nascent stage of developing internal risk management models, to start with, banks were allowed to adopt the standardised method. Under the standardised method there are two principal methods of measuring market risk, a ëmaturityí method, and a ëdurationí method. As ëdurationí method is a more accurate method of measuring interest rate risk, it has been decided to adopt standardised duration method to arrive at the capital charge. Accordingly, banks are required to measure the general market risk charge by calculating the price sensitivity (modified duration) of each position separately.

To begin with, capital charge for market risks is applicable to banks on a global basis. At a later stage, this would be extended to all groups where the controlling entity is a bank. The banksí overall minimum capital requirement will be the sum of: (a) capital requirement for credit risk, as already laid down in prudential norms on capital adequacy, excluding the items comprising trading book, but including counter party credit risk on all OTC derivatives; and (b) capital requirement for market risks in the trading book.

Banks are required to manage the market risk in their books on an ongoing basis and ensure that the capital requirements for market risks are maintained on a continuous basis, *i.e.*, at the close of each business day. Banks are also required to maintain strict risk management systems to monitor and control intra-day exposures to market risks.

The capital charge for interest rate related instruments and equities is applied to current market value of these items in bankís trading book. The current market value is to be determined as per the extant guidelines of the Reserve Bank on valuation of investments. The measurement of capital charge for market risk should include all interest rate derivatives and off-balance sheet instruments in the trading book and derivatives entered into for hedging trading book exposures which would react to changes in the interest rates, such as FRAs and interest rate positions.

event, the 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 and the same 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.

2.63 The New Capital Adequacy Framework includes various options for calculating operational risk capital charge in a continuum of increasing sophistication and risk sensitivity, and increasing complexity. The Guidance Note on operational risk issued to banks in October 2005 outlined a set of sound principles for effective management and supervision of operational risk by banks. Although banks may adopt any one of the options for computing capital charge, it is intended that they benchmark their operational risk management systems with the framework provided in the Guidance Note and strive to move towards more sophisticated approaches. The design and architecture for management of operational risk is required to be oriented towards banksí own requirements dictated by the size and complexity of business, risk philosophy, market perception and the expected level of capital. The exact approach would, therefore, differ from bank to bank.

Exposure Norms and Risk Weights

2.64 The Reserve Bank has prescribed regulatory limits on banksí exposure to individual and group borrowers to avoid concentration of credit. It has also advised banks to fix limits on their exposure to specific industries or sectors. The credit exposure limit for a single and a group of borrowers has been stipulated at 15 per cent and 40 per cent, respectively, of capital funds with additional 5 per cent and 10 per cent for infrastructure funding for single and group borrowers, respectively. In addition, 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. There also exists a cap on foreign currency borrowing and lending as well as on hedging of such foreign currency loans. The capital market and sensitive sector exposure also continues to be capped. In view of the developments in the banking sector, the Reserve Bank took several measures during 2005-06 to refine and strengthen the exposure norms.

2.65 In view of the rapid increase in loans to the real estate sector and the systemic risks posed by such exposure, banks were advised in March 2006 that while appraising loan proposals involving real estate, they should ensure that the borrowers have obtained prior permission from the Government/ local Governments/other statutory authorities for the project, wherever required. In order to ensure that this process does not hamper the loan approval process, banks were advised that while the proposals could be sanctioned in the normal course, the disbursements should be made only after the borrower has obtained the requisite clearances from the Government authorities.

2.66 The risk weight on banksí exposure to the commercial real estate was increased from 100 per cent to 125 per cent in July 2005 and further to 150 per cent in April 2006. Exposure to commercial real estate includes: (a) fund based and non-fund based exposures secured by mortgages on commercial real estates; and (b) investments in mortgage backed securities and other securitised exposures**,** where the underlying exposures are to the commercial real estate. Keeping in view the market conditions, exposure of banks to entities for setting up Special Economic Zones (SEZs) or for acquisition of units in SEZs which include real estate would be treated as exposure to commercial real estate.

2.67 In view of the increase in growth of advances to the real estate sector in the recent period, banks were advised to put in place a proper risk management system to contain the risks involved. Banks were also advised to put in place a system for ensuring proper checking and documentation of related papers before sanctioning/disbursing of such loans. On June 29, 2005, the Reserve Bank advised banks 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 and sector to be financed. Banks were also advised to report their real estate exposure under certain heads and disclose their gross exposure to the real estate sector as well as the details of the break-up in their annual reports.

2.68 With effect from July 26, 2005, the risk weight for credit risk on the capital market exposures was increased from 100 per cent to 125 per cent. The capital market exposure comprises: (a) direct investment by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; and (b) advances against shares to individuals for investment in equity shares (including IPOs/ESOPs), bonds and debentures, units of equity oriented mutual funds; and (c) secured and unsecured advances to stock brokers and guarantees issued on behalf of stock brokers and market makers. In the Annual Policy Statement for 2006-07 issued in April 2006, it was decided to consider bankís total exposure to venture capital funds a part of its capital market exposure. Accordingly, banks were required to assign a higher risk weight of 150 per cent to such exposures. In August 2006, banks were advised that all exposures to venture capital funds (VCFs) (both registered and unregistered) would be deemed at par with equity, and hence would be reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure), and the limits prescribed for such exposure would also apply to investments in VCFs.

2.69 In view of more companies offering Employee Stock Options (ESOPs) and employee quota in their IPOs, the instruction that banks could provide finance up to Rs.50,000 or six monthsí salary, whichever is less, to assist employees to buy shares of their own companies was reviewed in 2004. Banks were advised that the above referred instructions would not be applicable for extending financial assistance by banks to their own employees for acquisition of share under ESOPs or IPOs. Earlier, banks were advised that they could extend finance to employees for purchasing shares of their own company under ESOPs to the extent of 90 per cent of the purchase price of the shares or Rs.20 lakh, whichever is lower. However, it was noticed that some banks had extended loans to their employees/ Employee Trusts set up by them, for purchasing their own shares on a clean basis. It was, therefore, clarified on December 27, 2005 that banks (excluding RRBs) would not be allowed to extend advances even to their employees/ Employee Trusts set up by them for the purpose of purchasing their (banksí) own shares under ESOPs/ IPOs or from the secondary market. This prohibition is applicable irrespective of whether the advances are unsecured or secured.

Risk Management

2.70 Basel II aims at encouraging the use of modern risk management techniques and ensuring that bankís risk management capabilities are commensurate with the underlying risks of their business. Basel II requires that the design of risk management framework be oriented towards banksí 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 banks should, however, be adaptable to changes in business, size, market dynamics and introduction of innovative products by banks in future.

2.71 It is imperative for banks to prepare for business disruptions and system failures to ensure continuity of operations. In this regard, detailed guidelines were issued in April 2005 requiring commercial banks to put in place business continuity measures, including a robust information risk management system within a fixed time frame. The guidelines encompassed both technological and non-technology related components for a comprehensive business continuity planning (BCP) process. The unprecedented floods in recent times in a few cities and the resultant reports of electronic delivery channels of some of the banks being affected has further reinforced the need for robust BCP in banks.

Income Recognition, Asset Classification and Provisioning

2.72 The prudential norms relating to income recognition, asset classification and provisioning, introduced during 1992-93 are being continuously monitored and refined to bring them on par with international best standards. In keeping with this, several measures were initiated in 2005-06. In November 2005, the general provisioning requirement for ëstandard assetsí, barring banksí direct advances to agricultural and SME sectors, was increased to 0.40 per cent from 0.25 per cent. In May 2006, the general provisioning requirement for banks (excluding RRBs) on standard advances in respect of specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans was increased to 1.0 per cent from 0.40 per cent. Thus, banks are required to make a minimum general provision for standard assets at three different rates for the funded outstanding on a global loan portfolio basis. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent.

2.73 In terms of the extant guidelines, provisioning for sub-standard assets is required to be made 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 to 100 per cent on the secured portion, while it is 100 per cent on the unsecured portion.

2.74 In a few cases, it was noted that floating provisions were used to set off against the provisions required under the extant prudential guidlines for smoothening profits. Hence, revised prudential norms/guidelines were issued to banks (excluding RRBs) in June 2006 on utilisation, creation, accounting and disclosures of floating provisions, *i.e.*, provisions which are not made in respect of specific non-performing assets (NPAs) or are made in excess of regulatory requirement for provisions for standard assets (Box II.10).

2.75 The Reserve Bank has been continuously working towards aligning the accounting standards for banks with the international best standard practices. Based on the recommendations made by a Working Group (Chairman: Shri N.D. Gupta), detailed guidelines were issued in March 2003 relating to accounting standards. In April 2004, guidelines were issued to ensure banksí compliance with these accounting standards and that there are no qualifications by the auditors in their financial statements for non-compliance with any accounting standard. The Institute of Chartered Accountants of India (ICAI) is formulating the accounting standard on ëFinancial Instruments: Recognition and Measurementí which would be the Indian parallel of International Accounting Standards (IAS) 39. An Internal Group was constituted by the Reserve Bank to review the existing guidelines on classification and valuation of investments by banks and to align them with IAS 39. The Group, taking into account the unique country-specific circumstances, focused on dovetailing the provisions of IAS 39 with the existing prudential guidelines relating to classification and valuation of investments. The report of the Group was placed on the Reserve Bankís website on July 12, 2006 for wider dissemination and comments.

2.76 In partial modification of the guidelines issued in March 2005 relating to compliance with Accounting Standard (AS) 11 (revised 2003), the threshold limits relating to recording the foreign currency transactions at the date of the transaction were revised in April 2006. Banks were advised that: (i) the weekly average closing rate of the preceding week would not be considered approximating the actual rate at the date of the transaction if the difference between (a) the weekly average closing rate of the preceding

Box II.10: Floating Provisions ñ Revised Norms

The broad features of revised guidelines issued in June 2006 in respect of utilisation, accounting and disclosures of floating provisions are set out below:

ï The floating provisions should not be used for making specific provisions in respect of non-performing assets or for making regulatory provisions for standard assets but can be used only for contingencies under extraordinary circumstances, for making specific provisions in impaired accounts with prior permission of the Reserve Bank.

ï The board of directors of the bank may lay down a policy as to what circumstances would be considered extraordinary for making specific provisions in impaired accounts with prior permission of the Reserve Bank.

ï Bankís board of directors should lay down approved policy regarding the level to which the floating provisions can be created.

ï Bank should hold floating provisions for ëadvancesí and ëinvestmentsí separately and the guidelines prescribed will be applicable to floating provisions held for both ëadvancesí and ëinvestmentí portfolios.

ï Floating provisions cannot be reversed by credit to the profit and loss account.

ï Until utilisation for contingencies, as stated above, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs or they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk-weighted assets.

ï Banks should make comprehensive disclosures on floating provisions in the ënotes on accountsí to the balance sheet on (a) opening balance in the floating provisions account; (b) the quantum of floating provisions made in the accounting year; (c) purpose and amount of drawdown made during the accounting year; and (d) closing balance in the floating provisions account.

ï Specific provisions for advances at rates which are higher than the rates prescribed under existing regulations are not to be treated as floating provisions.

week and (b) the exchange rate prevailing at the date of the transaction, is more than three-and-a-half per cent of (b); and (ii) in respect of non-integral foreign operations, the quarterly average closing rate would not be considered approximating the actual rate at the date of the transaction, if the difference between (a) the quarterly average closing rate and (b) the exchange rate prevailing at the date of the transaction, is more than seven per cent of (b). Banks were, however, encouraged to equip themselves to record the foreign currency transactions of Indian branches as well as integral foreign operations and translate both the income and expense items of non-integral foreign operations at the exchange rate prevailing on the date of the transaction.

2.77 Scheduled commercial banks (excluding RRBs) were advised in May 2006 to disclose in the ëNotes on Accountí to the balance sheet the information providing details of provisions and contingencies shown under the head ëexpenditureí in ëprofit and loss accountí as follows: i) provisions for depreciation on investment; ii) provision towards NPA; iii) provision towards standard asset; iv) provision made towards income tax; and v) other provisions and contingencies (with details).

Guidelines on Securitisation of Standard Assets

2.78 The Reserve Bank had issued draft guidelines on securitisation of standard assets in April 2005. Based on the feedback received from all stakeholders, the final guidelines on securitisation of standard assets were issued on February 1, 2006. The guidelines are applicable to financial institutions, including non-banking financial companies (Box II.11).

Box II.11: Guidelines on Securitisation of Standard Assets

Securitisation is a process by which assets are sold to a bankruptcy remote special purpose vehicle (SPV) in return for an immediate cash payment. The cash flow from the underlying pool of assets is used to service the securities issued by the SPV. Securitisation, thus, follows a two-stage process. In the first stage, there is sale of single asset or pooling and sale of pool of assets to a ëbankruptcy remoteí SPV in return for an immediate cash payment. The second stage involves repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third party investors by issuance of tradable debt securities.

The salient features of the guidelines issued by the Reserve Bank on securitisation of assets are set out below:

ï The sale should result in immediate legal separation of the originator from the assets which are sold to the new owner, *viz.*, the SPV.

ï The SPV should meet the specific criteria to enable the originator to treat the assets transferred by it to the SPV as a true sale and apply the prudential guidelines on capital adequacy and other aspects with regard to the securitisation exposures assumed by it. The criteria mainly specifies that: (i) any transaction between the originator and the SPV should be strictly on armís length basis; (ii) any transaction with the SPV should not intentionally provide for absorbing any future losses; (iii) the SPV and the trustee should not resemble in name or imply any connection or relationship with the originator of the assets in its title or name; and (iv) the SPV should be entirely independent of the originator and the SPV should be bankruptcy remote and non-discretionary.

ï A bank should hold capital against the credit risk assumed when it provides credit enhancement, either explicitly or implicitly, to a SPV or its investors. Credit enhancement facilities include all arrangements provided to the SPV that could result in a bank absorbing losses of the SPV or its investors. Such facilities may be provided by both originators and third parties.

ï A liquidity facility is provided to help smoothen the timing differences faced by the SPV between the receipt of cash flows from the underlying assets and the payments to be made to investors. A liquidity facility should meet specific conditions to guard against the possibility of the facility functioning as a form of credit enhancement and/or credit support.

ï A bank performing the role of a service provider for a proprietary or a third-party securitisation transaction has to ensure certain specific conditions and where these conditions are not met, the service provider may be deemed as providing liquidity facility to the SPV or investors and treated accordingly for capital adequacy purpose.

ï As the securities issued by SPVs would be in the nature of non-SLR securities, banksí investment in these securities would attract all prudential norms applicable to non-SLR investments prescribed by the Reserve Bank from time to time.

ï The counterparty for the investor in the securities would not be the SPV but the underlying assets in respect of which the cash flows are expected from the obligors/ borrowers. These should be taken into consideration while reckoning overall exposures to any particular borrower/ borrower group, industry or geographic area for the purpose of managing concentration risks and compliance with extant prudential exposure norms, wherever the obligors in the pool constitute 5 per cent or more of the receivables in the pool or Rs.5 crore, whichever is lower.

ï Banks can sell assets to SPV only on a cash basis and the sale consideration should be received not later than the transfer of the asset to the SPV. Hence, any loss arising on account of sale should be accounted accordingly and reflected in the profit and loss account for the period during which the sale is effected. Any profit/premium arising on account of sale should be amortised over the life of the securities issued or to be issued by the SPV.

2.79 The stakeholders were also advised that the Reserve Bank would take a view on the treatment for the securitisation transactions undertaken in the period prior to February 1, 2006 on a case-by-case basis with the objective of ensuring adherence to the basic principles of prudence.

NPA Management by Banks

2.80 Since the chances/extent of recovery of NPAs reduce over a period of time, the Reserve Bank in recent years took several measures to expedite recovery of NPAs by banks. For this purpose, several channels of recovery have been designed such as Debt Recovery Tribunals, *Lok Adalats* and corporate debt restructuring mechanism and the SARFAESI Act.

2.81 Corporates sometimes find themselves in financial difficulty, despite their best efforts and intentions, because of factors beyond their control and also due to certain internal reasons. With a view to enabling corporates to tide over temporary financial difficulties as well as for the safety of the money lent by the banks and FIs, timely support through restructuring in genuine cases at times is considered necessary. Based on the cross-country experience, a CDRM was evolved, and detailed guidelines were issued in August 2001 for implementation by banks. Subsequently, guidelines on CDRM were revised in February 2003. A Special Group was constituted in September 2004 (Chairperson: Smt. S. Gopinath) to undertake a review of the scheme on CDRM. The Group suggested certain changes/ improvements in the existing scheme for enhancing its scope and making it more efficient. Based on the recommendations by the Special Group and the feedback received, draft guidelines were prepared and issued to all commercial banks/FIs (excluding RRBs) in November 2005 (Box II.12).

2.82 With a view to providing an additional option and developing a healthy secondary market for NPAs, guidelines on sale/purchase of NPAs were issued in July 2005 covering the procedure for purchase/sale of non-performing financial assets (NPFA) by banks, including valuation and pricing aspects; and prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy and exposure norms, and disclosure requirements (Box II.13).

Know Your Customer Guidelines and Anti-Money Laundering Standards

2.83 The Reserve Bank had issued comprehensive guidelines to banks on November 29, 2004 relating to ëknow your customerí (KYC) and ëanti-money launderingí (AML). Banks were later advised to ensure that they were fully compliant with the provisions of the norms before December 31, 2005. On August 23, 2005, revised guidelines were issued regarding opening of accounts with a view to enabling persons belonging to low-income group to easily access

Box II.12: Corporate Debt Restructuring Mechanism (CDRM) ñ Revised Guidelines

The salient features of the revised guidelines on CDRM are as indicated below:

- To extend the scheme to entities with outstanding exposure of Rs.10 crore or more.
- To require the 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 ensuring the decision making more equitable.
- To give discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions.
- To link the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package.
- To restrict the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turnaround period, minimum sacrifice and funds infusion by promoters.
- To converge the methodology for computation of economic sacrifice among banks and FIs.
- To limit the Reserve Bankís role to providing broad guidelines for CDRM.
- To enhance the disclosures in the balance sheet for providing greater transparency.
- To share on a *pro-rata* basis an additional finance requirement by both term lenders and working capital lenders.
- To allow OTS as a part of the CDRM to make the exit option more flexible.
- To modify the regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Box II.13: Guidelines on Sale/Purchase of NPAs ñ Salient Features

The salient features of the guidelines are as follows:

ï The guidelines are applicable to banks, FIs and NBFCs purchasing/selling non-performing financial assets (NPFA) from/to other banks/FIs/NBFCs (excluding securitisation companies/reconstruction companies).

ï A financial asset, including assets under multiple/ consortium banking arrangements, would be eligible for purchase/sale in terms of these guidelines if it is a non-performing asset/non-performing investment in the books of the selling bank.

ï A bank which is purchasing/selling NPFA should ensure that the purchase/sale is conducted in accordance with a policy approved by the board.

ï While laying down the policy, the board is required to satisfy itself, that the bank has adequate skills to purchase NPFA and deal with them in an efficient manner which will result in value addition to the bank. The board should also ensure that appropriate systems and procedures are in place to effectively address the risks that a purchasing bank would assume while engaging in this activity.

ï The estimated cash flows are normally expected to be realised within a period of three years and not less than 5 per cent of the estimated cash flows should be realised in each half year.

ï A bank may purchase/sell NPFA from/to other banks only on a ëwithout recourseí basis, *i.e.*, the entire credit risk associated with the NPFA should be transferred to the purchasing bank. Selling bank shall ensure that the effect of the sale of the financial assets should be such that the asset is taken off the books of the bank and after the sale there should not be any known liability devolving on the selling bank.

ï Banks should ensure that subsequent to sale of the NPFA 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. Consequently, the specific financial asset should not enjoy the support of credit enhancements/liquidity facilities in any form or manner.

ï A NPFA 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.

ï Banks shall sell NPFA to other banks only on a cash basis. The entire sale consideration should be received upfront and the asset can be taken out of the books of the selling bank only on receipt of the entire sale consideration.

ï A NPFA 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. Banks should not sell such assets back to the bank, which had sold the NPFA.

ï Banks are also permitted to sell/buy homogeneous pool within retail NPFA, on a portfolio basis, provided each of the NPFA of the pool has remained as NPFA for at least 2 years in the books of the selling bank. The pool of assets would be treated as a single asset in the books of the purchasing bank.

ï The NPFA purchased may be classified as ëstandardí 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 financial asset purchased is required to be determined by the record of recovery in the books of the purchasing bank with reference to cash flows estimated while purchasing the asset.

ï The asset classification status of an existing exposure (other than purchased financial asset) 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.

ï Any restructuring/rescheduling of the repayment schedule or the estimated cash flow of the NPFA by the purchasing bank shall render the account as a NPA.

ï When a bank sells its NPFA to other banks, the same will be removed from its books on transfer. If the sale is at a price below the net book value (NBV) (*i.e.*, book value less provisions held), the shortfall should be debited to the profit and loss account of that year. If the sale is for a value higher than the NBV, the excess provision shall not be reversed but will be utilised to meet the shortfall/loss on account of sale of other NPFA.

ï Any recovery in respect of NPA purchased from other banks should first be adjusted against its acquisition cost. Recoveries in excess of the acquisition cost can be recognised as profit.

ï For the purpose of capital adequacy, banks should assign 100 per cent risk weights to the NPFA purchased from other banks. In case the NPFA purchased is an investment, then it would attract capital charge for market risk also. For NBFCs, the relevant instructions on capital adequacy would be applicable.

ï The purchasing bank will reckon exposure on the obligor of the specific financial asset. Hence these banks 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. For NBFCs, the relevant instructions on exposure norms would be applicable.

ï Banks which purchase/sell NPFA from other banks are required to make disclosures in the ënotes on accountsí to their balance sheets relating to details of NPFA purchased/sold.

banking services. These simplified procedures would help persons who intend to keep balances not exceeding Rs.50,000 and whose total credit in all accounts taken together is not expected to exceed Rs.1 lakh in a year.

2.84 In order to provide succour to a large number of people affected by unprecedented floods in Maharashtra, banks were advised to adopt a simplified approach in opening the accounts of such persons, to enable them to deposit the grant received from the Government.

2.85 The Central Government notified the Rules under the Prevention of Money Laundering Act (PMLA), 2002 on July 1, 2005. In terms of the Rules notified, a Financial Intelligence Unit-India (FIU-IND) was set up in the Ministry of Finance, Government of India, to collect, compile, collate and analyse the cash and suspicious transactions reported by banks and financial institutions. In terms of the provisions of the Rules, banks are required to follow certain prescribed procedure with regard to reporting of suspicious and cash transactions to FIU-IND. The Reserve Bank prescribed detailed guidelines on February 15, 2006 for reporting the cash and suspicious transactions. Banks were advised that while ëcash transaction reportí (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month, the ësuspicious transaction reportí (STR) should be furnished within 7 days of arriving at a conclusion that any transaction or a series of transactions, whether cash or non-cash, is of suspicious nature. Cash transactions of value of Rs.10 lakh and above or a series of integrally connected transactions, aggregate of which in a month exceeds Rs.10 lakh, are to be reported in CTR. However, individual cash transactions below Rs.50,000 have been excluded from the purview of reporting to FIU-IND. Banks were advised to report all other cash transactions where forged or counterfeit currency notes and bank notes were used as genuine and where any forgery of a valuable security had taken place.

2.86 Principal Officers of banks have been instructed to record their reasons for treating any transaction or a series of transactions as suspicious. It has to be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such a report should be made available to the competent authorities on request. Banks were advised that they may not put any restriction on operations in the accounts where an STR has been made. It has been emphasised that there should not be any ëtipping offí to the customer at any level.

Fuller Capital Account Convertibility and the Banking Sector

2.87 Given the changes that had taken place over the last two decades, there is merit in moving towards Fuller Capital Account Convertibility (FCAC) within a transparent framework. In consultation with the Government of India, the Reserve Bank, therefore, constituted a Committee on Fuller Capital Account Convertibility (Chairman: Shri S.S. Tarapore) in March 2006 for suggesting measures for further liberalisation of the capital account. The Committee submitted its Report on July 31, 2006, which was placed in public domain on September 1, 2006. The Committee recommended a broad timeframe of a five year period in three phases for fuller capital account liberalisation; 2006-07 (Phase I), 2007-08 and 2008-09 (Phase II) and 2009-10 and 2010-11 (Phase III). The Committee observed that under a FCAC regime, the banking system will be exposed to greater market volatility. Hence, it is necessary to address the relevant issues in the banking system, including the need for enhancing the risk management capabilities in the banking system and the regulatory and supervisory aspects to enable the system to become more resilient to shocks and sustain their operations with greater stability. Given the importance that the commercial banks occupy in the Indian financial system, the banking system, according to the Committee, should be the focal point for appropriate policy measures. In this regard, the Committee made several specific recommendations (Box II.14).

2.88 In pursuance of the recommendation of the Committee on FCAC, it was proposed in the Mid-term Review of October 2006 that borrowers eligible for accessing ECBs could avail of an additional US $ 250 million with average maturity of more than 10 years under the approval route, over and above the existing limit of US $ 500 million under the automatic route, during a financial year. While other ECB criteria such as end-use, all-in-cost ceiling, recognised lender and the like would continue to apply, prepayment and call/put options, however, would not be

Box II.14: Report of the Committee on Fuller Capital Account Convertibility

The major recommendations of the Committee pertaining to the banking sector are as follows:

Prudential Regulation

ï Regulation of the specific and inter-related risks that arise from international capital flows, notably liquidity risk, interest rate risk, foreign currency risk, credit risk, counter-party risk and country risk be strengthened.

ï Financial institutionsí liquidity management and disclosure practices be improved as they are encouraged to diversify funding sources to contain maturity mismatches and improve debt-equity mix.

ï Corporate governance in public sector banks be improved with the aim of ensuring operational autonomy and equipping them to compete with other banks as equals.

ï Need for the Reserve Bank to issue restricted banking licences to some banking institutions to enable them to exploit their core competencies. The Banking Regulation (BR) Act, 1949, at present, allows issue of only one type of banking licence, *viz*., whole banking licence, which permits all licensed banks to undertake all banking activities.

ï Level of computerisation and branch inter-connectivity and computer security be enhanced to meet the standards of well developed financial markets.

ï The system should move forward to a differential capital regime. Consideration be given to introducing a higher core capital ratio than at present. The risk weighting system be modified to reflect the actual economic risk undertaken by banks.

ï Unrated or high risk sectors to be given much higher risk weights and/or the Reserve Bank may consider prescribing a higher level of minimum capital requirement than the present 9 per cent.

ï Systems for ongoing scientific valuation of assets and available collateral be established. Setting off losses against capital funds on an on-going basis be considered without allowing banks to carry it as an intangible asset on its balance sheet.

ï Scope for undertaking enhanced activity particularly in new financial services be linked to quality and adequacy of capital, risk management system and personnel.

ï Risk management frameworks in banks and supervisory capacity be strengthened.

ï Increased transparency and market discipline with quantitative and qualitative disclosures needed on risk exposures and risk management systems in banks.

ï Regulation be modified to discourage or eliminate scope for regulatory arbitrage and focusing on activity-centric regulation rather that institution-centric regulation.

Differential Prudential Regime

ï Differential treatment of ëcomplexí banks, *viz*., those which (i) are diversified into areas other than conventional banking; (ii) are parts of a large group/ conglomerate; (iii) undertake significant cross-border transactions; (iv) act as market makers; and (v) are counter-parties to complex transactions. Since these banks are exposed to the complexities of various risks, the Reserve Bank may consider prescribing a higher minimum capital ratio for these banks.

ï The Reserve Bank to review and revise its policy to allow banks (i) to undertake market making; (ii) to deal with complex instruments such as derivatives; and (iii) to undertake large cross-border borrowing, lending and investment operations.

Supervisory Practices

ï Supervisory practices be adapted to include global consolidated supervision of internationally active financial institutions and establishing contact and information exchange with various other supervisors, primarily host country supervisory authorities.

ï Supervisory reporting formats, as at present, need to be reviewed and revised in a post-FCAC scenario after studying the supervisory reporting formats operational in leading territories (such as the UK, the US and Continental Europe).

ï The concept of relationship managers be introduced in the Reserve Bank where a dedicated desk official would be tracking all developments in the allotted bank on a day-to-day basis.

ï Focus on liquidity risk, interest rate risk, currency risk and currency mismatches, asset concentrations and exposure to price sensitive assets ñ to entities and to countries should be at a global level of *i.e.*, at whole bank level as well as bank group level.

ï New technology be adapted for putting in place an on-line connectivity with banks enabling a wide system aggregation of various critical parameters on a near real time basis. There is a need to move towards a central point data centre in the Reserve Bank with appropriate analytical tools.

ï Significant upgradation of regulatory and supervisory skills in the Reserve Bank is needed which includes building up a supervisory strategic strike force for dealing with issues expeditiously before they become major endemic problems.

permissible for such ECBs up to a period of 10 years. Furthermore, with a view to providing greater flexibility to the corporates in managing their liquidity and interest costs, prepayment of ECB by authorised dealer banks up to US $ 300 million, as against the earlier limit of US $ 200 million, was allowed without prior approval of the Reserve Bank, subject to compliance with the stipulated minimum average maturity period as applicable to the loan.

5. Supervision and Supervisory Policy

Board for Financial Supervision

2.89 The Board for Financial Supervision (BFS) was constituted on November 16, 1994 by the Central Board of Directors of the Reserve Bank under the Reserve Bank (BFS) Regulations, 1994 as a Committee of the Central Board to pay undivided attention to supervision. The Board exercises its supervisory role over the financial system encompassing banks, both commercial and urban co-operative, financial institutions, NBFCs and primary dealers, over which the Reserve Bank has direct supervisory jurisdiction.

2.90 During July 2005 - June 2006, the BFS met 13 times. 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 focus of the Board continued to be on risk management, corporate governance, consolidated supervision and supervision of conglomerates. The Board also continued to monitor the progress in respect of internal controls, quality of assets in banks and housekeeping. The findings of on-site inspection of the Clearing Corporation of India Ltd. (CCIL) and the follow-up actions taken were also reviewed by the Board.

2.91 In the course of its deliberations during the year, the Board provided several important directions for implementation. Good corporate governance in the financial institutions was stressed upon at every stage and it was decided that banks having governance concerns because of dominant shareholding or other reasons, be kept under close monitoring. It was also suggested to the Government to extend the ëfit and proper statusí guidelines prescribed for private sector banks to the public sector banks as well with a view to attaining higher standards of corporate governance. Disclosures was another area which received attention of the Board. The Boardís concern for continuity of a healthy and vibrant financial sector and a robust regulatory and supervisory regime led to the issuance of several important guidelines on credit cards, mergers, disclosures, outsourcing of services and purchase/ sale of NPFA by banks.

2.92 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 and prudential norms relating to income recognition, and classification and provisioning of assets. In the backdrop of an ever increasing complexity of transactions undertaken by banks, the need was felt for a thorough review of the guidelines in respect of a concurrent audit and a system of ëon-lineí audit of business transactions of banks. Accordingly, the Board decided to constitute a Working Group in April 2006 to look into the scope and effectiveness of the existing concurrent audit system in commercial banks with a focus on the areas to be included/excluded from the purview of concurrent auditors and frame fresh guidelines, including preparation of a manual on concurrent audit.

2.93 On-site inspection is an important element of the supervisory system of banks. With a view to improving the monitoring of banks and financial institutions, the inspection system is regularly reviewed and refined (Box II.15).

Progress in Implementation of Risk Based Supervision

2.94 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. Three rounds of pilot run of RBS covering public sector, private sector and foreign banks were conducted during 2003-2006. Steps were taken to fine-tune the RBS process based on the lessons learnt from the pilot studies. A guidance note was prepared to help the inspecting officers during the on-site RBS pilot study. Further, the risk areas were rationalised to avoid duplication/ overlapping. The revised templates provide for nine sections to assess five business risks (credit, market, operational, liquidity and group), two control risks (management and compliance), and capital and earnings. The operational and group risks, which were ënon-keyí risk areas in the earlier model, have now been brought under the ambit of ëbusiness risksí, which have been given a significant weightage in the revised RBS system. The new methodology for risk assessment enables

Box II.15: Inspection Methodology

The supervision of commercial banks and financial institutions is vested in the Reserve Bank in terms of the provisions of the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. This task is carried out by the Department of Banking Supervision (DBS) under the guidance of the BFS.

The basic objective of supervision of banks is to assess the solvency, liquidity and operational health of banks. The on-site inspection of banks referred to as Annual Financial Inspection (AFI) is conducted annually (except in the case of State Bank of India in which case it is done once in two years). For this purpose, the unit of inspection is the Head Office (HO) of the bank. A team of Inspecting Officers from the Reserve Bank led by the Principal Inspecting Officer (PIO) visits the bank and conducts the inspection based on the internationally adopted CAMEL (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity) model, modified as CAMELS (S for Systems and Control) to suit the needs of the Indian banking system. The focus of the AFI in recent years has been on supervisory issues relating to securitisation, business continuity plan, disclosure requirements and compliance with other existing guidelines.

In order to have an overall perspective, units of the bank throughout the country are also taken up for inspection either by the same team inspecting the HO or by additional teams from the Regional Offices (RO) of the Reserve Bank. These units could be treasury operations, specialised branches and controlling offices in general, where there may be concerns relating mainly to frauds, NPAs and exposure to sensitive sectors. Major findings of these other unit inspections are incorporated in the Report. The timeframe for carrying out the inspection of the corporate HO of the bank is two to three months. The inspection report is generally finalised within four months.

On completion of the inspection, the RO of the Reserve Bank, under whose jurisdiction the HO of the bank is situated, issues the inspection report to the bank for perusal, corrective action and compliance. Further, a detailed discussion on the findings of the inspection and the road ahead is conducted by the Reserve Bank with the CEO/CMD and other senior functionaries of the bank and a monitorable action plan is decided and/or supervisory action is taken, wherever warranted. The findings recorded in the inspection report along with the responses of the CEO/CMD of the bank are placed before the BFS. Based on the findings of the inspection and other inputs, a supervisory rating is assigned to the bank.

Efforts are afoot to move to a risk based supervision (RBS) approach, which envisages the monitoring of banks by allocating supervisory resources and focusing supervisory attention depending on the risk profile of each institution. The process involves continuous monitoring and evaluation of the appropriateness of the risk management system in the supervised institution in relation to its business strategy and exposures, with a view to assessing its riskiness.

the supervisors to separately assess the risk for inherent/control risk areas and domestic/overseas operations in respect of all the business risk areas, thereby providing important inputs for area-specific supervisory action. The revised risk-rating framework is number driven. It provides granularity to the supervisory risk-rating process (*i.e.*, assessing the degrees of risk and whether the risk is in the upper band or lower band) and enabling preparation of specific supervisory programme/action for individual banks. On-site pilot study (third in series) was taken up in four banks in 2005-06 under the revised RBS framework.

Off-site Monitoring and Surveillance

2.95 The Reserve Bank had 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.

2.96 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 Regional Offices to enable them to access the data directly and generate standard reports. Based on the modification in regulatory norms as also the supervisory requirements, the OSMOS system undergoes revision from time to time. In order 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. The Reserve Bank remains continuously in touch with the banks with a view to enhancing data quality. Several measures were initiated during 2005-06 to ensure smooth operation of the OSMOS system. These, *inter alia*, included: (a) modification of the ëguidance note on off-site returnsí 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 pre-identified banks to highlight the mistakes committed in the returns, removing conceptual ambiguities and sensitising them to the importance of off-site returns.

2.97 The efficiency of the reporting mechanism is also being enhanced through more intensive adoption of technology (Box II.16).

Monitoring of Frauds

2.98 With a view to monitoring closely the frauds in the financial sector, a separate Fraud Monitoring Cell (FrMC) was constituted on June 1, 2004 under the overall administrative control of the Department of Banking Supervision of the Reserve Bank. Timely reporting of information on occurrence of frauds greatly helps the supervisor in disseminating the same to other entities without much loss of time, which, in turn, helps in curbing further perpetration of fraud by the fraudsters. Keeping this in view, a Fraud Reporting and Monitoring System (FRMS) was introduced in 2003 to enable banks to report data relating to frauds in electronic form. The FRMS Package was revised in January 2006 to capture granular details of frauds under different categories, *viz*., housing loans, credit cards, ATM-debit cards and internet banking, so as to discern the emerging trends in frauds and enable the entities to focus their oversight on more vulnerable areas. Number and amount of frauds reported by banks increased significantly during 2005-06. One of the major reasons for such a sharp increase in the frauds was increase in housing loan frauds. Frauds in the areas of credit/debit cards and ATMs also increased. During 2005-06, commercial banks reported 13,914 cases of frauds involving a sum of Rs.1,381 crore as against 10,450 cases of frauds amounting to Rs.779 crore during 2004-05. These cases were followed up with the banks for necessary remedial action.

2.99 Frauds were perpetrated in the areas of credit, particularly in working capital finance, including bill finance and cheque discounting. The common *modus operandi* adopted by borrowers was clandestine removal of hypothecated stocks, drawing of false/*benami* bills of accommodative nature and submission of fake documents relating to properties offered as collateral securities. However, during the last two to three years, large scale frauds were reported in the area of housing finance and multiple creation of equitable mortgages on the same properties offered to different banks. Analysis of frauds in the area of housing finance revealed the submission of fake/forged title deeds of properties, salary certificates, income tax returns by the borrowers. Laxity in the conduct of due diligence of borrowers/builders, absence of a system of pre-sanction visit to the project site and laxity in post disbursement supervision were some other contributory factors.

2.100 As regards multiple creation of equitable mortgages, banks are handicapped to verify the position of encumbrance as also genuineness of the title to the property since at present there is

Box II.16: On-line Returns Filing System (ORFS)

The Reserve Bank receives data from commercial banks and other external agencies through several returns. While some of the returns are statutory, others have been introduced to obtain specific information. Originally, most of the returns were paper based. Of late, the Reserve Bank has started receiving some of the returns in soft copy form, either through floppies or e-mails. In order to bring uniformity in the mode of receipt of returns from banks, on-line returns filing system (ORFS) is being implemented in two phases.

In the first phase of implementation, likely to be completed by end of 2006, Form A return (statutory) under Section 42 (2) of the Reserve Bank of India Act have been brought under the ORFS, and fifteen other returns have been taken up for inclusion in the system. In the second phase spread over a period of two years, all the returns received by the Reserve Bank are expected to be brought under the ORFS which will also involve rationalisation of the returns. The ORFS is expected to emerge as the single interface for data transmission between the Reserve Bank and banks.

The on-line returns filing system provides a user-friendly interface to banks and straight-through-processing environment to the Reserve Bank. The main features of ORFS are: (i) an end-to-end secured data transmission made possible due to the features of secured web server and MQ-series present in the ORFS; (ii) no need of any additional hardware or software at the bankís end as banks can use the system by just logging into the Reserve Bank secured web server (either through INFINET or internet); (iii) automatic authentication of banks as user-id and password is required for logging into the Reserve Bankís secured web server; (iv) facility to enter data on-line and upload data directly from an XML file in the computer system of the bank; (v) ensured data quality through on-screen validation checks; (vi) facility to edit/print/save data before transmitting it to the Reserve Bank, so that the banks can preserve the printouts and soft files for their record and future use; (vii) centralised receipt of data ñ the data received at the secured web server is forwarded to the respective user departments; and (viii) automatic acknowledgement of the receipt of data to the originating bank.

no institutional mechanism for banks to verify the existence of charge (equitable mortgage) on a particular property at a centralised place. To overcome this problem, the Reserve Bank brought to the notice of the State Governments and the Central Government the need for maintaining record of creation of a charge by a bank/FI on an immovable property at a centralised place so as to enable the lending institutions to carry out due diligence before accepting a particular immovable property as a security. However, very few State Governments have initiated action in this regard so far.

2.101 Irregularities in the case of initial public offerings (IPO) also surfaced during the year. The irregularities perpetrated at some of the branches of a few banks came to the knowledge of the Reserve Bank through the findings of the SEBI inspections. The banking system was misused for manipulation of the IPO process and cornering the retail portion of the initial public offerings by a few individuals in connivance with the depository providers. The scam occurred as a result of total disregard to the laid down Reserve Bankís directives, guidelines and instructions on KYC norms/AML standards, opening of accounts, monitoring of large transactions and sanction of IPO finance or/and loans against shares. The Reserve Bank acted effectively once the irregularities surfaced (Box II.17).

2.102 Disclosure of information in the public interest by the employees of an organisation is increasingly gaining acceptance by public bodies for ensuring better governance standards and probity/transparency in the conduct of affairs of

Box II.17: IPO Irregularities and the Involvement of Banks

In order to corner retail allotment of shares in the IPO of various companies, over and above the eligible limits fixed by SEBI for retail investors, certain individuals/entities made multiple applications for shares, actively colluding with depository participants (DPs) and also misusing the banking facilities. The misuse of the IPO process and manipulation of the banking facilities for the purpose was brought to the notice of the Reserve Bank by SEBI on December 16, 2005. The Reserve Bank acted promptly and took up investigations at the Ahmedabad and Mumbai branches of banks named in the SEBI order, *i.e.*, Bharat Overseas Bank Ltd (BhoB) and Vijaya Bank on December 16, 2005. Based on the lead emanating from the revelations at these banks, scrutinies were taken up at other banks as well.

Based on the findings and taking into account the extent of acts of omissions and commissions at the banks, penalties ranging from Rs.5 lakh to Rs.30 lakh have so far been imposed on 10 banks, *viz*., BHoB, Indian Overseas Bank, Vijaya Bank, HDFC Bank, ICICI Bank, Standard Chartered Bank, Citi Bank, ING Vysya Bank, IDBI Ltd. and Centurian Bank of Punjab. The penalties were imposed in accordance with the powers conferred upon the Reserve Bank *vide* section 47A (1) (b) of the Banking Regulation Act, 1949, keeping in view the extent and seriousness of irregularities observed in different banks and larger objective of maintaining the credibility of the Indian financial sector. In the case of a few banks, involvement of the bank officials was also observed.

The irregularities which came to notice during the investigations taken up by the Reserve Bank were not systemic or widespread in nature. Only 10 banks out of a total of 89 banks and 22 branches out of a branch network of over 71,000 were involved in the irregularities. In all such cases, banks were asked to initiate criminal action, including filing of cases with police/CBI, against the bank officials involved.

Immediately on surfacing of the irregularities relating to the misuse of the IPO process, all scheduled commercial banks were advised to take a review of the financing of IPOs. All banks have confirmed having completed the review. Majority of the banks have reported that no serious irregularities have been observed. Corrective action has been initiated in respect of those banks where a few irregularities were observed.

The manipulation of the IPO process was perpetrated due to weakness in the internal control systems and procedures such as failure of the alert systems or weaknesses in reporting lines and the internal inspection and audit processes in most of the involved banks, which failed to detect the irregularities. The Reserve Bank initiated detailed investigations in these areas and took up the concerns with the banksí top managements for corrective actions. Other banks were also alerted to these deficiencies with advice to plug the loopholes. The importance of the audit and compliance functions, board oversight, staff training and education aspects were reiterated to the banks.

Further, in the misuse of IPO process by certain individuals/ entities, it was observed that some banks had credited the proceeds of individual account payee cheques to third party accounts instead of accounts of respective payees on the request of the associates of the DPs. This manipulation would not have taken place without the banks deviating from the procedure for collection of account payee cheques. Accordingly, a directive was issued prohibiting the banks from crediting ëaccount payeeí cheques to account of any person other than the payee named thereon.

As non-adherence to ëKYCí guidelines had, by and large, contributed to the occurrence of the irregularities, the guidelines on ëKYCí and ëAMLí standards were revisited and the date for compliance was extended to March 31, 2006. The banks were also advised on February 15, 2006 to ensure that a proper policy framework on ëKYCí and ëAMLí measures is formulated and put in place. All scheduled commercial banks have reported compliance in this regard.

public institutions. Large scale corporate frauds the world over necessitated various legislative measures for safeguarding the public interest through enactments such as Whistleblower Protection Act in the US, Public Interest Disclosure Act in the UK and similar Acts in a few other countries.

2.103 In the Indian context, the Government of India had passed a resolution on April 21, 2004 authorising the Central Vigilance Commission (CVC) as the ëdesignated agencyí to receive written complaints or disclosure on any allegation of corruption or misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to the employees of the Central Government or of any Corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government. Thus, the public sector banks and the Reserve Bank are also under the purview of the Government of India resolution.

Credit Information on Borrowers

2.104 As announced in the Annual Policy Statement for the year 2004-05, the Credit Information Bureau of India Limited (CIBIL) was advised to work out a mechanism, in consultation with the Reserve Bank, Small Industries Development Bank of India (SIDBI) and Indian Banksí Association (IBA), for development of a system of proper credit records to enable the 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 SMEs data or creating a separate system for drawing information from database of both CIBIL and D&B. CIBIL held discussions in this regard with IBA, SIDBI and the Reserve Bank. The proposed SME solution will provide consolidated report comprising SME loan related data, SME vendor payment related data and a consolidated SME score. 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, the Credit Information Act was passed in May 2005. Subsequently, the Reserve Bank released the draft rules and regulations under the Act for feedback on April 5, 2006. On the basis of the responses received, the draft rules and regulations have been revised and would be notified shortly in consultation with the Government of India (see details in Section 11).

Compliance Function in Banks

2.105 In April 2005, the Basel Committee on Banking Supervision (BCBS) published a paper entitled ëCompliance and the Compliance Function in Banksí, prescribing certain principles aimed at strengthening compliance structure in banks. The BCBS defined compliance risk as ëthe risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities (together, ëcompliance laws, rules and standardsí)í. Consequently, a Working Group consisting of a few compliance officers of banks was set up to review the existing organisational structure and compliance machinery in banks, weaknesses in the existing system, international standards and best practices and to make recommendations with a view to putting in place a robust compliance system in banks.

6. Financial Markets

2.106 Well developed financial markets enable the central bank to effectively conduct monetary policy and help in improving the allocative efficiency of resources. Interest rates on benchmark Government securities facilitate appropriate pricing of other financial assets. It has, therefore, been the endeavour of the Reserve Bank to promote development of all the segments of financial market under its regulatory provision. This is sought to be achieved by easing restrictions on transactions, reducing transaction costs, increasing the width and depth of the market and introducing trading and settlement systems in line with international best practices. During 2005-06, a number of steps were taken to strengthen the institutional framework for financial markets in order to improve the price discovery process and, at the same time, ensure the orderly functioning of various financial market segments. The policy initiatives during 2005-06 were, in particular, guided by provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, which, *inter alia*, prohibits the Reserve Bank from participating in the primary issuances of Government securities with effect from April 1, 2006. This has completed the transition to a fully market based issuance of Government securities, a process that was initiated in the early 1990s with the introduction of auctions. The implementation of the FRBM Act also necessitated a review of Reserve Bankís market operations, including introduction of new instruments and refining existing instruments in the context of the evolving scenario. Accordingly, a Financial Markets Department (FMD) was set up in July 2005 in the Reserve Bank with a view to (i) enhancing efficiency in operations of the Reserve Bank in the money, the Government securities and the foreign exchange markets; and (ii) moving towards functional separation of debt management from monetary management. Furthermore, the Committee on Fuller Capital Account Convertibility recently made some recommendations for the sound development of financial markets (Box II.18).

Developments in the Money Market

2.107 The money market is the main conduit for transmitting the monetary policy impulses to the real sector of the economy. The broad policy objectives that are being pursued for the development of the money market are ensuring stability in short-term interest rates, minimising default risk and achieving a balanced development of various segments of the market. In pursuance of the recommendations of the Internal Technical Group on Money Market (May, 2005), the Reserve Bank has been encouraging the growth of the collateralised segment, developing the rupee yield curve, improving transparency and better price discovery and providing avenues for better risk management. The process of transforming the call/notice money market into a pure inter-bank market was completed in August 2005. This has been facilitated by the development of the CBLO and the repo market outside the Reserve Bank in which non-bank participants are allowed to even out their short-term mismatches in liquidity. In order to ensure the growth of the money market along sound lines, prudential limits have been placed on borrowings and lendings of banks and primary dealers (PDs) in the call/notice money market.

2.108 Following the Annual Policy Statement for 2005-06, a screen-based negotiated quote-driven system for dealings in the call/notice and the term money market (NDS-CALL) developed by the Clearing Corporation of India Ltd. (CCIL) was launched on September 18, 2006. The introduction of NDS-CALL will help in enhancing transparency, improving price discovery and strengthening market microstructure.

2.109 †A significant development during 2005-06 was the substantial migration of money market activity from the uncollateralised call money segment to the collateralised market repo and CBLO segments. In order to enable market participants to assess the liquidity conditions in an efficient and transparent manner, information on transactions in the collateralised segment of the money market is also being provided on the Reserve Bankís website from April 2006.

2.110 The Reserve Bank has been modulating liquidity conditions keeping in view the evolving circumstances. In order to fine-tune the liquidity management, a Second Liquidity Adjustment Facility (SLAF) was operationalised with effect from November 28, 2005 with features similar to those of the Liquidity Adjustment Facility. An additional LAF was conducted on March 31, 2006 in order to facilitate funds management by banks on account of the year-end closing on March 31, 2006 coinciding with a reporting Friday.

2.111 The minimum maturity period of CDs was reduced from 15 days to 7 days with effect from April 29, 2005 in order to align it with the minimum maturity of CP and fixed deposits with banks. With a view to enhancing transparency and facilitating wider dissemination, information on CP issuance such as issue and 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.

Developments in the Government Securities Market

2.112 As the debt manager to the Government, a deep and liquid market for Government securities is important for the Reserve Bank for reducing the cost of Government debt. In terms of the provisions of the Fiscal Responsibility and Budget Management Act (FRBM), the Reserve Bank is prohibited from subscribing to primary Government paper from April 1, 2006. Keeping this in view, a number of initiatives were taken during 2005-06 to further deepen and widen the Government securities market. These included: permitting short sale in Government securities; introducing the ëWhen Issuedí (WI) market; proposing active consolidation of Government securities; providing greater responsibilities for

Box II.18: Development of Financial Markets ñ Recommendations of the Committee on Fuller Capital Account Convertibility

Countries intending to move towards fuller capital account convertibility (FCAC) need to ensure that different market segments, besides being well developed in terms of physical infrastructure, skill and competency levels are also well integrated. If different markets remain segmented, any policy shock to influence market behaviour would not get transmitted to the various segments, thus, leading to inefficiency of policy outcome. Moreover, segmentation also impedes the development of a term structure of interest rates which facilitates the conduct of monetary policy. The Committee on FCAC made several recommendations to further the development of financial markets along sound lines as detailed below;

(a) Money Market

- Prudential regulations be strengthened to encourage capital inflows.
- Necessary coordination be ensured by the lead regulator.
- More players be allowed to access the repo market.
- The CBLO and the repo markets be allowed to cover corporate debt instruments.
- Skills be upgraded to develop the inter-bank term money market.
- Prudential limits for CP and CD be fixed since any unlimited opening up could have implications for short-term flows.
- A dedicated cell within the Reserve Bank be set up for closer monitoring of all derivative products.
- Banks should frame ëappropriate policyí before marketing complex derivatives.
- The market in interest rate futures be activated and interest rate options be allowed. Initially, options could be introduced as OTC derivatives and subsequently they could be exchange traded.
- Provision for netting of derivative transactions be made, before opening up the swap market.
- Internationally aligned accounting standards for derivatives be developed.
- Fixed Income Money Market and Derivatives Association (FIMMDA) be suitably empowered to act as a self-regulatory organisation to develop market ethics, trading standards and also undertake regulation of participants, besides disseminating information.

(b) Government Securities Market

- The share of mark-to-market category be progressively increased.
- Short-selling across settlement cycles with adequate safeguards be permitted.
- Gilt funds be exempted from the dividend distribution tax and income up to a limit from direct investment in gilts could be exempted from tax to stimulate retail investments in gilts.
- STRIPS in Government securities should be expeditiously introduced.
- Non-resident investors, especially longer term investors, could be permitted entry to expand investor base.
- Repo facility in government securities be widened by allowing all market players without any restrictions.
- Rapid debt consolidation process be initiated that is tax-neutral.
- The limit for FII investment in Government securities could be fixed at 6 per cent of total gross issuances by the Centre and States during 2006-07 and gradually raised to 8 per cent of gross issuance between 2007-08 and 2008-09, and to 10 per cent between 2009-10 and 2010-11. The limits could be linked to the gross issuance in the previous year to which the limit relates. The allocation by SEBI of the limits between 100 per cent debt funds and other FIIs should be discontinued.

(c) Forex Market

- The spot and forward markets should be liberalised and extended to all participants, removing the constraint on past performance/underlying exposures.
- Separate forex business from lending transactions and introduce an electronic trading platform on which forex transactions for small and medium customers could take place. For very large trades, the Committee proposed a screen-based negotiated dealing system.
- Reserve Bankís intervention in the forex market be through the anonymous order matching system.
- Increase in limits for banks on short-term and long-term borrowing/lending overseas to promote more interest parity with international markets.
- FIIs be provided with the facility of cancelling and rebooking forward contracts and other derivatives booked to hedge rupee exposures.
- Currency futures be introduced, subject to risks being contained through proper trading mechanism, structure of contracts and regulatory environment.
- The existing guaranteed settlement platform of CCIL be extended to the forwards market.
- Banking sector be allowed to hedge currency swaps by buying and selling without any monetary limits.

PDs to support primary issuance; operationalising the NDS-Order Matching system; migrating to a standardised T+1 settlement system; and enabling constituents to sell auctioned stock on the same day.

2.113 As part of its long-term objective of developing the Government securities market, the Reserve Bank introduced the Negotiated Dealing System (NDS) in February 2002. However, the trading facilities on the NDS (both negotiated and quote driven) were hardly used, largely because they were less user-friendly. In order to provide NDS members with a more advanced and more efficient trading platform, the NDS-OM trading module was introduced effective August 1, 2005 as recommended by the Working Group on Screen Based Trading in Government Securities (Chairman: Dr. R.H. Patil).

2.114 The settlement cycle for Government securities was standardised to T+1 effective May 11, 2005 with a view to providing the participants with more processing time at their disposal and thereby enabling better management of both funds and risk. Furthermore, with a view to widening the repo market in Government securities, listed companies and non-scheduled urban co-operative banks were allowed to participate effective May 11, 2005.

2.115 In order to enable the successful bidders to mitigate the price risk, the sale of Government securities allotted to successful bidders in primary issues on the day of allotment was permitted, with and between constituent subsidiary general ledger (CSGL) account holders under delivery *versus* payment (D*v*P) III, effective May 11, 2005. Until then, the sale contract in respect of securities allotted to successful bidders in primary issues on the day of allotment could be entered into only between entities having subsidiary general ledger (SGL) account and settled under the Reserve Bankís DvP system.

2.116 The Reserve Bankís non-participation in primary auctions except under exceptional circumstances, effective April 1, 2006, as provided in the FRBM Act, has necessitated alternative institutional arrangements to ensure that debt management objectives are met and the Government is able to borrow under all types of market conditions without exacerbating market volatility. With the withdrawal of the Reserve Bank from the primary market, PDs have begun to play a more active and dynamic role. In order to facilitate smooth operations by PDs, several measures were undertaken during the year. First, banks, which fulfill certain minimum eligibility criteria such as minimum net owned funds, minimum CRAR, net NPA position of less than 3 per cent and profit making record for the last three years, were also permitted to undertake PD business. Second, PDs were permitted to diversify their activities in addition to their core business of Government securities, subject to limits. Third, a revised scheme for underwriting commitment and liquidity support to PDs was introduced from April 1, 2006.

2.117 With the objective of enabling participants to manage their interest rate risk more efficiently and also to impart liquidity to the markets, the Internal Technical Group on Government Securities Market (ITGGSM) (July, 2005) recommended permitting short sales in Government securities in a calibrated manner which would enable market participants to express their views on interest rate expectations. Accordingly, effective February 28, 2006, banks and PDs were allowed to undertake outright sale of Central Government dated securities that they do not own, subject to the same being covered by outright purchase from the secondary market within the same trading day. The intra-day short selling has been permitted subject to certain stipulations in terms of stock-wise limits and overall risk limits. Keeping in view the feedback received from the market so far, allowing short-sales across settlement cycles and allowing sale of repoed stock are under active consideration.

2.118 The ITGGSM had also recommended active consolidation of securities in order to impart liquidity to the Government securities market, which would involve replacing illiquid securities with the liquid securities. Various alternatives of active consolidation have been worked out and the consolidation process would be taken up once the methodology is finalised.

2.119 As part of restructuring the debt issuance framework in the light of the FRBM Act, WI transactions have been permitted in Central Government securities from May 2006, in pursuance of the recommendations of the ITGSSM. ëWhen Issuedí, a short form of ëwhen, as and if issuedí, indicates a conditional transaction in a security authorised for issuance but not as yet actually issued. All WI transactions are on an ëifí basis, to be settled if and when the actual security is issued. ëWIí market facilitates the distribution process for Government securities by stretching the actual distribution period for each issue by allowing the market more time to absorb large issues without disruption. Furthermore, it also enables price discovery process by reducing uncertainties surrounding auctions. Actual trading in the WI market commenced with the auction of Central Government securities during the week August 1-8, 2006. Subsequently, it took place during the auctions of August 14-18, 2006 and September 4-8, 2006. Up to September 30, 2006, total traded volume in the WI segment stood at Rs.440 crore.

Developments in the Foreign Exchange Market

2.120 The Reserve Bank initiated a number of measures during 2005-06 to create a more conducive environment for external transactions while according high priority to customer service. The thrust of reforms in the current account transactions was on removing the restrictions and simplifying the procedures. The approach in the case of capital account has been gradual with sequenced liberalisation of transactions. Measures were also initiated to reduce the transaction cost. AML guidelines were also put in place to maintain the integrity of the market.

2.121 With a view to deepening the foreign exchange market and synchronisation of trading across the money, the Government securities and the foreign exchange markets, the closing time for inter-bank foreign exchange market in India was extended by one hour up to 5.00 p.m. effective May 16, 2005.

2.122 With the progressive liberalisation of foreign exchange related transactions, more entities have been allowed to handle non-trade current account transactions. In continuation of this process, select full-fledged money changers, urban co-operative banks (UCBs) and regional rural banks (RRBs) were permitted to release/remit foreign exchange for a number of non-trade related current account transactions such as private visits, business travel, fee for participation in global conferences/training/ international events, film shooting, medical treatment, emigration and emigration consultancy fees. Consequently, scheduled commercial banks holding full-fledged authorised dealers (AD) license were designated as AD Category I and those undertaking non-trade current account transactions as AD Category II.

2.123 AD Category I have been allowed to open foreign currency accounts for the project offices established under the general/specific approval of the Reserve Bank. They have also been permitted to allow intermittent remittances by project offices, without approval of the Reserve Bank, subject to certain conditions. Inter-project transfer of funds, however, require prior approval of the concerned regional office of the Reserve Bank. In the case of disputes between the project office and the project sanctioning authority or other Government/non-Government agencies, the balance held in such account is converted into Indian Rupees and credited to a special account, and dealt with as per the terms of settlement of the dispute.

2.124 AD banks were permitted to remit expenses of branch/office or representative abroad up to 10 per cent for initial and up to five per cent for recurring expenses of the average annual sales/ income or turnover during last two accounting years, subject to the existing terms and conditions. Furthermore, AD banks were allowed to remit foreign exchange for acquiring shares under ESOP schemes without any monetary limit, irrespective of the method of operationalisation of the scheme, subject to the following three conditions: (i) the company issuing the shares effectively, directly or indirectly, holds in the Indian company, whose employees/ directors are being offered shares, not less than 51 per cent of its equity. (ii) the shares under the ESOP scheme are offered by the issuing company globally on a uniform basis. (iii) an annual return is submitted by the Indian company to the Reserve Bank through the AD banks giving details of remittances/beneficiaries. Further, general permission has been granted to foreign companies to repurchase the shares issued to residents in India under any ESOP scheme, subject to certain conditions.

2.125 With a view to further liberalising the facilities available to exporters/importers and simplifying the procedures, several measures were undertaken during the year. First, ADs were permitted to grant extension of time to realise export proceeds up to US $ 1 million beyond the prescribed period of six months. Second, the process to open Standby Letters of Credit for import of gold on a loan basis was simplified and the period for fixing the price and repayment of gold loan was rationalised. Third, ADs were allowed to permit airline companies to remit up to US $ 1 million per aircraft towards security deposits for payment of lease rentals for import of an aircraft/aircraft engine/helicopter on operating lease, subject to certain specific conditions. Fourth, ADs no longer need to follow up submission of evidence of import involving an amount of US $ 1,00,000 or less, provided they are satisfied about the genuineness of the transaction and the *bona fides* of the remitter. Fifth, residents in India were allowed cancellation and rebooking of all eligible forward contracts and banks were allowed to approve proposals for commodity hedging in exchanges or markets outside India, subject to certain conditions and reporting requirements. Sixth, powers were granted to AD banks to grant GR approval in cases where goods are being exported for re-import after repairs/maintenance/testing/calibration, subject to the condition that the exporter shall produce the relative ëbill of entryí within one month of re-import of the item exported from India.

2.126 Persons/entities eligible under the FDI route, other than FIIs, have been permitted to invest in the equity capital of asset reconstruction companies (ARCs) registered with the Reserve Bank. FIIs registered with Securities and Exchange Board of India (SEBI) are now allowed to invest in security receipts (SRs) issued by asset reconstruction companies (ARCs) registered with the Reserve Bank up to 49 per cent of each tranche of scheme of SRs, subject to the condition that investment of a single FII in each tranche should not exceed 10 per cent of the issue.

2.127 In order to augment their capital, banks in India were permitted to issue perpetual debt instruments eligible for inclusion as Tier I capital and debt capital instruments as Upper Tier II capital. FIIs registered with SEBI and Non-Resident Indians (NRIs) have now been permitted to subscribe to these instruments, subject to the following conditions: a) investment in perpetual debt instruments should not exceed an aggregate ceiling of 49 per cent of issue size by all FIIs and 10 per cent by an individual FII; b) the investment should not exceed an aggregate ceiling of 24 per cent of each issue by all NRIs and five per cent of each issue by a single NRI; c) investment by FIIs in debt capital instruments (Tier II) shall be within the limits stipulated by SEBI for FII investment in corporate debt; and d) investment by NRIs in debt capital instruments (Tier II) shall be in accordance with the extant policy for investment by NRIs in other debt instruments.

2.128 In view of the increased concerns regarding money laundering activities and to prevent authorised money changers (AMCs) from being misused for such activities, the Reserve Bank issued detailed AML guidelines to enable AMCs to put in place the policy framework and systems for prevention of money laundering while undertaking money exchange transactions. In terms of the guidelines issued, all AMCs are required to formulate suitable policies and procedures for the AML measures which include: (i) customer identification procedure ñ ëknow your customerí norms; (ii) recognition, handling and disclosure of suspicious transactions; (iii) appointment of Money Laundering Reporting Officer (MLRO); (iv) staff training; (v) maintenance of records; and (vi) audit of transactions in accordance with the guidelines issued. The AML policy framework and measures were to be formulated and put in place before March 31, 2006 with the approval of the boards of directors of AMCs.

2.129 The AML guidelines were further modified in view of the difficulties expressed by AMCs in implementing some of the guidelines. These included: (i) photocopies of the identification document need not be kept on record for purchase of foreign exchange of less than US $ 200 or its equivalent; (ii) the photocopies of the identification document should be maintained for one year and completion of statutory audit for encashment of foreign exchange between US $ 200 and US $ 2000 or its equivalent; (iii) the photocopies of the identification document should be maintained for a minimum period of five years for encashment in excess of US $ 2000 or its equivalent; and (iv) requests for payment in cash by foreign visitors/Non-Resident Indians may be acceded to the extent of US $ 2000 or its equivalent.

2.130 The policy on external commercial borrowings (ECBs) was reviewed and further liberalised in August 2005 to include non-Government organisations engaged in micro-finance and NBFCs engaged in manufacturing activities. The policy for multi-state co-operative societies was liberalised in January 2006. The prepayment limit of ECB was enhanced to US $ 200 million from US $ 100 million in August, 2005.

2.131 Overseas investments by mutual funds registered with SEBI were liberalised by enhancing the existing aggregate ceiling from US $1 billion to US $ 2 billion in July 2006. Further, a limited number of qualified mutual funds were permitted in July 2006 to invest cumulatively upto US $ 1 billion in overseas exchange traded funds as may be permitted by SEBI.

2.132 Foreign Institutional Investors were allowed in July 2006 to offer sovereign securities with AAA rating as collateral to the recognised stock exchanges in India for their transactions in derivatives segment.

7. Customer Service in Banks

2.133 The Reserve Bank has been undertaking measures, on an ongoing basis, for protecting customersí rights, enhancing the quality of customer service and strengthening grievance redressal mechanism in banks. In order to bring all the activities relating to customer service in banks under a single umbrella, the Reserve Bank constituted a separate Customer Service Department (CSD) in July 2006. The functions of the Customer Service Department include, *inter-alia*, disseminating instructions/information relating to customer service and grievance redressal by banks; administering the Banking Ombudsman (BO) Scheme; acting as a nodal department for the Banking Codes and Standards Board of India (BCSBI), ensuring redressal of complaints received directly by the Reserve Bank on customer service in banks; and liaising between banks, IBA, BCSBI, BO offices and the regulatory departments with in the Reserve Bank, on matters relating to customer service and grievance redressal.

2.134 A significant initiative to improve customer service in recent years has been the setting up of an independent body called the Banking Codes and Standards Board of India (BCSBI) on February 18, 2006. A ëCode of Bankís Commitment to Customersí has been evolved through collaborative effort among the BCSBI, the Reserve Bank and the banking industry. Through the Code, banks have committed to have in place a ëtariff scheduleí covering all charges. The BCSBIís role is to evaluate, oversee and enforce observance of the Code by banks through the means of ëcovenantí between each member bank and the BCSBI. The BCSBIís objective is to locate and rectify systemic deficiencies by taking collaborative remedial action rather than through penal measures (Box II.19).

2.135 The complaints against banks are handled at two levels in the Reserve Bank. Fifteen Banking Ombudsman Offices handle the complaints maintainable in terms of the provisions of the Banking Ombudsman Scheme. Regulatory departments in the Reserve Bank handle complaints that are not maintainable under the provisions of the Banking Ombudsman Scheme. The complaints have been categorised into deposit accounts, loans and advances, credit cards, activities of direct selling agents, harassment in recovery of loans and general/others.

2.136 The Banking Ombudsman Scheme was first notified by the Reserve Bank on June 14, 1995 under Section 35A of the Banking Regulation Act, 1949 to provide for a system of redressal of grievances against banks. The scheme sought to establish a system of expeditious and inexpensive resolution of customer complaints. The scheme was

Box II.19: Banking Codes and Standards Board of India

The Reserve Bank of India together with 11 other banks in India set up the Banking Codes and Standards Board of India (BCSBI) in February 2006 to monitor and ensure that banking codes and standards voluntarily adopted by banks are adhered to, in letter and spirit, while providing services to individual customers. These industry wide norms have been codified in the form of a Code of Bankís Commitment to Customers (Code), which has been evolved in consultation with the banking industry and released by the Reserve Bank on July 1, 2006.

The Code is a landmark in the development of banking in India as, for the first time, the individual customer has been provided with a Charter of Rights which he can enforce against his bank. The Code sets out minimum standards of banking practices for banks to follow and emphasises transparency in banksí dealings with its customers. To achieve the avowed transparency, it provides for documentation of banksí fees and service charges in the form of a Tariff Schedule and requires banks to set out a cheque collection policy, compensation policy and a security repossession policy. The Code lays great emphasis on providing full information to the customer before a product or service is sold to him. For post sale conduct, the Code insists on banks giving one monthís notice to customer before making any change in their tariff schedule or any change in terms and conditions, governing the product, which may adversely affect the customer.

The cardinal principle that runs across all the provisions of Code is that banks should not rely on implicit consent from customers and all product and services should be sold to the customer only after obtaining his explicit consent in writing. As a logical corollary of this principle, the Code prohibits banks from providing unsolicited credit in any form, including credit cards. The Code addresses the issue of Right to Privacy of customers and also provides for automatic compensation to be paid, in accordance with the bankís compensation policy, for any financial loss incurred by an individual customer due to undue delays, failure in executing mandates or erroneous debits.

The provisions of the Code are applicable to third party products sold through bank branches and the banks are under obligation to ensure that their direct sales agents also comply with the provisions of the Code. BCSBIís purview is restricted to scheduled commercial banks and 69 banks have intimated their willingness to become members. BCSBI is in the process of entering into a covenant with 55 of these major banks.

BCSBI combines the best of statutory regulation and self-regulation. It is a collaborative effort between banks and the Reserve Bank not only in its origin but also in purpose. While banks becoming member of the BCSBI agree to observe the Code, the Reserve Bank derives supervisory comfort from banks being members of the BCSBI as it would look into systemic issues that impinge on customer service and financial inclusion. The spirit of collaboration is further reinforced by the general consultative approach adopted by the BCSBI in formulating the Code and in its implementation.

revised twice, first in 2002 and then in 2006. At present, the scheme is being executed by BO appointed by the Reserve Bank at 15 centres covering the entire country. The BO scheme covers all commercial banks and scheduled primary co-operative banks.

2.137 The revised scheme came into effect from January 1, 2006. It incorporated new grounds of complaints such as credit card issues, failure in providing the promised facilities, non-adherence to the Fair Practices Code and levying of excessive charges without prior notice. It relaxed the mandatory requirement of filing of complaint to facilitate registering of complaints on-line or through e-mail. Further, the complainants can also appeal against the award of BO. The scheme provided for appointment of only serving senior officers of the Reserve Bank as BO and the secretariat of BO would consist of only Reserve Bank officers. However, banks are required to appoint nodal officers in their Zonal Offices/ Regional Offices for the Scheme. Also, the cost of the scheme is borne entirely by the Reserve Bank. Furthermore, in order to enable the BO to concentrate on the complaints, rather than on arbitration of inter-bank disputes, the arbitration option rested with the BO was removed. The revised scheme has witnessed an unprecedented surge in the inflow of complaints mainly due to the inclusion of credit card related issues within the ambit of the scheme, the wide publicity given and the facility of on-line complaint filing.

2.138 In July 2006, banks were advised to place service charges and fees on the homepage of their websites at a prominent place to facilitate easy access to the bank customers (Box II.20). A complaint form, along with the name of the nodal officer for complaint redressal, could also be provided on the homepage itself to facilitate complaint submission by the customers. The complaint form is required to indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the BO only if the complaint is not resolved at the bank level within a month.

Credit Card Operations

2.139 Credit cards have made the concept of ëevery-where and any-timeí banking a reality. The Reserve Bank, over the past few years, has taken a number of measures aimed at encouraging the growth of credit card operations in a safe, secure and efficient manner. It has also been the endeavour of the Reserve Bank to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with the best international practices. As announced in the Annual Policy Statement for 2004-05, the Reserve Bank constituted a Working Group on Regulatory

Box II.20: Service Charges by Banks

Prior to September 1999, the IBA used to work out a schedule of benchmark service charges for the services rendered by member banks. These were not mandatory in nature, but were being adopted by all banks. The practice of fixing rates for services of banks was consistent with a regime of administered interest rates but not consistent with the principle of competition. Hence, the IBA was directed by the Reserve Bank in September 1999 to desist from working out a schedule of benchmark service charges for the services rendered by member banks. It was decided that individual banks may be permitted to fix services charges for various types of services rendered by them, with the approval of their own boards of directors. However, banks were advised simultaneously that while fixing the service charges for various types of services provided by them, they should ensure that the charges are reasonable and not out of line with the average cost of providing these services.

The Reserve Bank continues to receive representations from the public about the unreasonable and non-transparent service charges being levied by banks suggesting that the existing institutional mechanism in this regard is not adequate. In order to ensure transparency in banking services, the above guidelines were reviewed. Accordingly, banks were advised in May 2006 to display and update, on their websites, the details of various service charges in the format prescribed by the Reserve Bank. The formats could be modified depending on products offered but all service charges as indicated in the format should be covered. Banks were also required to display the charges relating to certain essential services to their offices/branches. This may also be displayed in the local language. Further, banks were also required to furnish to the Reserve Bank by May 31, 2006, the details of service charges applicable to enable placing of them on the Reserve Bankís website.

Banking Codes and Standards Board of India (BCSBI) has been set up as an independent watchdog to ensure that banks deliver services in accordance with the codes and standards to which they have agreed. In pursuance of the announcement made in the Annual Policy Statement for the year 2006-07, a Working Group was constituted on May 18, 2006 (Chairman: Shri N. Sadasivan). The Group has been entrusted to formulate a scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practices Code, the compliance of which would be monitored by the BCSBI. The Group has since submitted its Report. The recommendations of the Group are being examined.

Mechanism for Cards (Chairman: Shri R. Gandhi) on October 26, 2004. Based on the recommendations of the Working Group and feedback received from card issuing banks and the public, guidelines on credit card operations of banks were issued in November 2005 (Box II.21).

Box II.21: Credit Card Operations of Banks

Based on the recommendations of the Working Group on Regulatory Mechanism for Cards, a master circular/ guidelines on credit card operations were issued to banks/ NBFCs on November 21, 2005. The salient features of the guidelines are set out below:

- Each bank/NBFC must have a well documented policy for credit card operations incorporating the Fair Practices Code for credit card released by the IBA in March 2005.
- Banks/NBFCs should independently assess the credit risk while issuing cards to persons, especially to students and others with no independent financial means, and assess the credit limit for a credit card customer on the basis of self-declaration/credit information.
- The card issuing banks/NBFCs would be solely responsible for fulfillment of all KYC requirements.
- While issuing cards, the terms and conditions for issue and usage of a credit card should be mentioned in clear and simple language.
- Card issuers should ensure that there is no delay in dispatching bills and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged.
- Card issuers should quote annualised percentage rates (APR) on card products (separately for retail purchase and for cash advance, if different) giving the method of calculation of APR with a couple of examples for better comprehension.
- The bank/NBFC should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and getting his/her consent except for charges such as service taxes, which may subsequently be levied by the Government or any other statutory authority.
- The terms and conditions for payment of credit card dues, including the minimum payment due, should be stipulated so as to ensure that there is no negative amortisation.
- Changes in charges (other than interest) may be made only with prospective effect giving notice of at least one month.
- In case, a customer protests any bill, the bank/NBFC should provide explanation and, if necessary, documentary evidence to the customer within a maximum period of sixty days with a spirit to amicably redress the grievances.
- To obviate frequent complaints of delayed billing, the credit card issuing bank/NBFC may consider providing bills and statements of accounts on-line with suitable security built therefore.
- Banks/NBFCs have to be extremely careful about the appointment of service providers while outsourcing, ensuring that they do not compromise on quality of customer service and the bank/NBFCís ability to manage credit, liquidity and operational risks, and the Code of Conduct for direct sales agents (DSAs) as formulated by the IBA. Banks/NBFCs should have a system of random checks and mystery shopping to ensure that their agents have been properly briefed and trained.
- Card issuing bank/NBFC would be responsible for all acts of omission or commission of their agents (DSAs/ direct marketing agents (DMAs) and recovery agents) with respect to customerís rights, including personal privacy, clarity relating to rights and obligations, preservation of customer records, maintaining confidentiality of customer information and fair practices in debt collection.
- In case, an unsolicited card is issued and activated without the consent of the recipient and the latter is billed for the same, the card issuing bank/NBFC shall not only reverse the charges forthwith, but shall also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed.
- Card issuing bank/NBFC should maintain a ëDo Not Call Registerí (DNCR) containing the phone numbers (both cell phones and land phones) of customers as well as non-customers (non-constituents) who have informed the bank/NBFC.
- Card issuing bank/NBFC should not reveal any information relating to customers obtained at the time of opening the account or issuing the credit card to any other person or organisation without obtaining their specific consent.
- Before reporting default status of a credit card holder to CIBIL or any other credit information company authorised by the Reserve Bank, banks/NBFCs may ensure that they adhere to a procedure, duly approved by their boards, including issuing of sufficient notice to such card holder about the intention to report him/her as defaulter to the Credit Information Company.
- In the matter of recovery of dues, banks/NBFCs may ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as advised by the Reserve Bank as also the IBAís Code for collection of dues and repossession of security.
- Banks/NBFCs/their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts.
- Card issuing bank/NBFC should constitute a grievance redressal machinery within the bank/NBFC and give wide publicity about it through electronic and print media.
- If a complainant does not get satisfactory response from the bank/NBFC within a maximum period of thirty days from the date of his lodging the complaint, he will have the option to approach the office of the concerned BO for redressal of his grievance/s.
- The Standing Committee on Customer Service in each bank/NBFC may review, on a monthly basis, the credit card operations, including reports of defaulters to the CIBIL and credit card related complaints. It may take measures to improve the services and ensure the orderly growth of the credit card operations.

Box II.22: Branch Authorisation Policy

For opening of branches, banks are required to approach the Reserve Bank with the proposal. While submitting the proposal, banks are advised to follow certain procedures to comply with the requirements of Section 23 of the Banking Regulation Act, 1949. All specific proposals relating to opening, closing and shifting of all categories of branches, including off-site ATMs, are required to be included in their annual plan submitted to the Reserve Bank. No separate permission is required for an on-site ATM that is opened within a branch. After a branch has been opened, banks need to report immediately the complete address and the date of opening of the branch to the Regional Office concerned of the Reserve Bank. The authorisation granted is valid for one year from the date of issue of the consolidated letter of authorisation/permission issued to banks. In case a bank is not able to open a particular branch due to any genuine reason, it can approach the Regional Office of the Reserve Bank for extension of time not exceeding three months.

The branch authorisation policy framework takes into account several elements before granting approval to the opening of new branches by banks. First, while considering applications for opening of branches, weightage is 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. Second, such an assessment includes policy on minimum balance requirements and whether depositors have access to minimum banking or ìno frillsî banking services, commitment to the basic banking activity and quality of customer service as evidenced, *inter alia*, by the number of complaints received and the redressal mechanism in place in the bank for the purpose. Third, the need to induce enhanced competition in the banking sector at various locations is also taken into account. Regulatory comfort is also relevant in this context. This encompasses: (i) compliance with principles of regulation; (ii) the activities of the banking group and the nature of relationship of the bank with its subsidiaries, affiliates and associates; and (iii) quality of corporate governance, proper risk management systems and internal control mechanisms.

The existing system of granting authorisation for opening individual branches from time to time has been replaced by a system of giving aggregated approvals, on an annual basis, through a consultative and interactive process. Banksí branch expansion strategies and plans over the medium-term are discussed by the Reserve Bank with individual banks. The medium-term framework and the specific proposals to the extent possible cover the opening/closing/shifting of all categories of branches/offices, including the ATMs. The revised branch authorisation policy has granted reasonable flexibility and freedom to banks in matters relating to shifting, conversion of branches and upgradation of extension counters.

The branch authorisation policy for Indian banks is also applicable to foreign banks, subject to the following conditions. First, foreign banks are required to bring an assigned capital of US$ 25 million upfront at the time of opening the first branch in India. Second, existing foreign banks having only one branch have to comply with the above requirement before their request for opening of second branch is considered. Third, foreign banks are required to submit their branch expansion plan on an annual basis. In addition to the parameters laid down for Indian banks, the following additional parameters are considered for foreign banks: (i) track record of compliance and functioning in the global markets of the foreign bank and its group (reports from home country supervisors are sought, wherever necessary); (ii) even distribution of home countries of foreign banks having presence in India; (iii) treatment extended to Indian banks in the home country of the applicant foreign bank; (iv) bilateral and diplomatic relations between India and the home country; and (v) Indiaís commitments at WTO. ATMs are not included in the number of branches for such computation.

Branch Authorisation Policy

2.140 In terms of the existing provisions, banks are not allowed, without the prior approval of the Reserve Bank, to open a new place of business in India or change the location of the place of business, other than within the same city, town or village. 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 in order to give reasonable freedom to banks and rationalise the policy for opening of new branches in India. A comprehensive framework for branch authorisation policy consistent with the medium-term corporate strategy of banks and public interest was put in place effective September 8, 2005 (Box III.22).

8. Financial Inclusion

2.141 The Mid-term Review of Annual Policy Statement for the year 2005-06 while recognising the concerns with regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices with a view to aligning them with the objective of financial inclusion. In many banks, the requirement of a minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening/maintaining bank accounts.

2.142 With a view to achieving the objective of greater financial inclusion, all banks were advised in November 2005 to make available a basic banking ëno-frillsí account either with ënilí or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. The nature and number of transactions in such accounts could be restricted, but made known to the customer in advance in a transparent manner. All banks were also advised to give wide publicity to the facility of such a ëno-frillsí account, including on their websites, indicating the facilities and charges in a transparent manner. All public and private sector banks have advised the Reserve Bank of having introduced the basic banking ëno-frillsí account. Further, except for those foreign banks that do not have significant retail presence, all other foreign banks have advised the Reserve Bank of having introduced the facility of ëno-frillsí account. With a view to encourage financial inclusion, the Mid-term Review of the Annual Policy for 2006-07 proposed to simplify the KYC procedure for opening small accounts. It was indicated that for such accounts, banks need to seek only a photograph of the account holder and self-certification of address. Outstanding balances in these accounts at any time would be limited to Rs.50,000 and the total transactions limited to Rs.2,00,000 in one year. As and when the balances or total transactions exceed these limits, banks would be required to convert them into normal accounts and follow the normal procedure of KYC. It was also indicated that the Reserve Bank would issue certain clarifications in respect of conduct of the KYC procedure for normal accounts so as to make it more customer-friendly.

2.143 With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, it was decided in January 2006, to allow banks to use the services of NGOs/SHGs, MFIs and CSOs as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. The guidelines issued in January 2006 mainly related to: i) eligible entities and scope of activities under business facilitator and correspondent models; ii) payment of commission/fees and other terms and conditions for these entities; iii) redressal of grievances; and iv) compliance with the ëKYCí norms.

2.144 Banks were advised that under the business facilitator model, they could use intermediaries such as NGOs, farmersí clubs, co-operatives, community based organisations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well functioning *panchayats*, village knowledge centers, agri-clinics/agri-business centres, *krishi vigyan kendras* and *Khadi* and Village Industries Commission (KVIC)/*Khadi* and Village Industries Commission Board (KVIB) units, for providing financial services, depending on the comfort level of the bank. Banks were also advised that under the business correspondent model, NGOs/MFIs set up under the Societies/Trusts Acts; societies registered under the Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of States; companies mentioned under Section 25 of the Companies Act, 1956; registered NBFCs not accepting public deposits and post offices may act asëbusiness correspondentsí. Banks were advised subsequently that the selection/use of NBFCs as business correspondents may be deferred.

2.145 The Reserve Bank advised banks that they may pay reasonable commission/fee to the business facilitators/correspondents, the rate and quantum of which may be reviewed periodically. As the engagement of intermediaries as business facilitators/correspondents involves significant reputational, legal and operational risks, banks were advised that due consideration should be given by them to such risks. Banks were also advised that they should endeavour to adopt technology-based solutions for managing the risks, besides increasing the outreach in a cost effective manner.

2.146 Banks were advised to constitute grievance redressal machinery within the bank for redressing complaints about services rendered by business facilitators and correspondents and give wide publicity about it through electronic and print media. The name and contact number of the designated grievance redressal officer of the bank were required to be made known and widely publicised. Banks were also required to place on their websites the grievance redressal procedure and the timeframe for responding to the complaints. If a complainant does not get satisfactory response from the bank within the stipulated time from the date of lodging the complaint, the complainant has the option of approaching the Banking Ombudsman concerned for the redressal of grievances.

2.147 Banks were further advised that compliance with ëKYCí norms will continue to be their responsibility. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, banks were advised to adopt a flexible approach within the parameters of guidelines issued on ëKYCí from time to time.

2.148 In order to ensure that the banking facilities percolate to the vast sections of the population, banks were advised in December 2005 to make available all printed material used by retail customers, including account opening forms, pay-in-slips, passbooks *etc.*, in trilingual form, *i.e.*, English, Hindi and the concerned regional language.

2.149 With a view to providing hassle-free credit to banks customers in rural areas, the guidelines on general credit card (GCC) were issued on December 27, 2005 (Box II.23).

2.150 In order to prepare a monitorable action plan for achieving greater financial inclusion and providing of financial services in the North Eastern Region (NER), the Reserve Bank had set up a Committee (Chairperson: Smt. Usha Thorat) in January 2006 to: (i) review the action taken so far for extending banking coverage and increasing the flow of credit in the NER; (ii) identifying bottlenecks in the extension of financial services; (iii) suggest measures to overcome the impediments in financial inclusion and enable greater flow of credit, draw up state-wise action plan appropriate to local conditions in each of the States; and (iv) consider matters relevant to the above and recommend appropriate actions on them.

2.151 The Committee, which submitted its report in July 2006, made several recommendations with a view to achieving greater financial inclusion in the NER. Some of the major recommendations made by the Committee include: (i) banks should draw up plans for each branch for providing ëno frillsí account to at least 50 households per month in the next 4 years to achieve greater financial inclusion; (ii) banks should undertake extensive recourse to bank/SHG-linkage programme and business correspondent/business facilitator model and IT based solutions including smart cards based and mobile payments for carrying out banking transactions from non-bank locations; (iii) simplified alternatives such as land possession certificate/certificate from the group/local tribal bodies/farmers clubs/Village Development Boards regarding the borrowersí right to cultivate land, be adopted, given that community ownership and non-transferable rights on land often lead to problems in offering land as collateral; (iv) location specific activity-wise action plans be implemented for stepping up flow of credit to agriculture, allied activities and the SME sector; (v) the *ad hoc* incentive package of human resource management be replaced by performance based cash incentive; and (v) the currency management and payments/settlement system in the region be improved.

Box II.23: General Credit Card (GCC) Scheme

Credit cards are now being extensively issued to and used by individuals to make purchases of goods and services on credit and make cash withdrawals. In rural areas, with limited point-of-sale (POS) and limited ATM facilities, while similar product may not be feasible, there has been demand for General Credit Card (GCC) akin to *Kisan* Credit Card (KCC). Consequently, banks and RRBs were permitted to introduce a GCC scheme at any of their branches for issuing GCC to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card.

The objective of the scheme is to provide hassle free credit to banksí customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit. This is in the nature of overdraft or cash-credit with no end-use stipulations. The credit facility extended under the scheme will be in the nature of revolving credit. The GCC holder will be entitled to draw cash from the specified branch of a bank up to the limit sanctioned. It is not necessary that GCC should be linked to purchase; GCC may not necessarily be in the form of a card. GCC can be issued in the form of a pass book, if the holder of GCC desires to operate cash withdrawals from bank branch.

Banks would have flexibility in fixing the limit based on the assessment of income and cash flow of the entire household. However, the total credit facility under GCC for an individual should not exceed Rs.25,000 and interest rate on the facility may be charged, as considered appropriate and reasonable. The limit may be periodically reviewed and revised/cancelled depending on track record of the account holder. The eligibility criteria are subject to review. With a view to targeting women as beneficiaries of bank credit, they may be given a preferential treatment under the GCC scheme. Banks may utilise the services of local post offices, schools, primary health centers, local government functionaries, farmersí association/club, well-established community-based agencies and civil society organisations for sourcing of borrowers for issuing GCC.

Fifty per cent of credit outstanding under GCC up to Rs.25,000 will be eligible for being treated as indirect agricultural financing.

Box II.24: Working Group on Improvement of Banking Services in Uttaranchal

The major recommendations/observations of the Group (Chairman: Shri V. S. Das) are as follows:

ï There is a slowdown in investment credit, which has impaired agricultural borrowersí credit absorption capacity and eventually affected the growth of crop loans as well. Banks should integrate the investment and production credit needs of the farmers and increase their investment credit.

ï In view of a large number of small and fragmented land holdings, banks need to adopt cluster financing and subsequently sub-clusters could be developed around the main cluster.

ï In view of engagement of women in farm activities, suitable mechanism may be worked out to enable them to avail credit from the banking system.

ï In order to financially include 100 per cent of the unprivileged population, each bank branch may cover a minimum of 25 new households per month over a period of three years, with a basic banking ëno frillsí account and limited overdraft facility through GCC/KCC either directly or through SHGs.

ï Banks need to have CREDIT PLUS approach in their financial inclusion schemes by extending insurance, marketing and consultancy services.

ï Considering the time, distance and cost for customers to reach a bank branch, especially in remote areas, banks need to use business facilitator and business correspondent models for increasing their banking outreach to underserved/unbanked persons by using the services of local persons like school teachers, postmen, primary health workers, as also of NGOs/MFIs/ CSOs.

ï Having regard to the trusted relationship that the people have with post offices and postmen, banks could gainfully appoint post offices as their business correspondents on the lines of Maharashtra model for achieving the ultimate target of 100 per cent financial inclusion.

ï With a view to providing financial literacy and awareness of banking facilities to the people living in far-flung rural and hilly areas, an awareness campaign through media, newspapers, road shows, street plays, audio visuals during major festivals, needs to be launched. SLBC convenor banks may take a lead with the help of other major PSBs and the State Government.

ï Village *panchayats* may be groomed to (i) act as banking services facilitation centre at each village to act as a link between the bank servicing the region and the residents of the village; and (ii) promote banking services and resolve savings and credit needs of the residents of the village.

ï For greater outreach of banking services in remote areas, financial information network and operations (FINO) model, a technology backbone company for providing facilities akin to banking to the grass root financial entities serving people who do not have access to banking facilities, could be adopted. FINO has already offered their assistance in five districts of the State on a pilot basis.

ï To give more autonomy to the boards of RRBs, the requirement of obtaining prior approval from the sponsor bankís in staff requirement matters may be dispensed with. Each RRB should evolve its own operational policies, including staff matters. Pending recruitment of staff, the problem of staff shortage may be addressed by deputation of staff from concerned sponsor banks.

ï Banks having larger share of foreign exchange business in the State may make arrangements for providing foreign exchange facilities at all district headquarters and other strategic locations.

2.152 Pursuant to the meeting held between the Governor of the Reserve Bank and the Chief Minister of Uttaranchal, a Working Group (Chairman: Shri V. S. Das) was constituted on May 22, 2006, to examine the problems/issues relating to banking services in Uttaranchal and prepare an action plan for implementation for the purpose (Box II.24).

2.153 The banking sector plays an important role in the economic development of a country by mobilising savings and allocating them efficiently. However, banking penetration in India has been low. There are also wide variations of banking penetration across the States. With a view to undertaking a detailed study on banking penetration in India and recommending measures to achieve higher banking penetration in the country, a Working Group (Chairman: Shri Janak Raj) has been constituted. The Group is expected to submit the Report by December 2006.

9. Payment and Settlement Systems

2.154 The smooth functioning of the payment and settlement system is a pre-requisite for financial stability. The Reserve Bank, therefore, has taken several measures from time to time to develop the payment and settlement system in the country along sound lines. The initiatives taken during the year include: (i) enhancing usage of the RTGS system; (ii) providing incentives and guidelines for reducing transaction costs for electronic payment system: (iii) improving legal infrastructure for the payment system; (iv) introducing nationwide payment system for retail payment; (v) improving international remittance services; and (vi) facilitating newer channels of payment and settlement (for details refer to section 7 of Chapter III).

2.155 The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), set up in March 2005 as a committee of the Central Board of the Reserve Bank, is the apex body for giving policy direction in the area of payment and settlement systems. The BPSS, which held six meetings since its constitution, gave important policy directions/decisions. These include: (i) setting target for usage of the RTGS system; (ii) publishing frequently asked questions (FAQ) on payment systems; (iii) publishing the charges levied by banks for electronic payment systems; (iv) setting up an umbrella organisation for all retail payment systems in the country; (v) finalising the Payment and Settlement Systems Bill; and (vi) preparing the Electronic Funds Transfer Regulations under the Reserve Bank of India, Act.

2.156 The use of Electronic Clearing Service (ECS), both debit and credit, is on the increase. However, it is the debit clearing which is growing at a faster pace. The reach of ECS has increased and it is now available at 58 centres. In November 2005, banks were advised to develop appropriate delivery channels of electronic payment services using the payment systems developed by the Reserve Bank such as RTGS, ECS, Electronic Fund Transfer (EFT) and National Electronic Fund Transfer (NEFT) with no further delay. Banks, which fulfill the eligibility criteria for participation in RTGS, were invited to participate in the NEFT. In order to start a robust state-of-the-art nationwide ECS covering more branches and locations with centralised data submission system, SCBs (including co-operative banks) were advised to furnish certain information indicating their level of preparedness for the project as on June 27, 2006. To take the effort further, all SCBs were directed on July 4, 2006 to initiate steps for incorporating an appropriate mandate management routine for handling ECS (Debit) transactions. Earlier in terms of the guidelines issued on October 17, 2005, banks were advised to provide details to the customers in their Pass Book/Account Statement regarding the credits affected through ECS. Banks were also advised to furnish information on pricing of services for products based on structured financial messaging solution (SFMS)/RTGS/SEFT/EFT/ECS infrastructure. With effect from June 14, 2005, processing charges for all electronic transactions under EFT, SEFT and ECS facility amounting to Rs.2 crore and above, were waived up to the period ended March 31, 2007. This is in addition to the existing waiver on transactions involving less than Rs.2 crore.

2.157 The operationalisation of the NEFT in November 2005 was a major step in the direction of setting up and operating a national level payment system. The NEFT is a secured network, which uses the SFMS messaging format with public key infrastructure (PKI) enabled digital signatures retail electronic payment system having a nation-wide network. All the SEFT clearing banks were advised to migrate to NEFT system by December 15, 2005. With the implementation of NEFT, the SEFT system was discontinued from February 2006.

2.158 The Reserve Bank has also advised banks to adopt the centralised funds management system (CFMS), which enables banks to transfer funds across its accounts with various offices of the Reserve Bank. At present, the system is available at six centres, *viz.*, Mumbai, Delhi, Chennai, Kolkata, Hyderabad and Bangalore. Two more centres are likely to be included in the system soon.

2.159 The Reserve Bank has also decided to implement the National Settlement System (NSS) to facilitate better liquidity management by banks. The concept paper on NSS explaining settlement of clearing across the country at one location was prepared. Feedback received from banks is being processed and the implementation of the facility will be taken up shortly. To start with, the clearing settlements arrived at the four metros would be settled through the NSS. In the second phase, settlement of clearing in other large cities would also be carried out through the NSS.

2.160 For further improving the efficiency of the paper-based system, a plan has been drawn up for computerisation of clearing operations at centres where there are more than 30 banks (apart from the 59 centres where magnetic ink character recognition (MICR) cheque processing centres have already been set up). A few centres have already computerised the clearing house operations using the magnetic media based clearing system (MMBCS). Under this system, the member banks present their claims in the form of an electronic file, which gets processed on the computer. This enables arriving of settlement figures within a quarter of an hour as compared with three or four hours under the manual system.

2.161 A set of Minimum Standards of Operational Efficiency for MICR cheque processing centres has been framed in order to ensure smooth operations of the MICR cheque processing centres. The standards mainly relate to encoding of instruments, time schedule, operational procedures, speed and accuracy of on-line reject repair (OLRR), checking of settlement reports for supervisory signals, enabling banks to download reports/data on-line, reconciliation and business continuity plan. The MICR cheque processing centres have to submit ëself assessment reportí certifying adherence to the minimum standards for operational efficiency to the Reserve Bank.

2.162 The implementation of Cheque Truncation System (CTS) is another effort for bringing in efficiency of paper-based system. To be introduced on a pilot project basis in the national capital region of Delhi by end-December 2006, the CTS would be rolled out in the rest of the country in phases. Under CTS, paper instruments do not travel beyond the presenting bank. It is up to banks to take a business decision on the point of truncating the cheque - at the branch level or service branch or gateway level. The CTS enables banks to handle the payment instruments in an easier way. Customers also enjoy the benefit of encashing their cheques faster. Apart from reduction in transaction costs for banks as well as customers, the full implementation of CTS would make it possible to achieve T+1 clearing cycle (even T+0) as CTS is straight-through-processing and automated payment processing enabled. Moreover, with CTS, banks also have the additional advantage of much reduced reconciliation problems and incidents of clearing frauds. In order to ensure that banks are ready with the desired infrastructure well in time, detailed guidelines were issued to banks on the hardware/ communication requirements.

2.163 As indicated in the Payment System Vision - 2005-08, the IBA constituted a Working Group to look into the setting up of a separate entity for taking over of the operations of retail payment systems. On recommendations of the Working Group, a company registered under Section 25 of the Companies Act is being set up.

2.164 The Clearing Corporation of India Limited (CCIL) set up by banks is the central counter party (CCP) for clearing of transactions in Government securities and foreign exchange. The CCIL operates the G-Sec clearing while the settlement for both the securities and funds takes place in the Reserve Bank. CCIL acts as the CCP for all the transactions and guarantees both the securities and funds legs of the transaction. DvP-III mode of settlement has been adopted, whereby both the securities leg and the fund leg are settled on a net basis. CCIL guarantees settlement of trades on the settlement date by acting as a central counter party to every trade through the process of novation. Another large value segment operated by the CCIL is the forex clearing. Every eligible foreign exchange contract entered into between members, gets novated and is replaced by two new contracts - between CCIL and each of the two parties, respectively. The rupee leg is settled through the membersí current account with the Reserve Bank and the USD leg through CCILís account with the designated settlement bank at New York. The settlement through CCIL has reduced the gross dollar requirement by more than 90 per cent.

2.165 SCBs were advised to expedite the process of allotting Indian Financial System Code (IFSC) to the branches in March 2006. It was also decided that IFSC of the branch be printed just above the MICR band on the cheques preferably above the serial number of the cheque. In July 2006, it was decided that prior approval of the Reserve Bank would not be required for offering internet banking services, subject to fulfilment of certain conditions.

Remittances Services

2.166 The cross border remittances are mainly from migrant workers to their families in their home country. However, the remittances can be expensive relative to the often low income of migrant workers and to the rather small amounts sent. A Task Force was constituted by the Committee on Payment and Settlement System (CPSS) of the Bank for International Settlements (BIS) to develop principles for international remittance services. Based on the recommendations of the Task Force, the CPSS published a Consultative Report on General Principles for International Remittance Services in March 2006. The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services (Box II.25).

Box II.25: Consultative Report on General Principles for International Remittance Services

The main principles laid down in the Consultative Report are set out below:

General Principle 1: The market for remittance services should be transparent and should have adequate consumer protection.

General Principle 2: Improvements in payment system infrastructure, that have the potential to increase the efficiency of remittance services, should be encouraged.

General Principle 3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

General Principle 4: Competitive market conditions, including appropriate access to domestic payments infrastructure, should be fostered in the remittance industry.

General Principle 5: Remittance services should be supported by appropriate governance and risk management practices.

Remittance service providers should participate actively in the implementation of the General Principles. Public authorities should evaluate what action is required to be taken to achieve the public policy objectives through implementation of the General Principles.

Reference :

Bank for International Settlements (2006)*: Consultative Report on General Principles for International Remittance Services*, March.

2.167 An internal study revealed that a major portion of the remittances received (54 per cent) was utilised for family maintenance. On an average, about 20 per cent of the funds received were deposited in the bank accounts and 13 per cent were invested in land/property/equity shares. A cross-section analysis of the relationship between the size of remittances and the frequency of sending remittances revealed an inverse relationship between the two, which is in line with the empirical findings of studies in other developing countries. The Study found that there is a preference for time-efficient modes such as electronic wires/swift by the overseas Indians, even though they turn out to be costlier as compared with drafts and cheques.

2.168 The Working Group on the Cost of Non-Resident Indian (NRI) Remittances submitted its Report to the Reserve Bank in August 2006. Some of the major recommendations made by the Group include: (a) banks in India should review their existing scale of charges both at the foreign and the domestic centres and resort to latest technology for handling large volume of transactions; (b) banks should improve their infrastructure by extending the scope of existing electronic transfer facilities such as the RTGS or setting up centralised remittance receiving centres and widening the scope of exchange houses; (c) Indian banks should explore tie-ups with more correspondent banks which would bring down the cost for the NRIs at the foreign centres; (d) the cap on number of branches of Indian banks with drawal arrangements with exchange houses may be reviewed; and (e) NRIs may be advised to route their remittances through a branch of an Indian bank or a foreign bank having a branch in India. NRIs should be advised, as far as possible, to convert foreign currencies into Indian Rupees at the Indian end to get the benefit of a better exchange rate.

10. Technological and Other Developments

2.169 The financial sector has been a large user of information technology (IT). Banks, in particular, have been increasingly using IT in their day to day operations. Over the years, banks have (a) extended the reach of core banking solutions (CBS) to more branches so as to facilitate ëanywhere bankingí; (b) introduced technology based products and services such as mobile banking; and (c) expanded the internet banking facilities. Banks have been increasingly using the NEFT for ensuring wider reach for electronic funds movement.

2.170 With enhanced level of IT usage by banks, the Reserve Bank is gradually moving away from micro-management of IT related matters of banks. Instead, the Reserve Bank has begun to frame guidelines and standards which relate to common inter-bank requirements. During the year, the Financial Sector Technology (FST) Vision Document, 2005-08 was released to all banks in July 2005. The document outlines the approach to be followed by the Reserve Bank as far as IT implementation for the immediate future is concerned. The Vision Document has helped banks to formulate their IT policies in a manner which are in line with the direction given by the Reserve Bank. At the same time, it also facilitated banksí overall movement in a unified manner towards common inter-operable standards for IT systems and inter-bank messaging. In order to follow-up the implementation of the tenets of the FST Vision Document, a Conference of IT Chiefs of all categories of banks was organised by the Reserve Bank in January 2006.

Technology Based Services provided by the Reserve Bank to Banks

2.171 The Reserve Bank continued to function as a business facilitator for developing new products and services by banks. Some of the systems developed by the Reserve Bank for use by banks were NDS, RTGS, CFMS and SFMS over the INFINET.

2.172 Improvements in the software architecture of NDS have resulted in better throughput and reduced processing time for member banks of the system. A major enhancement made during the year was the migration towards front-end validation by the member instead of validation being performed by the host. The system functioned smoothly during the year. The process of converting the system into a screen based trading system was completed. The first set of modules was made operational at the CCIL from August 2005.

2.173 The RTGS system has stabilised well and the use of the facility for transfer of funds, especially for large value and for systemically important purposes, has been on the rise. The system has a ëYí topology and the number of members using the system has gone up to 110 with nearly 25,000 bank branches offering RTGS based fund transfers to their customers.

2.174 During the year, the transmission of clearing data, both for cheque clearing and for electronic clearing services, was done in many centres through the secured website. In addition, collation of inputs from currency chests as part of the integrated currency chest operations and management system (ICCOMS) was done using the secured website. The secured internet website was extended to cover the centralised data base management system (CDBMS) and for commercial banks to access clearing data for STP based posting. The software system developed for the BO in September 2005 also uses the secured website as the means of information transmission. This system facilitates monitoring of complaints not only by the offices of the BO situated at various locations but also by the Reserve Bank and the Ministry of Finance.

Banks and IT based Delivery Channels

2.175 Over the past few years, the banking sector has witnessed a large increase in the use of IT based delivery channels and internet banking activity. Some of the new facilities provided include: (i) funds transfer options to cover third party customer accounts within the same bank; (ii) funds transfer across banks; (iii) utility bill payments and other regular periodical payment facilities; and (iv) integration with e-commerce transactions such as for booking of tickets for rail and air.

2.176 Banks were advised in July 2006 not to associate themselves with internet based electronic purse schemes, which are in the nature of acceptance of deposits withdrawable on demand.

2.177 Mobile banking is another activity, which is gaining ground. Many customer-friendly facilities from short messaging service (SMS) alerts to action based on mobile instructions are being incorporated, which could have far reaching implications for the financial sector. The delivery channels such as internet and mobile banking, however, also raise some concerns about the security (Box II.26).

Developments in the INFINET

2.178 The Indian Financial Network (INFINET) continued to be the most preferred communication channel for transmission of electronic information by banks for the systemic inter-bank payment systems of the Reserve Bank. INFINET is being used by banks for inter-office communication as well. INFINET uses the SFMS, which is a message processing system similar to the Society for Worldwide Financial Telecommunication (SWIFT) messaging system. SFMS is PKI enabled so as to provide for security of highest levels for secure and safe inter-bank financial message transfers, apart from conforming to the laws of the land such as the Information Technology Act, 2000. SFMS based message transfers can conform to the requirements of straight through processing (STP) so as to ensure quick, safe and secure processing with little or no interference by humans. The INFINET is a wide area terrestrial and satellite [using very small aperture terminals (VSATs)] based blended network. The terrestrial links are provided by means of leased optical fibre channels with adequate bandwidth. The network operated and managed by the Institute for Development and Research in Banking Technology (IDRBT), is poised to be used for connectivity options available

Box II.26: Security in Delivery Channels

Banking in India has witnessed a large scale transformation in the last few years. Some of the new technology-based delivery channels implemented by banks for their customers include internet banking, mobile banking and card based funds transactions. In all these products, the underlying medium of information transportation is generally a commonly available, inexpensive and public oriented vehicle such as internet or mobile telephony.

Given the need for optimal levels of security for financial transactions, the enhanced security of technology-based transactions assumes significance. The Reserve Bank had issued guidelines for internet banking in 2001, which continue to be the baseline set of requirements for banks to follow when they offer internet banking services to their clients. However, technological developments combined with the increase in unethical attempts to break into systems have warranted a continuous review of the security implemented in such systems.

A set of preventive, detective and control measures are necessary for enhanced customer confidence in internet banking. Apart from base level security features such as user IDs (identification) and passwords, other security facilitators such as firewalls, proxy servers and customer held identification devices could also be used. Authentication is another basic requirement which is implemented by the use of public key infrastructure (PKI) based encryption, biometric and/or other devices. Trust, which is achieved by reputed and independent third parties confirming the authenticity/genuineness of transactions/messages is being achieved in the Indian case by the use of digital signatures which are issued by certification/registration authorities under the Information Technology Act, 2000. Non-repudiation, which prevents denial or repudiation by the sender and receiver of electronic messages, privacy and availability are of utmost importance for building customer confidence.

Other requirements such as confidentiality, virus detection and prevention, disaster recovery management and business continuity plans need to be taken care of in internet banking offerings, in addition to regular periodical tests of the sites access facilities provided, audit of the personnel associated with the process and other similar critical aspects such as an overview of the types of service access.

Some of the recent initiatives undertaken to address potential security risks for mobile banking and home content access are: (i) smart phone access based on SIM authentication; (ii) (RF)ID (Radio-Frequency Identification) based authentication, based on SIM stored user name/password; (iii) PC based access with user name/password; and (iv) PC based access through mobile phone presence.

in the form of virtual private networks (VPNs) over public network. Banks in India have been encouraged to use their own networks for inter-branch communications. With internet base delivery channels becoming easily available, the concept of VPNs is gaining ground amongst banks in India as well. A few banks have set up their own corporate networks using VPNs. Another notable feature during the year was the migration of SWIFT to IP based network, with extensive usage of VPNs. This has instilled greater level of confidence amongst the banks (Box II.27).

Box II.27: Virtual Private Networks

Network based communication and computation have come of age. From a period characterised by users having their own networks, today, the internet has become the most preferred mode of electronic communication. The migration towards centralised processing systems, the large scale proliferation of the internet and low costs have resulted in increased usage of public networks. This has been achieved with enhanced security, wherever required.

A Virtual Private Network (VPN) is a network made up of public communication links and using the internet as the medium for transporting electronic information. A VPN is a private network within a public network to connect remote sites or users together. It facilitates transmission of messages amongst the members of the VPN in an encapsulated manner so that unauthorised access to these messages is not possible. VPNs use enhanced security features to ensure that authorised users only have access to the network and that data travelling over the network cannot be intercepted. Thus, the key differentiator in a VPN is the security on such networks. Security on VPNs is achieved by the use of cryptographic tunnelling protocols to provide the necessary confidentiality, sender authentication and message integrity to achieve the privacy intended. When properly chosen, implemented and used, such techniques can provide secure communications over unsecured networks. Such security requirements are ensured from a service provider by means of a defined service level agreement (SLA) between the customer and the service provider.

Some of the advantages of resorting to a VPN include a larger geographical coverage, enhanced security, reduced costs, quick transmission time for message transfers and a relatively simpler network topology.

A well-designed and implemented VPN incorporates the key essential features of security, reliability, scalability and optimal network management. A VPN involves two parts: (i) the protected or ìinsideî network, which provides physical and administrative security to protect the transmission; and (ii) a less trustworthy, ìoutsideî network or segment, which is generally the internet. Generally, a firewall sits between a remote userís workstation or client and the host network or server. An example of a financial VPN is the SWIFT, which has migrated to the secure electronic messages using VPNs.

11. Legal Reforms in the Banking Sector

2.179 An efficient financial system requires a regulatory framework with well-defined objectives, adequate and clear legal framework and transparent supervisory procedure. A comprehensive legislation is also a pre-requisite for the regulatory authority to discharge its responsibilities effectively. Keeping this in view, the Reserve Bank has been making constant efforts to upgrade and strengthen the legal framework in tune with the changing environment. The Central Government, on the recommendation of the Reserve Bank, has initiated a number of measures in this respect over the past few years.

Recent Acts Enacted by the Parliament

2.180 In order to facilitate the task of monetary management and provide operational flexibility, a greater empowerment of the Reserve Bank in the wielding of policy instruments was considered necessary. Keeping this in view, the Reserve Bank of India Act, 1934 was amended by the Parliament. This amendment, *inter-alia*, has empowered the Reserve Bank to determine the CRR without any ceiling or floor rate (Box II.28).

2.181 The Credit Information Companies (Regulation) Act, 2005 has been enacted for regulation of Credit Information Companies and facilitating efficient distribution of credit and for matters connected therewith or incidental thereto. After coming into force of the Act, the existing obligation, on the part of credit institutions such as banks and FIs, to maintain secrecy with respect to affairs of their constituents would not be a legal constraint for them. The Act provides for establishment, supervision and regulation of a credit information company that can undertake the functions of collecting, processing and collating information on trade, credit and financial standing of the borrowers of credit institutions which are members of the credit information company. It could provide credit information to

Box II.28: The Reserve Bank of India (Amendment) Act, 2006 ñ Salient Features

The Reserve Bank of India (Amendment) Act, 2006, gives enabling powers to the Reserve Bank with regard to instruments for monetary management. The amendment mainly provides flexibility to the Reserve Bank in prescribing reserve requirements for scheduled banks and also gives comprehensive powers to regulate the money and the government securities market.

(i) *Cash Reserve Ratio*

Under the amended statute, the Reserve Bank, in order to secure monetary stability in the country, can determine the CRR for scheduled banks without any ceiling or floor rate. With the amendment of the Act, the Reserve Bank also cannot pay interest on any portion of CRR balances of banks once the Act comes into force. Prior to the amendment, the Reserve Bank did not pay interest on CRR balances on the statutory minimum level of 3 per cent of banksí demand and time liabilities. Also, no interest was paid on excess CRR balances maintained by the banks beyond the prescribed level.

(ii) Reverse Repo and Repo

The amended Act enables the Reserve Bank to undertake repo and reverse repo operations as also lending and borrowing of securities, including foreign securities.

The amendments have implications for the business undertaken by the Reserve Bank on its own account. Further, the insertion in clause (12A) defines repo/reverse repo as essentially collateralised borrowing/lending transactions in either cash or securities that are structured as sale purchase transactions, with the securities passing from seller to buyer in the ready leg and back to seller in the forward leg. Until the amendment, the accounting treatment of repo reflected the legal interpretation of repo as sale/purchase transactions. The amended provisions define repo/reverse repo as two legs of the same transactions and not two discrete/independent transactions.

(iii) *Money and Government Securities Market*

The new Chapter (III-D) of the amended Act empowers the Reserve Bank to determine the policy relating to interest rates or interest rate products and regulate the agencies dealing in securities, money market instruments, foreign exchange, derivatives, or other instruments of like nature, give directions, and also call for information and cause inspection of entities that are otherwise not under the regulatory purview of the Reserve Bank. As such, the Reserve Bankís permission would be required for exchange-traded derivate products if the underlying is foreign exchange, interest rate, credit or a combination of these. Policy guidelines on interest rate futures and issues relating to repo in corporate bonds would also be under the Reserve Bankís purview. Prior to the amendment, the Reserve Bank regulated the transactions in money markets and other instruments under the powers delegated to it by the Central Government.

(iv) *Derivatives*

The insertion of a new clause in the Act would allow the Reserve Bank to deal in derivatives which may have interest rate, securities (including foreign securities), indices of rates or prices, foreign exchange rate, credit rating or index and/or the price of gold or silver coins, gold or silver bullion or any other financial instrument as its underlying value variables.

The amendments give legal sanctity to over-the-counter (OTC) derivatives if at least one of the parties to the transaction is the Reserve Bank or any agency falling under its regulatory purview. Prior to the amendment only exchange-traded derivatives were valid. Other contracts could be settled under the Contract Act, 1872.

its specified users. The Rules and Regulations for the purposes of carrying out the provisions of the Act are pending consideration of the Government.

2.182 The Government Securities Act, 2006 proposes to consolidate and amend the law relating to issue and management of Government securities by the Reserve Bank. The Act provides for: (i) empowering the Reserve Bank to prescribe the form for transferring Government securities; (ii) holding of Government promissory notes by trusts; (iii) simplifying the procedure for recognising title to Government securities up to Rs.one lakh with enabling power to the Central Government to enhance the said limit up to Rs.one crore; (iv) allowing 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 Act include: (i) enabling creation of pledge, hypothecation or lien in respect of Government securities; and (ii) empowering the Reserve Bank to call for information, conduct inspection and issue directions as well as make regulations, with the previous approval of the Central Government, for carrying out the purposes of the Act. The Act is yet to be brought into force.

2.183 The Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act**,** 2005 mainly seeks to amend the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The Bill, *inter alia*, provides for: (i) electing one to three shareholder directors on the boards of the nationalised banks on the basis of issued capital of the bank instead of one to six directors under the existing provisions so as to provide for a more equitable representation on the Board based on the percentage of ownership; (ii) modifying the provisions relating to nomination of directors by the Reserve Bank on the boards of nationalised banks; (iii) conferring power upon the Reserve Bank to appoint one or more additional directors; (iv) empowering the shareholders of nationalised banks to discuss, adopt and approve the Directorsí report, the profit and loss account and balance sheet of the bank at the annual general meeting; (v) enabling the banks to transfer the unclaimed dividends for more than seven years to Investor Education and Protection Fund established under section 205 C of the Companies Act, 1956. The Act also provides for: (i) enabling nationalised banks to issue preference shares in accordance with guidelines framed by the Reserve Bank and to raise capital by preferential allotment or private placement or public issue with the approval of the Reserve Bank and the Central Government; (ii) restricting the voting rights of preference shareholders to resolutions directly affecting their rights and up to a maximum of one per cent of the total voting rights of all the shareholders holding preference share capital only; (iii) ëfit and properístatus for the elected directors; and (iv) supersession of Board by the Central Government on the recommendation of the Reserve Bank and appointment of an administrator and a Committee to assist the administrator. The Act came into force with effect from October 16, 2006.

Bills introduced in the Parliament

2.184 The Banking Regulation (Amendment) Bill, 2005, introduced in the Lok Sabha on May 13, 2005, seeks to amend some of the provisions of the Banking Regulation Act, 1949 with a view to strengthening the regulatory powers of the Reserve Bank. The Bill includes provisions for: (i) removing the restriction on voting rights and introducing the requirement of prior approval of the Reserve Bank for acquisition of shares or voting rights above the specified limit (empowering the Reserve Bank to satisfy itself that the applicant is a ëfit and proper personí to acquire shares or voting rights and to impose such further conditions that the Bank may deem fit to impose); (ii) removing the lower limit (floor) of SLR and empowering the Reserve Bank to specify the SLR subject to a maximum of forty per cent of the total demand and time liabilities; (iii) amending the definition of approved securities in Section 5(a) of the Act to empower the Reserve Bank to specify from time to time any security, in addition to securities issued by the Central or the State Government, as ëapproved securitiesí; (iv) amending Section 12 of the Act to enable banking companies to issue preference shares, subject to regulatory guidelines framed by the Reserve Bank; (v) empowering the Reserve Bank to direct a banking company to disclose in its financial statement or furnish separately such statements and information relating to the business of any associate enterprise, as the Reserve Bank considers necessary and also to cause an inspection to be made of any associate enterprise; (vi) empowering the Reserve Bank† to supersede the board of directors of a banking company and appoint an administrator; (vii) amending Section 56 of the Act to remove the provision which allowed facilitating primary credit societies to carry on the business of banking without obtaining a license from the Reserve Bank; and (viii) empowering the Reserve Bank to order special audit of a co-operative bank in public interest or in the interest of the co-operative bank or its depositors.

2.185 The Securities Contracts (Regulation) Amendment Bill, 2005 seeks to amend the Securities Contract (Regulation) (SCR) Act, 1956 so as to provide a legal framework for trading in securitised debt including mortgage backed debt. The Bill proposes, *inter alia*, (i) to include securitisation certificate or instrument under the definition of ësecuritiesí and to insert for the said purpose, a new sub-clause in clause (h) of section 2 of the SCR Act, 1956; and (ii) to provide for obtaining approval from SEBI for issue of securitisation certificate or instrument and procedure thereof, and to insert for the purpose, a new section 17 A in the SCR Act, 1956.

2.186 The Central Government has introduced the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 in the Lok Sabha to amend the laws governing subsidiary banks (of the State Bank of India) to enhance the capital of the subsidiary banks. This will enable the subsidiary banks to raise resources from the market and to provide flexibility in the management of these banks.

2.187 The Payments and Settlements Bill, 2006 was introduced in the Lok Sabha on July 25, 2006. The Bill seeks to designate the Reserve Bank as the authority to regulate payment and settlement systems. The Bill contains provisions for: (i) compulsory requirement of an authorisation by the Reserve Bank to operate payment systems; (ii) empowering the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns and documents; (iii) conferring power on the Reserve Bank to audit and inspect by entering the premises where payment systems are being operated; (iv) empowering the Reserve Bank to issue directions; (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; and (vi) overriding other laws. The Bill has since been referred to the Standing Committee on Finance.

Chapter III

Operations and Performance of Commercial Banks

3.1 Favourable macroeconomic conditions continued to underpin the business and financial performance of scheduled commercial banks (SCBs)[1] during 2005-06. The operations of SCBs during the year were marked by a large expansion of bank credit for the second year in succession. However, the credit growth was broad-based even as credit expansion in respect of the retail sector, particularly housing, and loans to commercial real estate was more pronounced. On the liability side, deposits grew at a higher rate in comparison with the previous year. However, the expansion of deposits could not keep pace with the high credit growth compelling banks to liquidate some of their holdings of Government securities. Reversing the trend of the previous year, net profits of the SCBs, as a group, increased. To a large extent, this was facilitated by a sharp increase in net interest income due to a strong growth in credit volumes. The asset quality of SCBs improved further during 2005-06 as reflected in the decline in gross non-performing assets in absolute terms for a third year in succession. Banksí capital to risk-weighted assets ratio remained more or less at the previous yearís level, despite application of capital charge for market risk and sharp increase in risk-weighted assets.

3.2 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 on an aggregate basis, while Section 3 delineates their off-balance sheet operations. Financial performance of SCBs is analysed in Section 4. Section 5 profiles the performance of soundness indicators. Operations of SCBs in the capital market are detailed in Section 6. Technological developments in banking during the year are covered in Section 7. Regional spread of banking is set out in Section 8. Section 9 presents an update on customer service and financial inclusion. Apart from the SCBs, there exist 133 regional rural banks (RRBs)[2] and four local area banks (LABs). While the performance of SCBs forms the core of this Chapter, the performance of RRBs and LABs are detailed separately in Section 10 and Section 11, respectively.

2. Liabilities and Assets of Scheduled Commercial Banks

3.3 The aggregate balance sheet of SCBs expanded by 18.4 per cent during 2005-06 as compared with 19.3 per cent in 2004-05, including the impact of conversion of a non-banking entity into a banking entity (Table III.1). The number of SCBs declined to 84 at end-March 2006 from 88 at end-March 2005 due to merger of two domestic banks, and one foreign bank, and closure of another foreign bank (Box III.1). The ratio of assets of SCBs to GDP at factor cost at current prices, however, increased significantly to 86.9 per cent at end-March 2006 as compared with 82.8 per cent at end-March 2005, suggesting a faster growth of the banking system in relation to the real economy**.** The degree of leverage enjoyed by the banking system as reflected in the equity multiplier (measured as total assets divided by total equity), however, remained unchanged at the previous yearís level of 15.7 per cent.

3.4 The behaviour of major balance sheet indicators of SCBs during 2005-06 followed more or less the pattern of the previous year. Underpinned by robust economic growth in general and industrial growth in particular, loans and advances grew by 31.8 per cent during 2005-06 on top of the increase of 33.2 per cent in the previous year. The expansion in loans and advances was funded largely by deposit growth (17.8 per cent in 2005-06 compared with 16.6 per cent in the previous year), significant increase in retained earnings, increased recourse to borrowings and offloading of Government and other approved securities (Table III.2). The growth in credit during 2005-06 outpaced deposits both in percentage and in absolute terms. The year 2005-06 was the second consecutive year, when increase in credit in

[1] SCBs comprise 28 public sector banks (State Bank of India and its seven associates, 19 nationalised banks and the Industrial Development Bank of India Ltd.), 8 new private sector banks, 19 old private sector banks and 29 foreign banks. Ganesh Bank of Kurundwad Limited, which was placed under moratorium on July 7, 2006 and later merged with Federal Bank Limited on September 2, 2006, did not bring out its annual accounts for the year 2005-06.

[2] As at end-March 2006.

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

(Amount in Rs. crore)

Item	As at end-March			
	2005		2006	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	25,904	1.1	25,203	0.9
2. Reserves and Surplus	1,23,704	5.3	1,57,909	5.7
3. Deposits	18,37,557	78.0	21,64,477	77.6
3.1. Demand Deposits	2,34,528	10.0	2,92,932	10.5
3.2. Savings Bank Deposits	4,44,831	18.9	5,42,830	19.5
3.3. Term Deposits	11,58,197	49.2	13,28,714	47.7
4. Borrowings	1,68,086	7.1	2,05,433	7.4
5. Other Liabilities and Provisions	2,00,701	8.5	2,34,866	8.4
Total Liabilities/Assets	**23,55,955**	**100.0**	**27,87,891**	**100.0**
Assets				
1. Cash and balances with RBI	1,18,075	5.0	1,44,461	5.2
2. Balances with banks and money at call and short notice	95,356	4.0	1,16,396	4.2
3. Investments	8,69,737	36.9	8,67,790	31.1
3.1 Government Securities (a+b)	6,98,789	29.7	6,91,946	24.8
a. In India	6,95,426	29.5	6,87,989	24.7
b. Outside India	3,363	0.1	3,957	0.1
3.2 Other Approved Securities	16,291	0.7	13,948	0.5
3.3 Non-Approved Securities	1,54,656	6.6	1,61,895	5.8
4. Loans and Advances	11,50,836	48.8	15,16,557	54.4
4.1 Bills purchased and discounted	91,902	3.9	1,03,648	3.7
4.2 Cash Credits, Overdrafts, *etc.*	4,37,018	18.5	5,68,965	20.4
4.3 Term Loans	6,21,914	26.4	8,43,942	30.3
5. Fixed Assets	23,050	1.0	25,058	0.9
6. Other Assets	98,898	4.2	1,17,627	4.2

Note : Data for 2004-05 are as reported in the balance sheets of banks for 2005-06 and hence may differ with those reported in the *Report on Trend and Progress of Banking in India, 2004-05*, as the figures for 2004-05, were revised by some banks.

Source : Balance sheets of respective banks.

absolute terms was more than the absolute increase in aggregate deposits. The growth in investments, which had somewhat moderated during 2004-05, turned negative during 2005-06 in view of unwinding of Government securities by public sector banks (PSBs) and old private sector banks to meet the high credit demand [Appendix Table III.1(A) to (C)].

Box III.1: Amalgamations in the Commercial Banking Sector

During 2005-06, two domestic banks and one foreign bank were amalgamated, and one foreign bank was closed reducing the number of scheduled commercial banks from 88 at end-March 2005 to 84 at end-March 2006. On the recommendations of the Reserve Bank, the Central Government placed the Ganesh Bank of Kurundwad Ltd. under a moratorium for a period of 3 months effective January 7, 2006 under Section 45 of the Banking Regulation (B. R.) Act, 1949 because the net worth of the bank had turned negative, and it failed to augment its capital for several years. The scheme of amalgamation of the bank with the Federal Bank Ltd. prepared by the Reserve Bank was sanctioned by the Government on January 24, 2006. However, the proposed amalgamation was challenged by Ganesh Bank of Kurundwad Ltd. and others before the High Court of Bombay. Following the Supreme Court order dated August 28, 2006, dismissing the Petition filed by the bank, the Central Government issued necessary notification on September 1, 2006 to effect the merger from September 2, 2006. The voluntary amalgamation of the Bank of Punjab Ltd. with the Centurion Bank Ltd. was approved by the Reserve Bank in terms of Section 44A of the B. R. Act, and became effective from October 1, 2005. The Centurion Bank subsequently changed its name to Centurion Bank of Punjab Ltd. Among foreign banks, while ING Bank NV closed its business in India, UFJ Bank Ltd. merged its banking business globally with Bank of Tokyo-Mitsubishi Ltd. As a result, ING Bank NV and UFJ Bank Ltd. were excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 28, 2005 and January 1, 2006, respectively (details are provided in Section III.8).

Besides two amalgamations of domestic banks in 2005-06, another amalgamation took place in 2006-07 (up to October 31, 2006). The United Western Bank Ltd. (UWB) was placed under moratorium by the Central Government under Sub-section (2) of Section 45 of the B. R. Act, 1949, for a period of three months effective September 2, 2006 because the CRAR of UWB had turned negative. During the period of moratorium, the Reserve Bank received expression of interest from 17 entities. Subsequently, the Government notified the Scheme for amalgamation of United Western Bank Ltd. with Industrial Development Bank of India Ltd., which came into effect on October 3, 2006.

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

(Per cent)

Item	As at end-March									
	2005					2006				
	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	5.8	27.8	7.9	51.0	16.0	†-20.6	25.6	14.2	27.5	-2.7
2. Reserves and Surplus	30.7	8.9	56.4	17.3	31.2	21.7	19.4	55.2	28.2	27.7
3. Deposits	17.0	10.8	21.1	7.7	16.6	†12.9	11.4	50.7	31.7	17.8
3.1. Demand Deposits	15.6	19.2	10.6	19.4	15.4	20.8	15.6	29.3	48.8	24.9
3.2. Savings Bank Deposits	18.0	17.8	32.7	23.4	19.0	19.0	20.2	60.6	21.1	22.0
3.3. Term Deposits	16.9	8.2	21.6	-2.1	15.9	†8.9	8.8	53.9	25.4	14.7
4. Borrowings	207.0	0.9	10.4	23.7	76.2	†24.3	22.5	11.0	30.2	22.0
5. Other Liabilities and Provisions	7.9	10.2	6.5	6.7	7.5	11.9	13.7	34.0	34.3	17.4
Total Liabilities/Assets	**20.6**	**10.6**	**19.4**	**12.7**	**19.3**	**†13.6**	**12.2**	**43.2**	**31.2**	**18.4**
1. Cash and balances with RBI	6.8	13.0	-7.9	-7.1	4.3	†25.3	-0.4	16.1	20.0	22.3
2. Balances with banks and money at call and short notice	13.9	29.2	22.1	18.1	16.4	†14.0	7.3	37.5	64.0	22.1
3. Investments	9.5	-6.0	8.1	3.1	8.1	†-7.6	0.9	41.1	25.0	-0.2
3.1 Government Securities (a+b)	11.3	-1.4	2.3	4.3	9.4	†-8.3	3.0	50.4	23.6	-1.0
a. In India	11.3	-1.4	2.3	4.3	9.4	†-8.5	3.0	50.2	23.6	-1.1
b. Outside India	16.9	-9.3	184.3	0.0	16.9	†15.3	2.6	255.2	0.0	17.7
3.2 Other Approved Securities	-11.8	-24.4	-8.8	25.0	-11.9	†-13.5	-14.7	-60.9	-60.6	-14.4
3.3 Non-Approved Securities	3.9	-18.7	20.9	-1.9	5.0	†-3.0	-5.7	24.1	32.8	4.7
4. Loans and Advances	34.9	22.7	33.0	24.5	33.2	†29.5	21.5	50.2	29.5	31.8
4.1 Bills purchased and discounted	35.6	8.1	53.0	16.4	34.0	†16.4	8.3	-10.4	27.0	12.8
4.2 Cash Credits, Overdrafts, *etc.*	16.3	18.0	35.4	14.8	17.3	†28.5	21.3	64.2	29.1	30.2
4.3 Term Loans	54.5	30.7	30.3	35.9	47.0	†32.2	24.1	54.4	30.4	35.7
5. Fixed Assets	16.6	4.4	-4.2	-3.4	7.7	†9.1	6.8	2.5	27.8	8.7
6. Other Assets	10.9	8.1	18.6	0.5	10.1	†12.8	13.6	31.3	37.8	19.5

Source : Balance sheets of respective banks.

3.5 Bank group-wise, new private sector banks grew at the highest rate during 2005-06 (43.2 per cent), followed by foreign banks (31.2 per cent), public sector banks (13.6 per cent) and old private sector banks (12.2 per cent) (Table III.2). As a result, the relative significance of PSBs declined significantly with their share in total assets of SCBs declining to 72.3 per cent at end-March 2006 from 75.3 per cent at end-March 2005, while that of new private sector banks increasing to 15.1 per cent from 12.5 per cent. This mainly reflected the trend in deposits on the liabilities side (Table III.3).

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

(As at end-March)

(Per cent)

Bank Group	Assets		Deposits		Advances		Investments	
	2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9
Public Sector Banks	75.3	72.3	†78.2	75.0	74.2	72.9	78.9	73.1
Nationalised Banks	45.2	44.3	49.8	48.7	45.5	45.0	46.0	44.2
State Bank Group	26.6	24.8	27.5	25.1	24.7	24.5	30.0	25.9
Other Public Sector Bank	3.5	3.2	0.8	1.2	3.9	3.5	2.9	2.9
Private Sector Banks	18.2	20.4	17.1	19.8	19.2	20.6	16.2	20.8
Old Private Sector Banks	5.7	5.4	6.4	6.0	5.9	5.5	5.1	5.2
New Private Sector Banks	12.5	15.1	10.8	13.8	13.3	15.2	11.0	15.6
Foreign Banks	6.5	7.2	4.7	5.3	6.5	6.4	4.9	6.2
Scheduled Commercial Banks	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : Balance sheets of respective banks.

3.6 Deposits of SCBs increased at a higher rate of 17.8 per cent during 2005-06 compared with 16.6 per cent in the previous year. Demand deposits and savings deposits grew at a significantly higher rate during 2005-06 as compared with the previous year. The growth rate of time deposits, which had moved up somewhat during 2004-05, slipped slightly during 2005-06, reflecting mainly the impact of growing competition from other savings instruments, especially life insurance policies and units of mutual funds. The efforts made by SCBs to raise deposits to fund the increased credit demand led to a significant shortening of the maturity profile of deposits in the banking system (Box III.2).

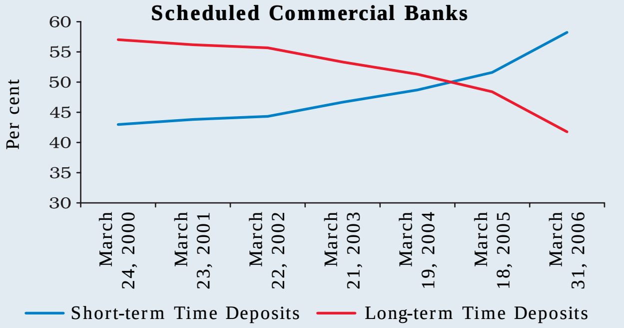
3.7 The issuance of certificates of deposit (CDs) during 2005-06 increased sharply as banks endeavoured to raise funds to meet the increased demand for credit. The amount of CDs

Box III.2: Changing Composition of Deposits of Scheduled Commercial Banks

Deposits of scheduled commercial banks are categorised into demand and time deposits. Demand deposits consist of: (i) current deposits; (ii) demand liability portion of savings bank deposits; (iii) margins held against letters of credit/guarantees; (iv) balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits; (v) outstanding telegraphic transfers, mail transfers and demand drafts; (vi) unclaimed deposits; (vii) credit balances in the cash credit accounts; (viii) demand portion of Participation Certificates (PCs); and (ix) deposits held as security for advances which are payable on demand. Obviously there is no maturity period for demand deposits. On the other hand, time deposits comprise: (i) fixed deposits; (ii) cash certificates; (iii) cumulative and recurring deposits; (iv) time liability portion of savings bank deposits; (v) staff security deposits; (vi) margins held against letters of credit, if not payable on demand; (vii) fixed deposits held as securities for advances; and (viii) time portion of PCs. Time deposits could be further categorised into short-term (time liability portion of savings deposits and term deposits with contractual maturity of up to one year) and long-term deposits (term deposits with contractual maturity above one year).

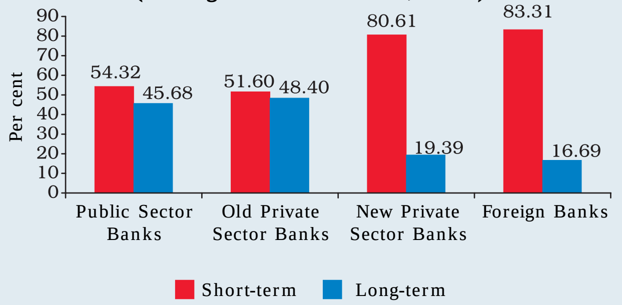
The share of demand deposits increased from 14.7 per cent at end-March 2001 to 17.0 per cent at end-March 2006[3], while that of time deposits declined from 85.2 per cent to 83.0 per cent during the same period. However, more significant changes were observed in the components of time deposits. The share of short-term deposits in the total time deposits increased sharply from 43.8 per cent at end-March 2000 to 58.2 at end-March 2006, and that of long-term deposits declined correspondingly (Chart 1).

Chart 1: Composition of Time Deposits of Scheduled Commercial Banks



The share of short-term deposits in time deposits as on the last reporting Friday of June 2006, was the highest for foreign banks (83.3 per cent), followed by new private sector banks (80.6 per cent), public sector banks (54.3 per cent) and old private sector banks (51.6 per cent) (Chart 2).

Chart 2: Bank Group-wise Composition of Time Deposits (Fortnight ended June 23, 2006)



The increased preference for short-term deposits could be attributed to low returns on long-term deposits. This is evident from the spread between short-term and long-term deposits, which narrowed down to 75 basis points at end-March 2006 from 100 basis points at end-March 2005 before widening a little by June 2006. In view of low spread, investors prefer short-term deposits, despite low returns, while waiting for investment opportunities with higher returns.

Banks on the other hand, prefer short-term deposits. With low short-term interest rates, banks are able to mobilise resources at lower cost. This enables banks in a competitive environment to lend at lower cost to well-rated business firms to contain defaults on their loans. In the Indian context, it is observed that foreign and private sector banks have relatively high share of low cost deposits. Incidentally, these bank groups also have high profit margin and low NPA levels.

Reference:

Reserve Bank of India (1998), *Report of the Working Group on Money Supply: Analytics and Methodology of Compilation* (Chairman: Y.V. Reddy).

[3] Percentages presented are based on the last reporting Friday of the respective month and year, as reported under Section 42 (2) of the Reserve Bank of India Act, 1934.

outstanding increased from Rs.12,078 crore at end-March 2005 to Rs.43,568 crore by end-March 2006 and further to Rs.63,864 crore (September 15, 2006). The CDs outstanding constituted 2.0 per cent of aggregate deposits of SCBs at end-March 2006 compared with 0.7 per cent a year ago. Private sector banks were the major issuers of CDs, followed by foreign banks. In particular, banks with limited branch network and limited retail customer base have been resorting increasingly to issuance of CDs (Appendix Table III.2).

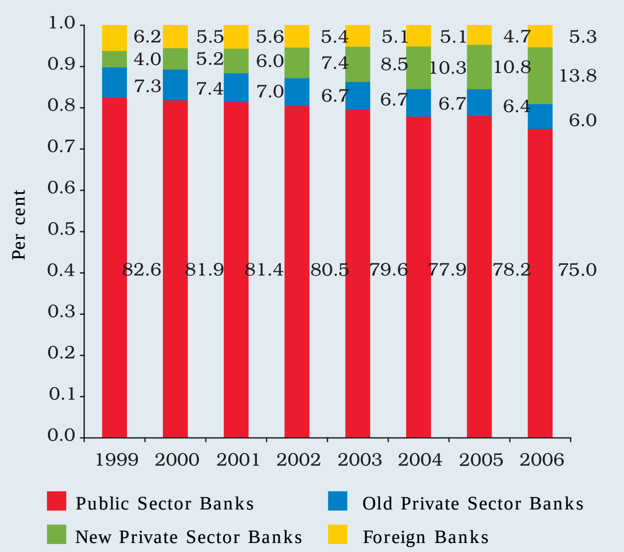
3.8 Reflecting the impact of India Millennium Deposits (IMDs) redemption (US $ 7.1 billion or Rs.31,959 crore) in December 2005, banksí non-resident foreign currency deposits declined by 22.2 per cent during 2005-06 as against a moderate increase of 1.1 per cent during 2004-05.

3.9 Bank group-wise, deposits of new private sector banks grew at the highest rate (50.7 per cent), followed by foreign banks (31.7 per cent), PSBs (12.9 per cent) and old private sector banks (11.4 per cent). The share of new private sector banks in total deposits has been rising gradually, while that of PSBs has been declining over the years (Chart III.1).

Non-Deposit Resources

3.10 In order to meet high credit demand and strengthen the capital base, eleven banks accessed the equity market to raise Rs.11,067 crore. Banks also raised Rs.30,151 crore from 97 issues in the

Chart III.1: Share in Aggregate Deposits ñ Bank Group-wise
(As at end-March)



private placement market as compared with Rs.15,219 crore through 87 issues in the previous year (refer section 6 for details).

International Liabilities of Banks

3.11 The international liabilities of banks increased sharply by 20.2 per cent during 2005-06 as against 15.5 per cent in 2004-05 mainly due to a sharp increase in foreign currency borrowings, FCNR(B) deposits, NRE rupee deposits, equities of banks held by non-residents and issuance of ADRs/GDRs (Table III.4). Continuing the trend of last few years, the relative significance of foreign currency deposits declined further during 2005-06, while that of foreign currency borrowings increased (Chart III.2). As redemption of IMDs in December 2005 outweighed a sharp increase in holding of equities of banks by non-residents which boosted

Table III.4: International Liabilities of Banks ñ By Type

(Amount in Rs. crore)

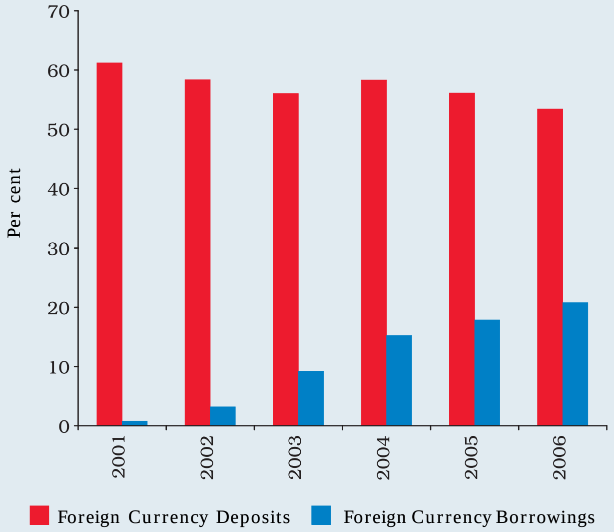
Liability Type	As at end-March		
	2004	2005	2006
1	2	3	4
1. Deposits and Loans	1,78,994 (81.1)	2,03,154 (79.7)	2,46,246 (80.3)
of which:			
a) Foreign Currency Non-Resident Bank [FCNR(B)]	45,386 (20.6)	50,796 (19.9)	58,110 (19.0)
b) Foreign currency Borrowings *	33,598 (15.2)	45,539 (17.9)	63,722 (20.8)
c) Non-resident External Rupee (NRE) A/C	75,938 (34.4)	85,811 (33.7)	1,00,310 (32.7)
d) Non-Resident Ordinary (NRO) Rupee Deposits	4,059 (1.8)	6,393 (2.5)	5,449 (1.8)
2. Own Issues of Securities/Bonds (including IMD/RIBs)	27,720 (12.6)	29,235 (11.5)	4,856 (1.6)
3. Other Liabilities *of which:*	14,017 (6.4)	22,609 (8.9)	55,506 (18.1)
a) ADRs/GDRs	6,396 (2.9)	9,910 (3.9)	14,835 (4.8)
b) Equities of banks held by non-residents	1,379 (0.6)	3,230 (1.3)	28,438 (9.3)
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	6,242 (2.8)	9,469 (3.7)	12,233 (4.0)
Total International Liabilities (1+2+3)	**2,20,730 (100.0)**	**2,54,999 (100.0)**	**3,06,609 (100.0)**

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

Note : Figures in brackets are percentages to total.

Source: Locational Banking Statistics.

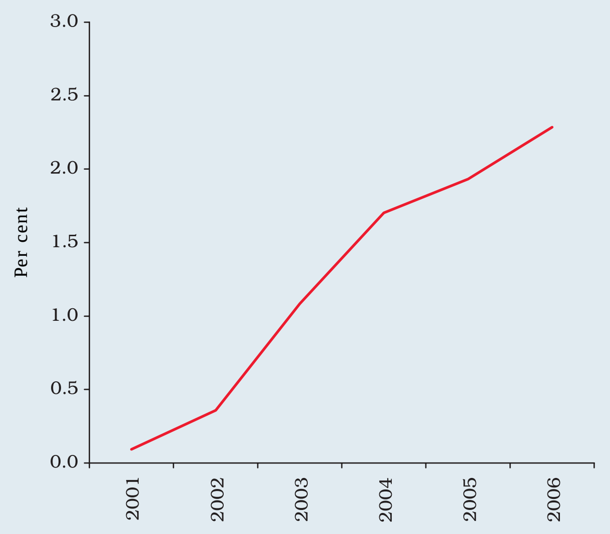
Chart III.2: Foreign Currency Deposits and Borrowings in International Liabilities of Banks
(As at end-March)



the share of ëother liabilitiesí, there was a decline in the share of ëown issues of securities/bondsí during 2005-06.

3.12 In recent years, external (international) sources of funds in banks' operations has been increasing, suggesting growing integration of the Indian banking sector with the international capital markets. This was reflected in the increase in the share of international liabilities of SCBs in total liabilities (Chart III.3).

Chart III.3: Foreign Currency Liabilities to Total Liabilities of SCBs
(As at end-March)



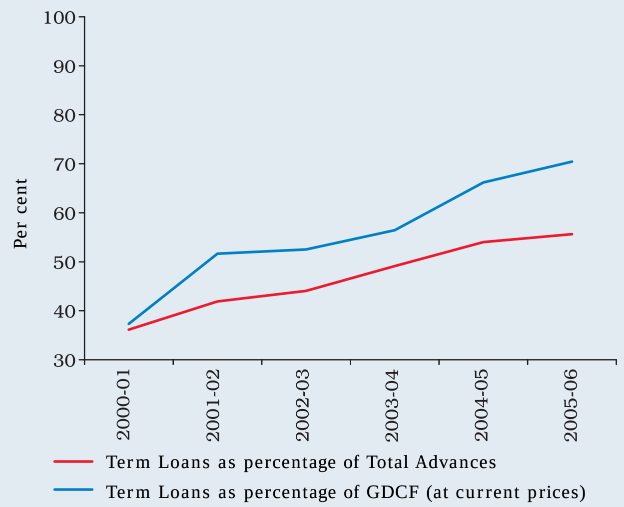
Bank Credit

3.13 Loans and advances of SCBs registered a robust growth of 31.8 per cent during 2005-06 on top of the high growth of 33.2 per cent in 2004-05 (Box III.3). Among the major components of bank credit, while bills purchased and discounted grew at a lower rate in 2005-06 as compared with the previous year, cash credit and overdrafts registered a robust growth. Term loans, which constitute the largest component of advances, grew sharply by 35.7 per cent during the year, the trend which was observed in previous years as well. As a result, the share of term loans in both total advances and gross domestic capital formation (GDCF) has increased significantly in recent years (Chart III.4).

Sectoral Deployment of Gross Bank Credit

3.14 Non-food bank credit increased sharply during 2005-06. The credit growth was broad based. Credit to services (including personal loans and other services) increased by 52.8 per cent in 2005-06, accounting for 58.3 per cent of incremental non-food gross bank credit (NFGBC). Personal loans increased sharply in 2005-06 mainly on account of housing loans. Real estate loans more than doubled during the year (Table III.5; Appendix Table III.3). Other personal loans such as credit card outstanding and education loans also recorded sharp increases of 59.3 per cent and 96.5 per cent, respectively.

Chart III.4: Term Loans and Capital Formation



Note: 1. GDCF for 2005-06 has been computed by applying average investment rate of 27.5 per cent estimated for the Tenth Plan (2002-07).
2. GDCF computed with base year 1999-2000.

Box III.3: Analysis of Credit Growth

The bank lending has expanded in a number of emerging market economies, especially in Asia and Latin America, in recent years. Bank credit to the private sector, in real terms, was rising at a rate between 10 and 40 per cent in a number of countries by 2005 (BIS, 2006). Several factors have contributed to the significant rise in bank lending in emerging economies such as strong growth, excess liquidity in banking systems reflecting easier global and domestic monetary conditions, and substantial bank restructuring. The recent surge in bank lending has been associated with important changes on the asset side of banksí balance sheet. First, credit to the business sector - historically the most important component of banksí assets - has been weak, while the share of the household sector has increased sharply in several countries. Second, banksí investments in Government securities increased sharply until 2004-05. As a result, commercial banks continue to hold a very large part of their domestic assets in the form of Government securities - a process that seems to have begun in the mid-1990s.

There has been a sharp pick up in bank credit in India in recent years. The rate of growth in bank credit which touched a low of 14.4 per cent in 2002-03, accelerated to more than 30.0 per cent in 2004-05, the rate which was maintained in 2005-06 (Chart 1). The upturn in the growth rate of bank credit can be attributed to several factors. One, macroeconomic performance of the economy turned robust with GDP growth rates hovering between 7.5 per cent and 8.5 per cent during the last three years. Two, the hardening of sovereign yields from the second half of 2003-04 forced banks to readjust their assets portfolio by shifting from investments to advances. While the share of gross advances in total assets of commercial banks grew from 45.0 per cent to 54.7 per cent, that of investments declined from 41.6 per cent to 32.1 per cent in the last two years.

However, the credit growth has been broad-based making banks less vulnerable to credit concentration risk. The declining trend of priority sector loans in 2001-02 in the credit book of banks was due to prudential write offs and compromise settlements of a large number of small accounts which was reversed from 2002-03 on the strength of a spurt in the housing loan portfolio of banks (Chart 2). Even though credit to industry and other sectors has also picked up, their share in total loans has declined marginally.

Retail loans, which witnessed a growth of over 40.0 per cent in 2004-05 and again in 2005-06, have been the prime driver of the credit growth in recent years. Retail loans as a percentage of gross advances increased from 22.0 per cent in March 2004 to 25.5 per cent in March 2006 (Chart 3). Of the components of retail credit, the growth in housing loans was 50.0 per cent in 2004-05 and 34.0 per cent in 2005-06. Banksí direct exposure to commercial real estate also more than doubled in the last financial year.

The cyclical uptrend in the economy along with the concomitant recovery in the business climate brings with it improved abilities of the debtors to service loans, thereby greatly improving banksí asset quality. Despite the sharp rise in credit growth in recent years, not only the proportional levels of gross non-performing loans (NPLs) have declined, but the absolute levels of gross NPLs declined significantly. Several factors have contributed to the marked improvement in the Indian banksí asset quality. One, banks have gradually improved their risk management practices and introduced more vigorous systems and scoring models for identifying credit risks. Two, a favourable macroeconomic environment in recent years has also meant that many entities and units of traditionally problematic industries are now performing better. Three, diversification of credit base with increased focus on retail loans, which generally have low delinquency rates, has also contributed to the more favourable credit risk profile. Four, several institutional measures have been put in place to recover the NPAs. These include Debt Recovery Tribunals (DRTs), *Lok Adalats* (peopleís courts), Asset Reconstruction Companies (ARCs) and corporate debt restructuring mechanism (CDRM). In particular, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 for enforcement of security interest without intervention of the courts has provided more negotiating power to the banks for resolving bad debts.

Chart 1: Bank Credit and Investments of Banks

(As at end-March)

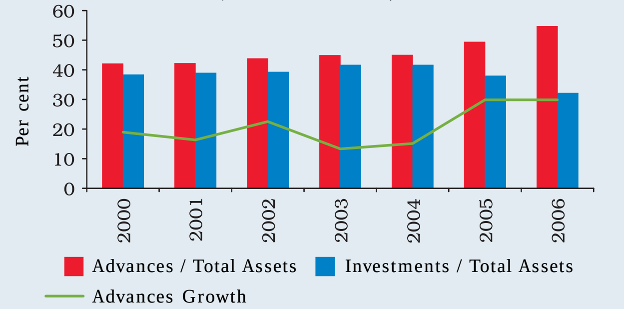


Chart 2: Share of Priority Sector Advances in Total Credit

(As at end-March)

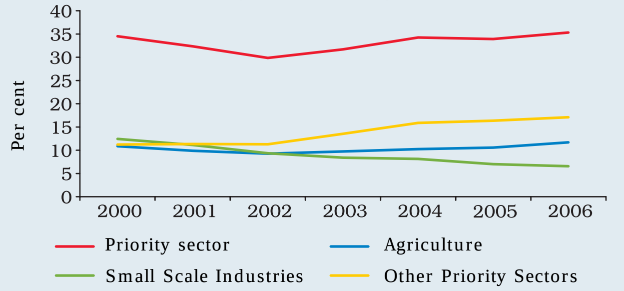
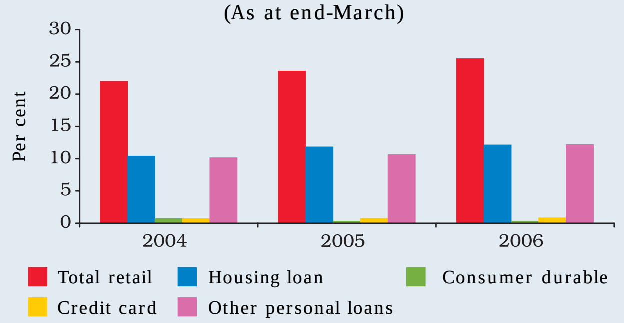


Chart 3: Share of Retail Loans in Total Loans

(As at end-March)



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Liping, H. and F. Gang (2002), ëConsumer Finance in China: Recent Development Trendsí, China and World Economy.

3.15 Based on the provisional data available, bank credit to the retail sector increased by 47.2 per cent at end-June 2006 (year-on-year) with housing loans increasing by 54.3 per cent. Credit to real estate recorded an annualised growth of 102.4 per cent. Growth in credit to agriculture and industry was 36.8 per cent and 26.6 per cent, respectively.

Priority Sector Advances

3.16 Credit to the priority sector increased by 33.7 per cent in 2005-06 as against 40.3 per cent in the previous year. The agriculture and housing sectors were the major beneficiaries, which together accounted for more than two-third of incremental priority sector lending in 2005-06. Credit to small scale industries also accelerated (Table III.6). Several favourable policy initiatives undertaken by the Central Government and the Reserve Bank including, *inter alia*, the policy package for stepping up of credit to small and medium enterprises (SMEs) announced on August 10, 2005, have had a positive impact.

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

(Variations over the year)

(Amount in Rs. crore)

Sector	2004-05		2005-06	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture and Allied Activities	**31,774**	**35.1**	**47,042**	**37.6**
2. Industry (Small, Medium and Large)	**62,014**	**19.8**	**1,22,165**	**28.6**
Of which: SSI	8,051	12.2	15,651	21.0
3. Personal Loans	**N.A.**	**N.A.**	**1,08,697**	**44.4**
Of which: Housing	N.A.	N.A.	57,701	44.8
4. Other Services	**94,281**	**29.0**	**1,27,454**	**62.9**
Of which:				
Wholesale trade	6,561	26.4	7,157	22.0
Real Estate	7,622	136.7	13,380	100.6
Non-Banking Financial Companies	2,501	14.9	8,458	37.6
Total Non-Food Gross Bank Credit (1 to 4)	**1,88,069**	**25.8**	**4,05,358**	**40.5**
Of which, Priority Sector	1,06,235	40.3	1,28,434	33.7

N.A. : Not available.

Note: 1. Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks.
2. Due to reclassification of sectors and increase in coverage of banks, data for 2004-05 (47 banks) are strictly not comparable with those of 2005-06 (52 banks).

Table III.6: Credit to the Priority Sector

(Amount in Rs. crore)

Category	Outstanding as on			
	March 21, 2003	March 19, 2004	March 18, 2005	March 31, 2006
1	2	3	4	5
Priority Sector (a+b+c)	**2,11,609 (20.7)**	**2,63,834 (24.7)**	**3,81,476 (40.3)**	**5,09,910 (33.7)**
a) Agriculture	73,518 (21.0)	90,541 (23.2)	1,25,250 (35.1)	1,72,292 (37.6)
b) Small Scale Industries	60,394 (5.6)	65,855 (9.0)	74,588 (12.2)	90,239 (21.0)
c) Other Priority Sectors	77,697 (35.6)	1,07,438 (38.3)	1,81,638 (61.8)	2,47,379 (36.2)

Note : 1. Figures in brackets are annual growth rates in per cent.
2. Due to reclassification of sectors and increase in coverage of banks, data for 2004-05 (47 banks) are not strictly comparable to those of 2005-06 (52 banks).

3.17 The outstanding advances of PSBs to priority sector increased by 33.7 per cent during 2005-06. The PSBs, as a group, achieved the priority sector target of 40.0 per cent of net bank credit (NBC) as on the last reporting Friday of March 2006. However, the sub-targets of 18.0 per cent and 10.0 per cent of NBC for credit to agriculture sector and the weaker sections, respectively, were not met (Table III.7 and Appendix Table III.4 and III.5). At the individual bank-level, all the nationalised banks, and all but

Table III.7: Priority Sector Lending by Public and Private Sector Banks

(As on the last reporting Friday of March)

(Amount in Rs. crore)

Item	Public Sector Banks		Private Sector Banks	
	2005	2006@	2005	2006@
1	2	3	4	5
Priority Sector Advances	**3,07,046 (42.8)**	**4,10,379 (40.3)**	**69,886 (43.6)**	**1,06,566 (42.8)**
of which:				
Agriculture	1,09,917 (15.3)	1,54,900 (15.2)	21,636 (13.5)	36,185 (13.5)
Small-scale Industries	67,800 (9.5)	82,492 (8.1)	8,592 (5.4)	10,447 (4.2)
Other Priority Sector	1,25,114 (17.4)	1,64,473 (16.2)	38,797 (24.2)	58,243 (23.4)

@: Provisional.

Note: (i) Figures in brackets represent percentages to net bank credit for the respective groups.
(ii) Indirect agriculture is reckoned up to 4.5 per cent of net bank credit for calculation of percentage of agriculture.

two of the State Bank group (State Bank of India and State Bank of Patiala) were able to meet the priority sector target of 40 per cent of NBC. However, only ten PSBs (Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, State Bank of Bikaner and Jaipur, State Bank of Indore and State Bank of Saurashtra) were able to achieve the sub-targets for agriculture, while the sub-target for weaker sections was met by eight PSBs (Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank and State Bank of Patiala).

3.18 Total priority sector advances extended by private sector banks increased sharply by 52.5 per cent during 2005-06. As on the last reporting Friday of March 2006, the credit to the priority sector by private sector banks accounted for 42.8 per cent of net bank credit ñ well above the stipulated target level (Table III.7). While advances to agriculture by private sector banks registered a sharp increase of 67.2 per cent in 2005-06, in relation to NBC, it still fell short of the sub-target of 18 per cent. None of the private sector banks could meet the sub-targets for agriculture and weaker sections, barring one (Ganesh Bank of Kurundwad). Loans to ëother priority sectorí increased by 50.1 per cent and to SSIs by 21.6 per cent, respectively, during 2005-06. In the case of private sector banks, the share of ëother priority sectorí was the highest at 36.4 per cent of NBC, followed by advances to agriculture and small scale industries (Appendix Table III.6 and III.7).

3.19 Lending to the priority sector by foreign banks constituted 34.6 per cent of net bank credit as on the last reporting Friday of March 2006, which was well above the stipulated target of 32 per cent. The share of export credit in total net bank credit at 19.4 per cent was significantly above the prescribed sub-target of 12.0 per cent. Foreign banks, however, fell a little short of the sub-target of 10.0 per cent in respect of lending to SSIs (Table III.8).

Special Agricultural Credit Plans

3.20 The Reserve Bank had advised public sector banks to prepare Special Agricultural Credit Plans (SACP) on an annual basis in 1994. The SACP mechanism for private sector banks was made applicable from 2005-06, 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 for 2004-05. Public sector banks were advised to make efforts to increase their disbursements to small and marginal farmers to 40.0 per cent of their direct advances under SACP by March 2007. The disbursement to agriculture under SACP by public sector banks aggregated Rs.94,278 crore during 2005-06, which was much above the target of Rs.85,024 crore and the disbursement of Rs.65,218 crore during 2004-05. The disbursement by private sector banks during 2005-06 at Rs.31,119 crore was above the target of Rs.24,222 crore.

3.21 Public sector banks were advised to earmark 5.0 per cent of their net bank credit to women. At end-March 2006, aggregate credit to women by public sector banks stood at 5.37 per

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

(Amount in Rs. crore)

Sector	2004		2005		2006@	
	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 #	**17,960**	**34.1**	**23,843**	**35.3**	**30,449**	**34.6**
of which:						
Export credit	9,760	18.5	12,339	18.3	17,102	19.4
Small-scale industries	5,307	10.1	6,907	10.2	8,446	9.6

@ : Provisional.
# : Inclusive of advances for setting up industrial estates, loans to software industries, food and agro-processing sector, self-help groups and venture capital.

cent of their net bank credit with 22 banks achieving the target. A consortium of select public sector banks was formed, with the State Bank of India as the leader of the consortium, 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.322 crore was outstanding at end-July 2006 out of Rs.738 crore disbursed by the consortium under the scheme.

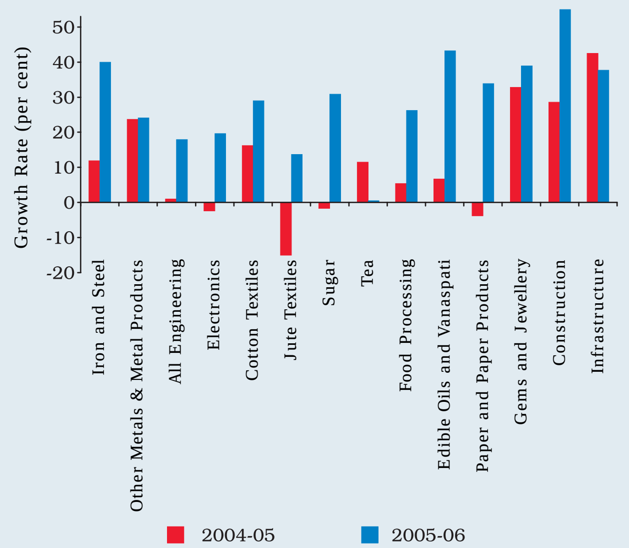
Micro-finance

3.22 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 countryís population do not have access to banking services. Expanding the outreach of banking services has, therefore, been a major thrust area of the policy of the Government of India and the Reserve Bank in recent years. The cumulative number of SHGs, with the credit linkages by banks increased to 2.24 million as on March 31, 2006 from 1.62 million as on March 31, 2005. Loans extended by banks grew by 65.2 per cent to Rs.11,398 crore at end-March 2006. The number of poor families, thus, benefiting through SHGs increased by 35.4 per cent to over 32.9 million as on March 31, 2006 (see Chapter IV).

Credit to Industry

3.23 Credit to industry (small, medium and large) exhibited a higher growth in 2005-06 as compared with the previous year. However, the share of outstanding credit to industry in non-food gross bank credit declined to 39.1 per cent in March 2006 from 42.7 per cent in March 2005 due to higher increase in the overall credit. Infrastructure accounted for the largest share (24.4 per cent) of incremental total bank credit to industry, followed by basic metals and metal products (14.1 per cent) and textiles (11.2 per cent) (Appendix Table III.8). Power (within infrastructure structure) and iron and steel (within metal and metal products industry) accounted for the largest increase. The other major industries to which flow of bank credit increased were cotton textiles, food processing, construction, gems and jewellery, and engineering (Chart III.5).

Chart III.5: Industry-wise Deployment of Gross Bank Credit



Retail Credit

3.24 Continuing the strong growth in recent years, retail advances increased by 40.9 per cent to Rs.3,75,739 crore in 2005-06, which was significantly higher than the overall credit growth of 31.0 per cent. As a result, their share in total loans and advances increased during the year. Auto loans experienced the highest growth, followed by credit card receivables, other personal loans (comprising loans mainly to professionals and for educational purposes) and housing finance. Loans for consumer durables increased by 17.3 per cent as against the decline of 39.1 per cent in the previous year (Table III.9).

Table III.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation
	2005	2006	
1	2	3	4
1. Housing Loans	1,34,276	1,79,116	33.4
2. Consumer Durables	3,810	4,469	17.3
3. Credit Card Receivables	8,405	12,434	47.9
4. Auto Loans	35,043	61,369	75.1
5. Other Personal Loans	85,077	1,18,351	39.1
Total Retail Loans (1+2+3+4+5)	**2,66,610 (23.7)**	**3,75,739 (25.5)**	**40.9**
Total Loans and Advances of SCBs	**11,25,056**	**14,73,723**	**31.0**

Note : Figures within brackets represent percentage share in total loans and advances.

Source : Off-site Returns.

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

(Amount in Rs. crore)

Sector	2005	Per cent to Total	2006	Per cent to Total
1	2	3	4	5
1. Capital Market	15,860	9.83	22,077	7.7
†	(265.80)	†	(39.2)	†
2. Real Estate Market	1,45,605	88.71	2,60,223	90.77
	(820.71)	†	(81.78)	†
3. Commodities	2,366	1.47	4,391	1.53
	(-74.69)	†	(85.56)	†
Total (1+2+3)	**1,63,831**	**100.0**	**2,86,691**	**100.0**
	(452.06)	†	**(77.65)**	†

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

Lending to the Sensitive Sectors

3.25 Lending by SCBs to the sensitive sectors (capital market, real estate and commodities) increased sharply during 2005-06 mainly on account of a sharp increase in exposure to the real estate market (Table III.10). Total exposure of SCBs to the sensitive sectors consituted 18.9 per cent of aggregate bank loans and advances (comprising 17.2 per cent to real estate, 1.5 per cent to the capital market and 0.3 per cent to the commodities sector).

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

Investments

3.27 Investments by banks comprise two broad categories, *viz.*, SLR investments (comprising Government and other approved securities which are eligible for being reckoned for maintaining the statutory liquidity ratio) and non-SLR investments (comprising commercial paper, shares, bonds and debentures issued by the corporate sector). Almost four-fifths of the investments of banks are in the SLR securities. During 2005-06, overall investments of SCBs declined marginally by 0.3 per cent, as against the increase of 8.1 per cent in the previous year, mainly due to decline in SLR investments.

3.28 Banks are required to maintain statutory liquidity ratio (SLR) of 25 per cent of the net demand and time liabilities (NDTL) in Government and other approved securities from October 1997. However, SCBs have been investing in Government and other approved securities much in excess of the statutory stipulation since the mid-1990s. Such investments reached an all-time high of 42.7 per cent of NDTL on April 16, 2004. However, in the wake of increased credit demand, banks have been gradually readjusting their SLR portfolio in the last two years (Box III.5). For the first time since the nationalisation of banks in 1969, investment by SCBs in SLR securities in absolute terms declined by Rs.21,699 crore during 2005-06 in contrast to an increase of Rs.61,566 crore in 2004-05 (Chart III.6).

Non-SLR Investments

3.29 Banksí investments in non-SLR securities also declined by 9.4 per cent (Rs.13,824 crore) as compared with an increase of 4.1 per cent

Table III.11: Lending to the Sensitive Sectors ñ Bank Group-wise*

(Per cent)

Sector	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Banks	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8	9
Capital Market#	1.1	1.2	2.2	2.3	1.1	1.3	3.1	2.3
Real Estate Market@	9.1	14.2	28.4	28.8	12.7	14.5	21.5	25.6
Commodities	0.1	0.1	0.7	1.3	0.1	0.2	0.0	0.0
Total Advances to Sensitive Sectors	**10.3**	**15.5**	**31.3**	**32.4**	**14.0**	**16.0**	**24.6**	**27.9**

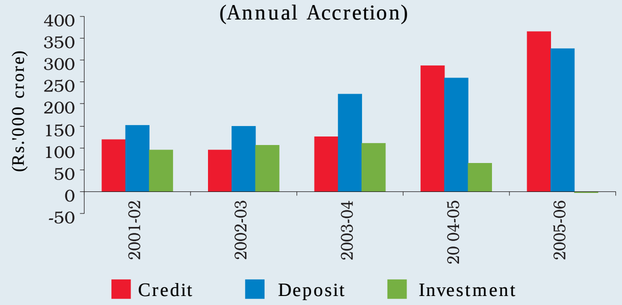
* : Advances to sensitive sector as percentage to total loans and advances of the concerned bank group.
# : Exposure to capital market is inclusive of both investments and advances.
@ : Exposure to real estate sector is inclusive of both direct and indirect lending.

Box III.4: Changing Investment Portfolio of Banks

Banks are required to invest a prescribed minimum of their net demand and time liabilities in Government and other approved securities, as per the BR Act, 1949. As a part of the financial sector reforms, the SLR requirement for the banks was gradually reduced to 25 per cent by October 1997 from its peak of 38.5 per cent in February 1992. However, even after major reduction in SLR stipulations, banks maintained an average SLR investments of 37.3 per cent of the net demand and time liabilities during the period 1998-99 to 2002-03. The reduced demand for credit on account of slowdown of industrial sector, which was undergoing a phase of restructuring, forced banks to park their funds in Government securities. In the declining interest rate scenario, such investments became particularly attractive for banks due to their high yield. Incidentally, the period of low demand for credit coincided with the period when banks were making efforts to raise their capital levels and reduce the levels of NPAs. The application of capital adequacy norms, which required banks to maintain 8 per cent of their risk-weighted assets as capital from March 31, 1996, and the pressure to bring down their NPA levels made banks somewhat risk averse. As such investments in Government and other approved securities, which attracted zero-risk weights, became the preferred form of investments by banks.

The period 1998-99 to 2002-03 was followed by a period of high economic growth and a sharp pick-up in credit. From 2003-04 onwards, however, banks faced increased competition from other saving instruments and the growth of aggregate deposits slowed down to 15.4 per cent in 2004-05 from 16.4 per cent in 2003-04 caused primarily by term deposits. During this period, sovereign yield hardened significantly. The combination of these factors led to a significant adjustment in the investment portfolio of banks. Banks endeavoured to meet the increased credit demand by restricting fresh investments in Government securities (2004-05) and then liquidating Government securities (2005-06). A more or less similar trend was observed in respect of non-SLR investments. Increased access to the capital market and recourse to non-deposit resources eased the pressure for the banks only to an extent (Chart 1).

Chart 1: Credit, Investment and Deposits of Scheduled Commercial Banks
(Annual Accretion)



References:

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Ramasastri, A. S and N. K. Unnikrishnan (2006), ëIs the Role of Banks as Financial Intermediaries Decreasing? A Helicopter Touri, *Economic and Political Weekly*, Vol XLI, No.11, March.

(Rs.5,700 crore) in the previous year (Table III.12). While investments in bonds/debentures declined sharply, those in shares and commercial paper increased. The total flow of funds from SCBs to

Chart III.6: Investment in SLR Securities by Scheduled Commercial Banks

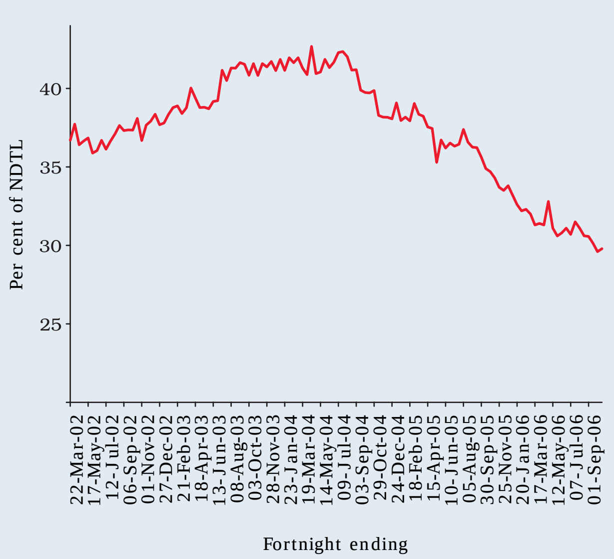


Table III.12: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Sector	March 18, 2005	Per cent to Total	March 17, 2006	Per cent to Total
1	2	3	4	5
1. Commercial Paper	3,944	2.7	4,166	3.1
2. Investment in shares	13,795	9.4	15,496	11.7
of which:				
a) Public sector undertakings	1,886	1.3	2,274	1.7
b) Private corporate sector	10,289	7.0	10,501	7.9
3. Investments in bonds/ debentures	1,15,894	79.2	1,05,452	79.6
of which:				
a) Public sector undertakings	46,939	32.1	33,724	25.4
b) Private corporate sector	31,994	21.9	31,236	23.6
4. Units of Mututal Funds	12,744	8.7	7,439	5.6
Total Non-SLR Investment (1+2+3+4)	**1,46,377**	**100.0**	**1,32,553**	**100.0**

Note : Data exclude RRBs.
Source : Section 42 (2) returns submitted by SCBs.

Table III.13: Composition of Non-SLR Investments

(Per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7
Commercial Paper	7.3	7.2	3.1	2.7	2.7	3.1
Bonds/debentures	80.3	81.7	84.2	81.5	79.2	79.6
Shares	6.0	6.6	7.9	7.3	9.4	11.7
Units of Mutual Funds	6.3	4.5	4.9	8.5	8.7	5.6

Note : Data excludes RRBs.
Source : Section 42(2) returns submitted by SCBs.

the commercial sector, including non-SLR investments, increased by 28.3 per cent (Rs.3,40,573 crore) compared with 29.0 per cent (Rs.2,59,259 crore) in the last year.

3.30 A part of non-SLR portfolios was also used to fund the strong demand for credit. Among the major heads of non-SLR portfolio, reduction was significant in fixed income instruments such as bonds and debentures of public sector undertakings and units of mutual funds. Investments in shares, however, increased significantly. This was reflected in the composition of non-SLR investments (Table III.13).

International Assets of the Banking System

3.31 Increased demand for credit was also reflected in high growth of foreign currency loans to residents and outstanding export bills drawn on non-residents by residents. The share of ënostro balancesí in total international assets increased by 1.3 percentage points during 2005-06 as compared with a decline by 7.1 percentage points during 2004-05. (Table III.14).

3.32 The consolidated international claims of banks rose by 24.9 per cent during 2005-06 as against the decline of 5.0 per cent during 2004-05. Reversing the trend of the previous year, the

Table III.14: International Assets of Banks ñ By Type
(As at end-March)

(Amount in Rs. crore)

Asset	2004	2005	2006
1	2	3	4
International Assets (1+2+3)	**1,15,765**	**1,33,237**	**1,58,201**
1. Loans and Deposits	1,08,527	1,24,582	1,46,014
of which	(93.7)	(93.5)	(92.3)
a) Loans to Non-Residents*	4,281	4,103	6,270
	(3.7)	(3.1)	(4.0)
b) Foreign Currency Loans to Residents **	44,079	58,092	63,231
	(38.1)	(43.6)	(40.0)
c) Outstanding Export Bills drawn on Non-Residents by Residents	20,609	26,171	31,556
	(17.8)	(19.6)	(19.9)
d) Nostro Balances@	39,282	35,673	44,515
	(33.9)	(26.8)	(28.1)
2. Holdings of Debt Securities	858	979	2,079
	(0.7)	(0.7)	(1.3)
3. Other Assets @@	6,380	7,676	10,109
	(5.5)	(5.8)	(6.4)

* : Includes Rupee loans and foreign currency (FC) loans out of non-residents (NR) deposits.
** : Includes loans out of FCNR (B) deposits, PCFCís, FC lending to and FC deposits with banks in India.
@ : Includes placements made abroad and balances in term deposits with NR banks.
@@ : Capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified international assets.
Note : Figures in brackets are percentages to total.
Source : Locational Banking Statistics.

share of short-term claims (with residual maturity less than one year) in the consolidated international claims declined during 2005-06, while that of long-term claims increased more or less correspondingly.

3.33 Sector-wise classification of the international claims of banks indicated, by and large, the pattern of the previous year. The reporting banks preferred to invest/lend largest amount to ënon-bank privateí sector, followed by the bank sector (Table III.15).

Table III.15: Classification of Consolidated International Claims of Banks ñ By Maturity and Sector
(As at end-March)

(Amount in Rs. crore)

Residual Maturity/Sector	2004	2005	2006
1	2	3	4
Total Consolidated International Claims	**78,124**	**74,238**	**92,711**
a) Maturity-wise			
1) Short-term (residual maturity less than one year)	58,677 (75.1)	61,113 (82.3)	73,176 (78.9)
2) Long Term (residual maturity of one year and above)	17,820 (22.8)	11,951 (16.1)	18,627 (20.1)
3) Unallocated	1,627 (2.1)	1,174 (1.6)	907 (1.0)
b) Sector-wise			
1) Bank	43,057 (55.1)	34,301 (46.2)	43,050 (46.4)
2) Non Bank Public	1,520 (1.9)	1,145 (1.5)	1,248 (1.3)
3) Non Bank Private	33,547 (42.9)	38,792 (52.3)	48,413 (52.2)

Note : 1. Figures in brackets are percentages to total.
2. Unallocated residual maturity comprises maturity not applicable (*e.g.*, for equities) and maturity information not available from reporting bank branches.
3. Bank sector includes official monetary institutions (*e.g.*, IFC, ECB, *etc.*) and central banks.
4. Prior to the quarter ended March 2005, ënon-bank publicí sector comprised of companies/institutions other than banks in which shareholding of state/central governments was at least 51 per cent, including state/central governments and their departments. From March 2005 quarter, ënon-bank publicí sector comprises only state/central governments and their departments and, accordingly, all other entities excluding banks are classified under ënon-bank privateí sector.

Source: Consolidated Banking Statistics ñ Immediate Country Risk Basis.

3.34 The consolidated international claims of banks based on immediate country risk, underwent some change during the year. While the share of claims of banks on the US and Hong Kong declined significantly, those on the U.K. increased. As at end-March 2006 the US, the UK, Hong Kong, Germany and Singapore together accounted for 57.0 per cent of total consolidated international claims (Table III.16).

Quarterly Trends - Commercial Banking Survey[4]

3.35 As the reporting Fridays for end-September and end-March during 2005-06 fell on September 30, 2005 and March 31, 2006 (coinciding with half-yearly and annual closing, respectively), the second and fourth quarters witnessed sharp increases in deposits and credit aggregates *vis-a-vis* the other quarters as well as the corresponding quarters of the previous year.

3.36 During Q1 of 2005-06, credit expansion was more than fresh accretion to deposits due mainly to a sharp decline in demand deposits. To meet the gap, banks liquidated their SLR and non-SLR investments. Banks also liquidated foreign currency assets. A sharp increase in capital account also enabled banks to meet the increased credit demand.

Table III.16: Consolidated International Claims of Banks on Countries other than India
(As at end-March)

(Amount in Rs. crore)

	2004	2005	2006
1	2	3	4
Total Consolidated International Claims	**78,124**	**74,238**	**92,711**
Of which:			
a) United States of America	19,915 (25.5)	22,348 (30.1)	23,176 (25.0)
b) United Kingdom	9,879 (12.6)	7,608 (10.2)	14,212 (15.3)
c) Hong Kong	12,353 (15.8)	7,389 (10.0)	6,652 (7.2)
d) Germany	4,593 (5.9)	3,607 (4.9)	4,678 (5.0)
e) Singapore	3,729 (4.8)	3,510 (4.7)	4,182 (4.5)

Note : Figures in brackets are percentage share in total international claims.

Source : Consolidated Banking Statistics ñ Immediate Country Risk Basis.

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

3.37 In Q2, net accretion to deposits was quite large as also the expansion of credit to the commercial sector. However, net accretion to aggregate deposits exceeded the credit to the commercial sector. Banks, therefore, increased their investment in government securities.

3.38 In Q3, accretion to aggregate deposits and credit offtake declined sharply. However, credit to commercial sector was almost four times the fresh accretion in aggregate deposits. Banks investments in foreign currency assets also increased sharply. To meet the funding gap, banks liquidated investments both in Government securities and non-SLR investments.

3.39 During Q4, while aggregate deposits of residents increased sharply, non-repatriable foreign currency deposits declined. Credit offtake also increased during Q4. However, banks liquidated investments in Government and other approved securities but increased their exposure to non-SLR securities. Banks also augmented their cash and balances with the Reserve Bank (Table III.17 and Appendix Table III.11).

Table III.17: Operations of Scheduled Commercial Banks : Quarterly Trends

(Amount in Rs. crore)

Item	Outstanding at end-March 2006	Variations									
		2004-05				2005-06				2006-07	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Components											
1. Aggregate Deposits of Residents	20,49,773	57,050	21,232	38,447	78,251	7,145	1,29,596	13,065	1,90,983	30,677	1,57,233
a. Demand Deposits	3,64,640	-12,155	2,277	15,280	17,604	-22,249	41,167	-3,430	63,135	-41,272	33,809
b. Time Deposits of Residents	16,85,133	69,206	18,955	23,167	60,647	29,394	88,430	16,495	1,27,848	71,949	1,23,423
2. Call/Term Funding from Financial Institutions	83,144	5,409	530	35,464	3,451	-1,002	7,359	1,836	3,031	3,118	-1,611
Sources											
1. Credit to Government	7,00,742	40,056	-9546	-5,918	39,632	-1,457	18,324	-25,068	-11,314	23,238	6,904
2. Credit to the Commercial Sector (a to d)	16,63,499	32,884	40,538	1,08,835	79,929	12,862	1,04,416	53,032	1,72,011	22,606	1,38,787
a. Bank Credit	15,07,077	38,085	41,605	1,07,402	72,551	8,994	1,15,035	62,858	1,67,981	14,050	1,33,607
i) Food Credit	40,691	7,100	-4,872	5,590	-2,659	4,788	-5,255	1,464	-322	607	-7,840
ii) Non-food Credit	14,66,386	30,985	46,477	1,01,812	75,210	4,206	1,20,290	61,394	1,68,303	13,443	1,41,446
b. Net Credit to Primary Dealers	4,369	-678	977	-923	125	7,130	-2,759	1,128	-2,930	-1,963	2,916
c. Investments in other Approved Securities	16,712	184	-561	-1,232	-680	-532	-10	-736	-2,017	526	4,642
d. Other Investments (in non-SLR Securities)	1,35,340	-4,339	-1482	3,587	7,933	-2,730	-7,851	-10,218	8,961	9,993	-2,327
3. Net Foreign currency assets of Commercial Banks	-45,616	-6,706	904	-3,172	-8,652	-2,057	-4,850	9,935	26,612	-21,137	11,679
a. Foreign Currency Assets	43,494	-2,741	56	2,441	-8,051	-2,179	-1,044	11,169	6,114	-13,919	9,283
b. Non-resident Foreign Currency Repatriable Fixed Deposits	59,275	953	-189	-654	692	804	187	1,856	-19,723	3,917	1,506
c. Overseas Foreign Currency Borrowings	29,834	3,012	-658	6,267	-90	-925	3,618	-622	-775	3,301	-3,903
4. Net Bank Reserves	1,38,619	10,392	-3,644	14,151	-1,267	3,060	9,679	-2,886	25,729	-6,090	20,455
5. Capital Account	1,77,727	14,884	1,393	9,435	3,423	20,359	2,530	9,342	8,090	12,025	3,079

Note : 1. Data are provisional.
2. Time deposits include the impact of redemption of India Millennium Deposits (IMDs), since December 29, 2005.
3. Data relate to last reporting Friday of each quarter.

Credit-Deposit Ratio

3.40 The high rate of bank credit growth during last two years had resulted in a unique behaviour of credit-deposit (C-D) ratio and investment-deposit (I-D) ratio. The incremental C-D ratio, which was lower than the incremental I-D ratio up to August 6, 2004, rose sharply thereafter, while the incremental I-D ratio declined. This trend was accentuated in 2005-06 as throughout the year the C-D ratio remained significantly higher than the I-D ratio.

3.41 Owing to large credit offtake, the incremental C-D ratio remained generally above hundred per cent throughout the year. On account of unwinding of investment in SLR securities, the incremental I-D ratio varied in the range of 22.3 per cent to (-) 11.6 per cent. The incremental credit-deposit and investment-deposit ratios generally depicted a negative relationship. When the incremental C-D ratio fell from its peak of 111.8 per cent in July 2005 through to 96.0 per cent in mid-November 2005, the incremental I-D ratio turned negative in July 2005, and then moved upwards to 16.0 per cent by mid-November 2005. The incremental I-D ratio again turned negative during the fortnight ended January 6, 2006. The ratio recovered to the positive region till February 3, 2006 only to turn negative again. Thus, in times of high credit demand, banks may not prefer to invest in Government securities (Chart III.7).

3.42 The C-D and I-D ratios, based on the outstanding amount, which moved more or less in the same direction between 1999 and the third quarter of 2004-05, tended to move in opposite directions thereafter. As at end-March, the C-D ratio stood at an all-time high level of 70.1 per cent, while the I-D ratio dropped to a low of 40.1 per cent (Chart III.8).

3.43 Among bank-groups, foreign banks had the highest C-D ratio (in terms of outstanding amount) at end-March 2006, followed by new private sector banks, old private sector banks and public sector banks (Chart III.9).

Chart III.8: C-D and I-D Ratios of Scheduled Commercial Banks
(As at end-March)

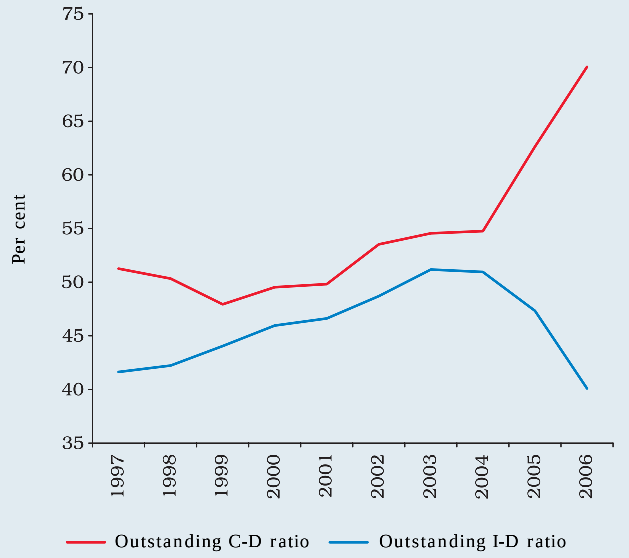


Chart III.7: Credit-Deposit and Investment-Deposit Ratios of Scheduled Commercial Banks

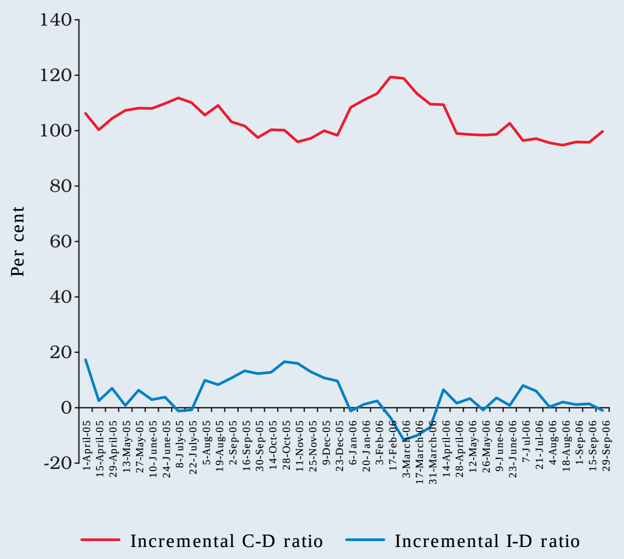
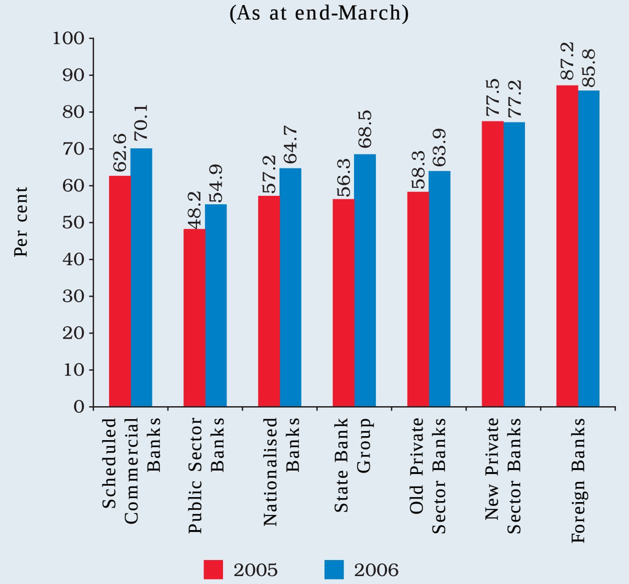


Chart III.9: Credit-Deposit Ratio ñ Bank Group-wise
(As at end-March)



Maturity Profile of Assets and Liabilities of Banks

3.44 The maturity structure of commercial banksí assets and liabilities reflect a combination of various concerns of banks relating to business expansion, liquidity management, cost of funds, return on assets, asset quality and the risk appetite. Broadly, major components of balance sheet such as deposits, borrowings, loans and advances, and investments of major bank groups depicted a non-linear pattern across the maturity spectrum during 2005-06. The maturity structure of loans and advances of public sector banks and old private sector banks depicted a synchronous pattern with that of deposits. However, loans and advances of new private sector banks and foreign banks were more in higher maturity buckets as compared with their deposits. New private sector and foreign banks held most of their investments in shorter maturity bucket, while PSBs and old private sector banks held most of their investment in a longer maturity bucket (Table III.18).

3. Off-Balance Sheet Operations

3.45 Off-balance sheet (OBS) exposures of SCBs rose sharply by 50.9 per cent in 2005-06 over and above the increase of 58.0 per cent in 2004-05. In the last five years, total OBS exposure of banks witnessed a significant growth, as a result of which the share of off-balance sheet exposures in total assets increased sharply to 152.5 per cent at end-March 2006 from 57.7 per cent at end-March 2002 (Chart III.10), reflecting the impact of deregulation, risk management operations, diversification of income and new business opportunities thrown up by advances in information technology.

3.46 Among bank-groups, foreign banks had the highest share of off-balance sheet exposures as percentage of total assets, followed distantly by new private sector banks and other bank groups (Appendix Table III.12). OBS exposure of the banking system is concentrated in 15 banks, most of which are foreign banks. These banks are particularly active in the derivatives segment.

Table III.18: Bank Group-wise Maturity Profile of Select Liabilities/Assets

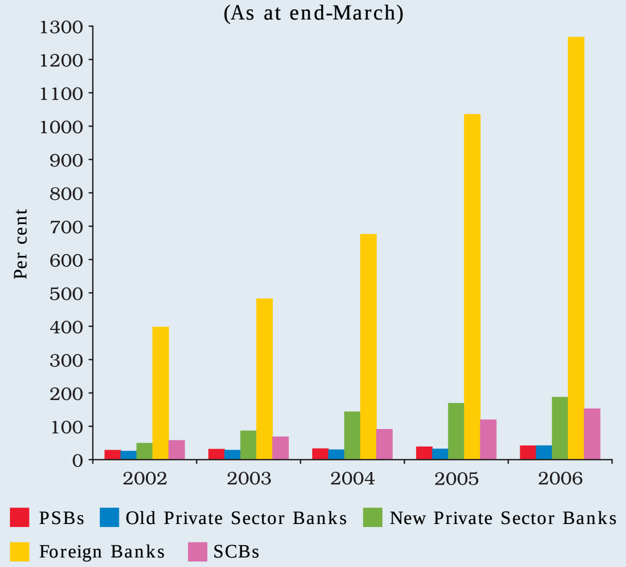
(As at end-March)

(Per cent)

Assets/Liabilities	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9
I. Deposits	†	†	†	†	†	†	†	†
a) Up to 1 year	36.3	39.7	53.3	48.0	53.9	58.7	54.2	53.2
b) Over 1 year and up to 3 years	35.3	30.6	37.6	38.2	43.1	36.9	39.2	43.6
c) Over 3 years and up to 5 years	11.9	11.7	3.4	6.0	2.1	3.0	0.9	0.4
d) Over 5 years	16.5	17.9	5.7	7.7	0.9	1.4	5.7	2.8
II. Borrowings	†	†	†	†	†	†	†	†
a) Up to 1 year	41.8	42.1	80.7	81.5	51.2	55.5	84.4	84.6
b) Over 1 year and up to 3 years	20.2	26.3	4.1	3.7	34.1	18.7	12.3	13.7
c) Over 3 years and up to 5 years	12.7	10.9	7.1	6.2	7.6	20.8	3.3	1.5
d) Over 5 years	25.3	20.7	8.2	8.5	7.0	5.0	ñ	0.3
III. Loans and Advances	†	†	†	†	†	†	†	†
a) Up to 1 year	36.7	35.5	42.3	43.0	39.7	30.7	55.9	55.8
b) Over 1 year and up to 3 years	34.6	35.2	33.7	36.1	32.2	40.2	17.9	25.7
c) Over 3 years and up to 5 years	12.0	11.5	9.0	10.0	9.5	11.3	6.5	5.3
d) Over 5 years	16.6	17.8	15.0	10.9	18.6	17.9	19.7	13.2
IV. Investment	†	†	†	†	†	†	†	†
a) Up to 1 year	13.4	11.9	21.9	20.2	47.6	50.5	53.1	58.8
b) Over 1 year and up to 3 years	12.7	14.3	11.1	9.7	27.5	25.5	27.3	29.4
c) Over 3 years and up to 5 years	17.3	16.8	12.6	14.3	6.2	7.1	6.1	4.7
d) Over 5 years	56.6	56.9	54.4	55.7	18.8	16.8	13.6	7.1

Chart III.10: Off-Balance Sheet Exposures to Total Assets of Scheduled Commercial Banks

(As at end-March)



4. Financial Performance of Scheduled Commercial Banks

3.47 The overall financial performance of the banking sector improved during 2005-06 as compared with the previous year. Banks were able to increase net interest income. Net profits of banks increased, despite decline in trading profits (due to hardening of sovereign yield) on the one hand, and increase in expenditure and provisions and contingencies, on the other.

Interest Rate Scenario

3.48 The high credit demand during 2005-06 exerted an upward pressure on lending rates as well as deposit rates of banks. Interest rates offered on deposits by banks, in general, firmed up during 2005-06 (Table III.19). However, the increase was more pronounced at the short-end of the maturity. The spread between deposits of up to one year maturity and above three years maturity offered by PSBs narrowed down to 75 basis points at end-March 2006 from 100 basis points at end-March 2005. Likewise, the spread between interest rates on deposits up to one year and three year maturity offered by private sector banks narrowed down to 50 basis points from 100 basis points. The hike in deposit rates was indicative of the increased competition from other saving instruments and firming up of interest rates

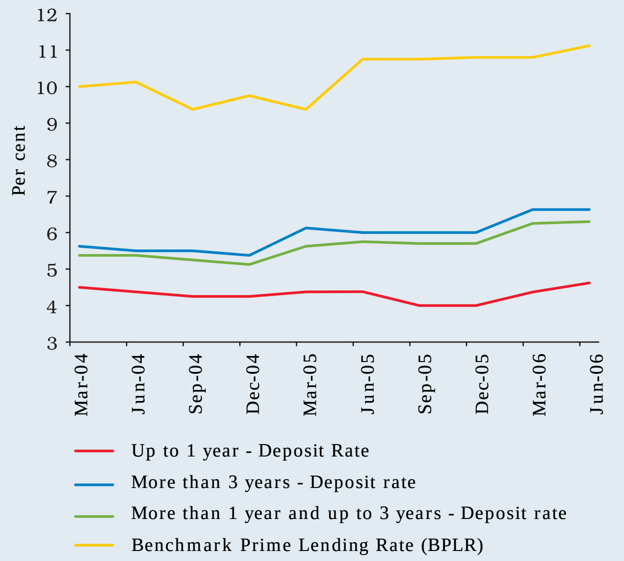
Table III.19: Movements in Deposit and Lending Interest Rates

(Per cent)

Interest Rates	March 2004	March 2005	March 2006	June 2006
1	2	3	4	5
Domestic Deposit Rates				
Public Sector Banks				
a) Up to 1 year	3.75 ñ 5.25	2.75-6.00	2.25-6.50	2.75-6.50
b) 1 year and up to 3 years	5.00 ñ 5.75	4.75-6.50	5.75-6.75	5.75-7.00
c) Over 3 years	5.25 ñ 6.00	5.25-7.00	6.00-7.25	6.00-7.25
Private Sector Banks				
a) Up to 1 year	3.00 ñ 6.00	3.00-6.25	3.50-7.25	3.50-6.75
b) 1 year and up to 3 years	5.00 ñ 6.50	5.25-7.25	5.50-7.75	6.50-7.75
c) Over 3 years	5.25 ñ 7.00	5.75-7.00	6.00-7.75	6.50-8.25
Foreign Banks				
a) Up to 1 year	2.75 ñ 7.75	3.00-6.25	3.00-5.75	3.25-6.50
b) 1 year and up to 3 years	3.25 ñ 8.00	3.50-6.50	4.00-6.50	5.00-6.50
c) Over 3 years	3.25 ñ 8.00	3.50-7.00	5.50-6.50	5.50-6.75
BPLR				
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	10.75-11.50
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-14.00	11.00-14.50
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-14.50
Actual Lending Rates*				
Public Sector Banks	4.00-16.00	2.75-16.00	4.00-16.50	4.00-16.50
Private Sector Banks	3.00-22.00	3.15-22.00	3.15-20.50	3.15-26.00
Foreign Banks	3.75-23.00	3.55-23.50	4.75-26.00	4.75-25.00

* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.

Chart III.11: Spread between Deposit and Lending Rates of Public Sector Banks



in general. Banks increased their deposit rates further by about 25-75 basis points across various maturities between March 2006 and June 2006. A majority of PSBs adjusted their deposit rates ëup to three yearí maturity upwards by 25 to 50 basis points, while deposit rates for over three year maturity remained unchanged (Chart III.11).

3.49 During 2005-06, the range of BPLRs of PSBs and foreign banks remained unchanged, while that of private sector banks moved up by 50 basis points. The band of BPLRs of private sector banks and foreign banks was wider than that of public sector banks. More than half of private sector banks had BPLRs in a range of 11-12 per cent at end-March 2006. As regards foreign banks, nine of them had BPLRs in the range of 12-13 per cent, five banks in the range of 10-11 per cent and another five in the range of 11-12 per cent. Even in an environment of increased credit demand, a substantial part of banksí lending was at sub-BPLR rates, reflecting the competitive conditions in the credit market. The share of sub-BPLR lending in total lending of commercial banks, excluding export credit and small loans, increased from 59.0 per cent at end-March 2005 to 69.0 per cent at end-March 2006, and further to 75.0 per cent at end-June 2006.

3.50 During the period April-June 2006, the BPLRs of PSBs increased by 25-50 basis points. The range of BPLR of foreign banks remained unchanged during the same period.

3.51 The yield on Government securities with 5-year and 10-year residual maturity hardened by 87 and 84 basis points, respectively, during 2005-06 (Table III.20). The increase in yields

Table III.20: Structure of Interest Rates

(Per cent)

Instruments	March 2004	March 2005	March 2006	August 2006
1	2	3	4	5
I. Debt market				
1. Government Securities Market				
5-Year*	4.89	6.37	7.24	7.57
10-Year*	5.15	6.69	7.53	7.9
II. Money Markets				
2. Call Borrowing (Average)	4.37	5.00	6.58	6.06
3. Commercial papers				
WADR 61 ñ 90 days	5.19	5.89	8.72	7.26
WADR 91-180 days	4.73	5.87	8.54	7.02
Range	4.70 - 6.50	5.45 - 6.51	6.69 - 9.25	6.60 - 9.00
4. Certificates of deposit				
Range	3.87 - 5.16	4.21 - 6.34	6.50 - 8.94	6.00 - 8.62
Typical Rate				
3 Months	4.96	5.9	8.72	6.64
12 Months	5.16	6.26	8.7	8.5
6. Treasury Bills				
91 days	4.38	5.32	6.11	6.35
364 days	4.45	5.61	6.42	6.99

* : As at end-month.
WADR - Weighted Average Discount Rate.

was, however, more pronounced for short-term maturities than for long-term maturities, reflecting relatively stable medium-term inflation expectations. Intra-year movements in yields were influenced by domestic liquidity conditions, inflationary expectations, volatility in crude oil prices and movements in US yields. On April 30, 2005, yields on 10-year paper firmed up sharply by 70 basis points to 7.35 per cent over end-March 2005 on fears of higher inflation in the backdrop of rising global crude oil prices and hike in the reverse repo rate by 25 basis points on April 28, 2005. The yields, however, eased during May and June 2005 to 6.89 per cent on June 30, 2005 amidst comfortable liquidity position, benign inflation and fall in the US treasury yields. The markets rallied briefly in July 2005 and yields softened but remained broadly stable between August and December 2005. Yields, however, edged up in the last week of January 2006 following the increase of 25 basis points in both the reverse repo and the repo rates on January 24, 2006. The 10-year yield moved up to 7.41 per cent on January 27, 2006 before declining to 7.28 per cent on January 31, 2006. For most part of February-March 2006, yields were range-bound. The 10-year yield hardened to 7.53 per cent on March 31, 2006 reflecting the rise in US yields. The spread between 1-year and 10-year yields narrowed to 98 basis points at end-March 2006 (from 114 basis points at end-March 2005), mirroring liquidity tightness in money markets. The spread between 10-year and 30-year yields narrowed to 30 basis points (from 54 basis points at end-March 2005), reflecting increased appetite for long-term securities from non-bank participants such as insurance companies and pension funds.

3.52 Financial markets adjusted to the changes in interest rate and monetary conditions in an orderly fashion during 2005-06. Money market conditions, after remaining generally comfortable during the first half of 2005-06, turned relatively tight in the third quarter of 2005-06. Owing to IMD redemptions, build-up of Centreís cash balances and sustained growth of credit, market liquidity conditions remained relatively tight till February 2006. Call money rate hovered around the repo rate for the most part of the fourth quarter of 2005-06. The monthly average of weighted average call rate, which reached 6.83 per cent in January 2006, further increased to 6.93 per cent in February 2006. The weighted average call rate declined to 6.58 per cent in March 2006. The weighted average discount rate (WADR) on commercial paper of 61-90 day maturity moved up to 8.72 per cent in March 2006 from 5.89 per cent in March 2005. The WADR of CPs of the same tenor declined by 146 basis points to 7.26 per cent by August 2006.

Cost of Deposits and Return on Advances

3.53 Notwithstanding the rise in deposit rates of SCBs during the year, the cost of deposits declined marginally due to increase in the share of low cost deposits in the form of current and savings deposits. The movements in the cost of deposits reflect the average rate at which different deposits are contracted rather than the movement in deposit interest rates as such. The cost of borrowings, however, moved up somewhat due mainly to tightening of liquidity conditions in the market. The overall cost of funds remained unchanged at the previous yearís level. Bank group-wise, while the overall cost of funds for foreign banks and new private sector banks increased, the cost of funds for the public sector banks remained unchanged. Return on advances of SCBs increased marginally during 2005-06, reflecting the increase in lending rates. Return on investment, on the other hand, remained at the previous yearís level. Overall return on funds, however, was slightly higher than the overall cost of funds, resulting in increase in spread (Table III.21).

Income

3.54 The income of SCBs increased by 16.8 per cent as compared with 3.5 per cent in the previous year. However, as percentage of assets, income at 8.0 per cent in 2005-06 was marginally lower than 8.1 per cent in 2004-05. Interest income, which is the major source of income of SCBs, rose sharply by 18.4 per cent compared with 7.9 per cent in the previous year, mainly due to increased volumes of credit and rise in interest rates (Table III.22 and Appendix Table III.14). The ëother incomeí increased by 9.5 per cent as against a decline of 12.9 per cent in the last year. As percentage of assets, while interest income remained unchanged, other income declined marginally.

3.55 Continuing the trend of the previous year, composition of ëother incomeí of SCBs changed further during 2005-06. While the

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

(Per cent)

Variable/ Bank Group	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	4.4	4.3	4.6	4.5	3.4	3.6	3.0	2.8	4.2	4.1
2. Cost of Borrowings	1.3	2.2	2.7	2.7	1.4	3.1	3.5	4.3	1.7	2.8
3. Cost of Funds	4.2	4.2	4.6	4.5	3.0	3.5	3.1	3.2	4.0	4.0
4. Return on Advances	6.9	7.1	8.0	7.9	7.3	7.0	7.3	7.6	7.1	7.2
5. Return on Investments	7.9	8.2	7.7	7.2	5.3	5.5	6.9	7.3	7.6	7.6
6. Return on Funds	6.9	7.1	8.0	7.9	7.3	7.0	7.3	7.6	7.1	7.2
7. Spread (6-3)	2.8	2.9	3.4	3.4	4.3	3.5	4.2	4.4	3.1	3.2

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)/(Investments + Advances).

share of trading income in investments declined during the year, that of fee income, income from foreign exchange operations and miscellaneous income increased (Chart III.12). The trading income of SCBs declined during 2004-05 and 2005-06 due mainly to firming up of yields on Government securities.

3.56 The share of non-interest income in banksí total income declined for the second year in succession to 17.0 per cent in 2005-06 from 18.1 per cent in 2004-05. The share of non-interest income had increased sharply from 13.7 per cent in 1995-96 to a peak of 21.5 per cent in 2003-04, before it started declining from the next year (Chart III.13). The trend in non-interest income has been influenced mainly by the behaviour of trading income, which in turn, follows the pattern of movement in interest rate as bulk of the trading income comprises income from trading in Government securities. The bank-wise data reveal that trading income of all PSBs, except three banks, declined during 2005-06.

3.57 Banksí overall income increased sharply by 16.8 per cent during 2005-06 compared with

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

(Amount in Rs. crore)

†	2003-04		2004-05		2005-06†	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	1,83,861	9.3	1,90,236	8.1	2,22,209	8.0
a) Interest Income	1,44,333	7.3	1,55,801	6.6	1,84,510	6.6
b) Other Income	39,528	2.0	34,435	1.5	37,698	1.4
2. Expenditure	1,61,590	8.2	1,69,278	7.2	1,97,616	7.1
a) Interest Expended	87,567	4.4	89,079	3.8	1,06,919	3.8
b) Operating Expenses	43,702	2.2	50,133	2.1	58,729	2.1
of which : Wage Bill	26,380	1.3	29,479	1.3	33,425	1.2
c) Provision and Contingencies	30,322	1.5	30,065	1.3	31,968	1.1
3. Operating Profit	52,593	2.7	51,023	2.2	56,560	2.0
4. Net Profit	22,271	1.1	20,958	0.9	24,592	0.9
5. Net Interest Income/Margin (1a-2a)	56,766	2.9	66,722	2.8	77,591	2.8

Note : The number of scheduled commercial banks in 2003-04, 2004-05 and 2005-06 were 90, 88 and 84, respectively.

Chart III.12: Composition of Non-Interest Income of Scheduled Commercial Banks

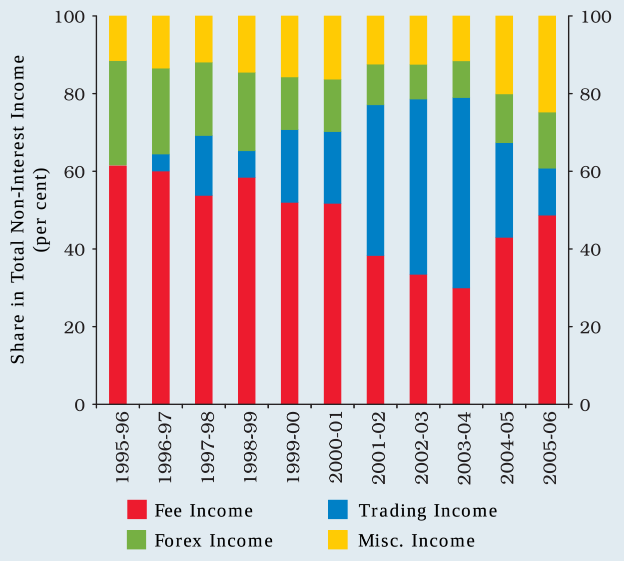
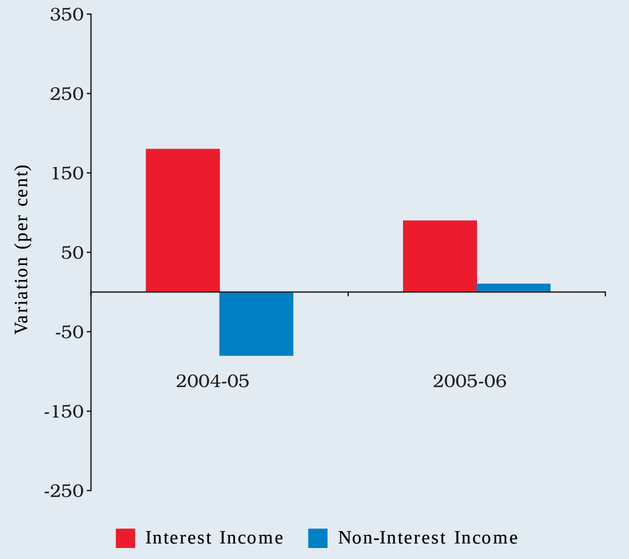


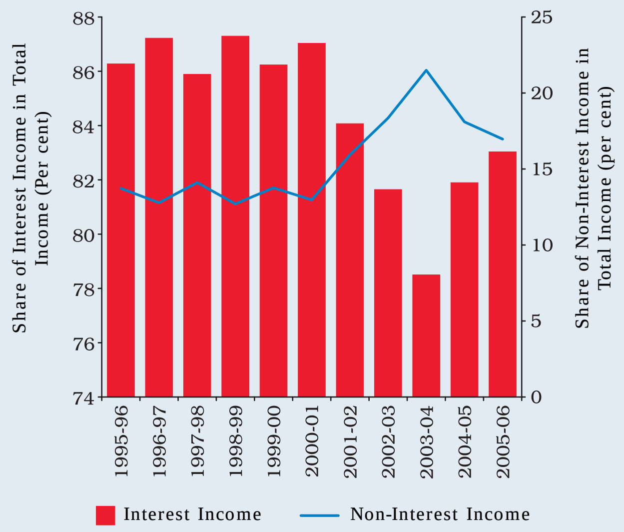
Chart III.14: Sources of Accretion to Income of Scheduled Commercial Banks



an increase of 3.5 per cent in the previous year. Both interest and non-interest income increased during 2005-06 (Chart III.14).

3.58 Among bank-groups, income of new private sector banks grew at the highest rate (45.2 per cent) during 2005-06, followed by foreign banks (33.7 per cent), public sector banks (15.6 per cent) and old private sector banks (11.4 per cent) (Appendix Table III.15A to 15G). Interest income to total assets ratio increased during the year for SBI group and foreign banks, while it moved down for nationalised banks and old private sector banks.

Chart III.13: Trend in the Shares of Interest and Non-Interest Income of Scheduled Commercial Banks



Expenditure

3.59 The expenditure of SCBs moved up significantly by 16.7 per cent in 2005-06 as compared with 4.8 per cent in 2004-05. Reversing the trend of the previous two years, interest expended increased sharply by 20.0 per cent (compared with the increase of 1.7 per cent in the previous year) mainly on account of increase in cost of borrowings (Table III.23). Non-interest

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

(Amount in Rs. crore)

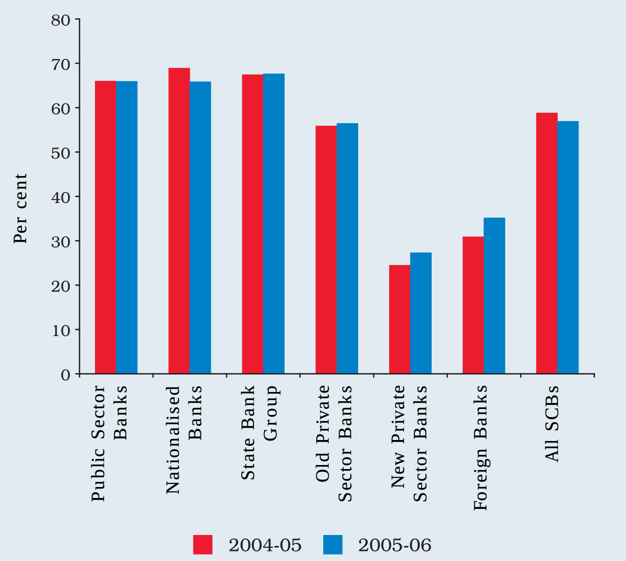
	2004-05		2005-06	
†	Amount	Per cent	Amount	Per cent
1	2	3	†4	5
1. Income (a+b)	**6,375**	**3.5**	**31,973**	**16.8**
a) Interest Income	11,468	7.9	28,709	18.4
b) Other Income	-5,093	-12.9	3,263	9.5
2. Expenses (a+b+c)	**7,687**	**4.8**	**28,339**	**16.7**
a) Interest Expenses	1,512	1.7	17,840	20.0
b) Other Expenses	6,432	14.7	8,596	17.1
c) Provisioning	-257	-0.8	1,903	6.3
3. Operating Profit	**-1,569**	**-3.0**	**5,537**	**10.9**
4. Net Profit	**-1,313**	**-5.9**	**3,634**	**17.3**

Source : Balance Sheets of respective banks.

or operating expenses increased by 17.1 per cent during 2005-06 as compared with 14.7 per cent in the previous year. This was despite the lower increase in the wage bill as compared with the previous year. From the overall profitability viewpoint, operating expenses need to be seen in conjunction with non-interest income. The gap between the two widened further, *albeit* marginally, during 2005-06 due to smaller increase in non-interest income. Accordingly, banksí burden (excess of non-interest expenditure over non-interest income) increased marginally to 0.8 per cent of assets in 2005-06 (from 0.7 per cent in 2004-05) and the efficiency ratio (operating expenses as percentage of net interest income plus non-interest income) deteriorated to 50.9 per cent from 49.6 per cent in the previous year.

3.60 The wage bill for the banking sector, on the whole, increased by 13.4 per cent during 2005-06 as compared with 11.7 per cent in the last year. Wage bill declined both as percentage of total assets (to 1.2 per cent from 1.3 per cent), as well as percentage of operating expenses (to 56.9 per cent from 58.8 per cent). During the year, the wage bill as percentage of operating expenses was lowest in the case of new private sector banks (27.3 per cent), followed by foreign banks (35.1 per cent); the ratio was highest for PSBs (65.9 per cent) (Chart III.15). Although, wage bill of all bank groups increased during the year, the increase in wage bill was the lowest for

Chart III.15: Wage Bill to Operating Expenses : Bank Group-wise



the PSBs. This is a healthy development from the point of view of reducing the high wage bill (as percentage of operating expenses) of PSBs.

Net Interest Income

3.61 Net interest income, defined as the difference between interest income and interest expenses, is an important indicator of efficiency of banks. The net interest income (spread) of SCBs as percentage of total assets remained unchanged at 2.8 in 2005-06, which may be considered high in comparison with the international standards. The net interest margin of foreign banks increased further to 3.5 per cent in 2005-06 from 3.3 per cent. Net interest margin of PSBs and private sector banks remained stable around 2.9 per cent and 2.3 per cent, respectively, in 2005-06.

Operating Profits

3.62 Operating profits of SCBs increased by 10.9 per cent in 2005-06 as against a decline of 3.0 per cent in the previous year, reflecting largely the impact of increase in interest income. Operating profits of all bank groups, except nationalised banks, increased during 2005-06. Operating profits to total assets ratio declined to 2.0 per cent during 2005-06 from 2.2 per cent in the previous year. However, it varied widely in the range of 11.7 per cent to (-)0.5 per cent at the individual bank level.

Provisions and Contingencies

3.63 The provisions and contingencies of SCBs showed a modest increase of 6.3 per cent in 2005-06 as against a marginal decline during 2004-05. Bank-group wise, provisions and contingencies increased for public sector banks, new private sector banks and foreign banks, but declined for old private sector banks. Provisions for investments increased in respect of all bank groups. At the aggregate level, while provisions for loan losses declined sharply by 11.5 per cent, those for depreciation in value of investments increased sharply by 96.3 per cent during 2005-06 (see also sub-section on Investment Fluctuation Reserve and Capital Adequacy). The provision for loan losses made by PSBs and foreign banks declined, while those made by private sector banks increased. The provision for depreciation in value of investments increased for all bank groups, except old private sector banks.

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

††(Amount in Rs. crore)

Bank Group	Operating Profit				Net Profit			
	2004-05	Percentage Variation	2005-06	Percentage Variation	2004-05	Percentage Variation	2005-06	Percentage Variation
1	2	3	4	5	†6	7	8	9
Scheduled Commercial Banks	**51,023**	**-3.0**	**56,560**	**10.9**	**†20,958**	**-5.9**	**24,592**	**17.3**
Public Sector Banks	38,761	-1.3	39,142	1.0	†15,442	-6.7	16,539	7.1
Nationalised Banks	23,121	-7.2	23,011	-0.5	†9,459	-13.4	10,021	5.9
State Bank Group	15,279	6.4	15,330	0.3	†5,676	1.0	5,956	4.9
Other Public Sector Bank	361	ñ	801	121.8	†307	ñ	561	82.5
Old Private Sector Banks	2,242	-29.9	2,369	5.7	†436	-69.9	876	101.1
New Private Sector Banks	5,443	6.3	8,388	54.1	†3,098	52.2	4,109	32.6
Foreign Banks	4,577	-8.2	6,661	45.5	†1,982	-11.6	3,069	54.8

ñ : Not Applicable.
Source : Balance sheets of respective banks.

Net Profit

3.64 Net profits increased by 17.3 per cent during 2005-06 as against the decline of 5.9 per cent last year, despite an increase in provisions and contingencies (Table III.24). Reversing the trend of decline in profits of the previous year, net profits of public sector banks, old private sector banks and foreign banks increased during 2005-06. Net profits of new private sector banks declined as compared with the previous year.

Return on Assets

3.65 Return on assets (RoA) is an indicator of efficiency with which banks deploy their assets. Net profits to assets ratio of SCBs remained almost unchanged in 2005-06. Return on assets of old private sector banks and foreign banks increased during 2005-06 as against the decline in the previous year (Chart III.16). However, return on assets of PSBs and new private sector banks declined marginally.

Return on Equity

3.66 Return on equity (RoE), an indicator of efficiency of banking institutions in using its capital, declined further to 12.7 per cent in 2005-06, reflecting mainly the impact of a higher capital base (Chart III.17).

3.67 Detailed data on financial performance of commercial banks across bank groups are presented in Appendix Tables III.13 to III.24.

Chart III.16: Net Profitability : Bank Group-wise

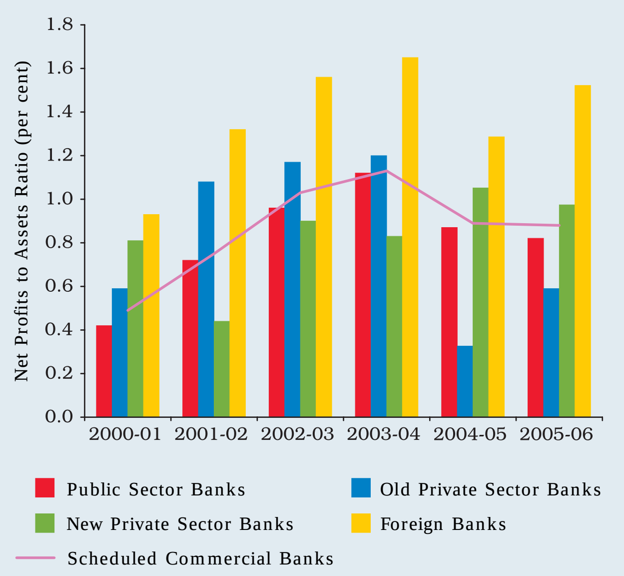


Chart III.17: Return on Equity (RoE) of Scheduled Commercial Banks

5. Soundness Indicators

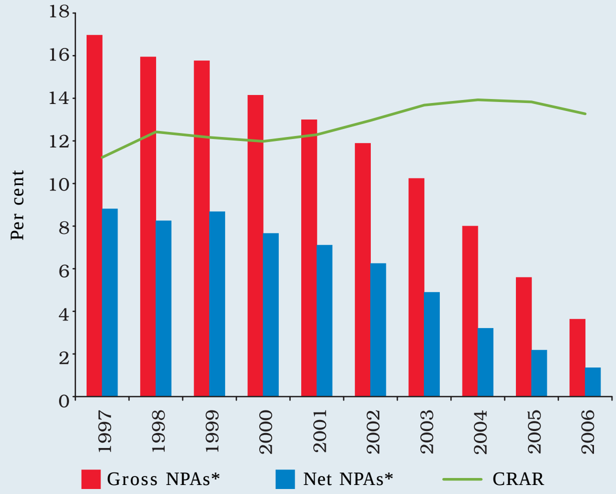
3.68 Capital and asset quality, which are two crucial parameters reflecting the soundness of a financial institution, have improved steadily over the years (Chart III.18). The net non-performing loans (NPL) to capital ratio, a worst-case scenario measure, remained at the previous yearís level of 15.5 per cent. However, this was significantly lower as compared with that of 71.3 per cent at end-March 1999.

Asset Quality

3.69 The sharp rise in credit growth continued to be accompanied by a significant improvement in asset quality. In continuation with the recent trend, recoveries in non-performing assets (NPAs) during 2005-06 outpaced fresh accruals during the year (Table III.25). This trend was observed across all bank groups. The gross NPAs of SCBs declined by Rs.7,309 crore during 2005-06 over and above the decline of Rs.6,561 crore in the previous year.

3.70 Several options available to banks for dealing with bad loans and the improved industrial climate in the country helped in recovering a significant amount of NPAs during the year (Table III.26). Banks were specifically advised to ensure that

Chart III.18: Movements in CRAR and NPAs of Scheduled Commercial Banks
(As at end-March)



*: as ratio of advances

recoveries of NPAs exceed write-offs while bringing down bad debts. Total amount recovered and written-off increased to Rs.28,717 crore during 2005-06 as compared with Rs.25,007 crore in the previous year.

3.71 In the case of direct agricultural advances, the recovery rate improved significantly to 84.1 per cent for the year ended June 2005 (Table III.27).

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

††(Amount in Rs. crore)

Item	Scheduled Commercial Banks (84)	Public Sector Banks (28)	Nationa-lised Banks (20)	State Bank Group (8)	Old Private Sector Banks (19)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Gross NPAs							
As at end-March 2005	59,124	48,406	31,587	15,602	4,190	4,336	2,191
Addition during the year	21,408	16,740	9,255	5,601	1,217	2,358	1,091
Recovered and written-off during the year	28,717	23,040	13,141	7,915	1,667	2,653	1,355
As on 31st March 2006	51,815	42,106	27,701	13,288	3,740	4,042	1,927
Net NPAs							
As at end-March 2005	21,638	16,903	9,693	6,362	1,845	2,240	648
As at end-March 2006	18,529	14,560	7,930	6,067	1,367	1,793	807
Memo:	†	†	†	†	†	†	†
Gross Advances	15,51,491	11,34,724	6,99,408	3,78,993	85,267	2,32,536	98,965
Net Advances	15,15,669	11,06,128	7,34,608	3,71,520	81,980	2,30,005	97,555
Ratio	†	†	†	†	†	†	†
Gross NPAs/Gross Advances	3.34	3.71	3.96	3.51	4.31	1.74	1.95
Net NPAs/Net Advances	1.22	1.32	1.08	1.63	1.64	0.78	0.83

Note : Figures in brackets are the number of banks in the respective group.
Source : Balance sheets of respective banks.

Table III.26: NPAs Recovered by SCBs through Various Channels

(Amount in Rs. crore)

Item	2004-05			2005-06		
	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*	ñ	ñ	ñ	10,262	772	608
ii) *Lok Adalats*	1,85,395	801	113	181,547	1,101	223
iii) DRTs	4,744	14,317	2,688	3,524	6,123	4,710
iv) SARFAESI Act	39,288 #	13,224	2,391	†38,969 #	9,831	3,423

* : The scheme for OTS for SME accounts by public sector banks at end-June 2006.
# : Number of notices issued under Section 13(2) of the SARFAESI Act.

3.72 The Reserve Bank has so far issued Certificate of Registration to four Securitisation Companies/Reconstruction Companies (SCs/RCs), of which three have commenced their operations. Asset Reconstruction Company (India) Limited (ARCIL) set up in 2003 has provided a major boost to the efforts to recover the NPAs of banks. With a view to facilitating resolution of NPAs of the Indian banking system by SCs/RCs and to enhance the possibility of banks realising better value for their NPAs through the expertise and resources of foreign institutions with international experience in management of stressed assets, the Government of India permitted FDI up to 49 per cent in the equity capital of SCs/RCs registered with the Reserve Bank. So far, none of the SCs/RCs registered with the Reserve Bank has any FDI participation in equity.

3.73 During 2005-06, ARCIL acquired 559 cases of NPAs from 31 banks/FIs with total dues amounting to Rs.21,126 crore (Table III.28). The portfolio of assets acquired by ARCIL was diversified across major industry segments, which were generally performing well in the stock market. About 78 per cent of assets under management were fully/partially operational.

Movements in Provisions for Non-performing Assets

3.74 While the gross NPAs declined by Rs.7,309 crore in absolute terms during 2005-06, the decline in net NPAs was lower at Rs.3,109 crore. Write-offs and write-back of excess provisions were more than the fresh provisions made by SCBs during the year across all bank groups, except for old private sector and new private sector banks. Cumulative provisions made at end-March 2006 were lower in respect of PSBs and foreign banks than their level a year ago, while they were higher in the case of private sector banks (both old and new). The cumulative provisions as percentage of NPAs declined to 58.9 per cent at end-March 2006 from 60.3 per cent at end-March 2005. This is indicative of improved recovery climate. Nationalised banks had the highest cumulative provisions as proportion to the gross NPAs at end-March 2006, followed by old private banks, new private banks, foreign banks and the State Bank group (Table III.29).

3.75 Increased recovery of NPAs, decline in fresh slippages and a sharp increase in gross loans and advances by SCBs led to a sharp decline in the ratio of gross NPAs to gross advances to 3.3 per cent at end-March 2006 from 5.2 per cent at end-March 2005. Likewise, net NPAs as percentage of net advances declined to 1.2 per

Table III.27: Recovery of Direct Agricultural Advances of PSBs

(Amount in Rs. crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
2003	28,940	21,011	7,929	72.6
2004	33,544	25,002	8,542	74.5
2005	35,192	29,612	5,580	84.1

Table III.28: Details of Financial Assets Acquired by ARCIL
(As on March 31, 2006)

(Amount in Rs. crore)

Bank/FIs	No. of cases	Principal debt acquired	Interest and other charges	Total Dues purchased
1	2	3	4	5
Public Sector Banks	599	3,638	3,917	7,555
Old Private Sector Banks	34	186	150	336
New Private Sector Banks	152	5,037	4,727	9,764
Financial Institutions	51	1,460	2,011	3,471
Total	**559**	**10,321**	**10,805**	**21,126**

Table III.29: Movements in Provisions for Non-performing Assets ñ Bank Group-wise†

(Amount in Rs. crore)

Items	Scheduled Commercial Banks (84)	Public Sector Banks (28)	Nationalised Banks (19)	State Bank Group (8)	Old Private Sector Banks (19)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Provision for NPAs	†	†	†	†	†	†	
As at end-March 2005	34,484	28,857	20,185	8,303	2,185	2,067	1,374
Add : Provision made during the year	8,968	6,272	4,350	419	545	1,509	640
Less : Write-off/write-back of excess provisions	12,916	10,082	6,364	2,399	451	1,363	1,018
as at end-March 2006	30,536	25,047	18,171	6,323	2,279	2,212	997
Memo:	†	†	†	†	†	†	
Gross NPAs	51,815	42,106	27,701	13,288	3,740	4,042	1,927
Ratio	†	†	†	†	†	†	
Cumulative Provision to Gross NPAs (per cent)	58.9	59.5	65.6	47.6	60.9	54.7	51.8

Note : Figures in brackets indicate the number of banks in that group for 2005-2006.
Source : Balance sheets of respective banks.

cent from 2.0 per cent at end-March 2005. A significant decline in gross and net NPAs was evident across all bank groups [Table III.30 and Appendix III.25 and 26].

Table III.30: Gross and Net NPAs of Scheduled Commercial Banks ñ 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†								
2003	7,78,043	68,717	8.8	4.1	7,40,473	29,692	4.0	1.8
2004	9,02,026	64,785	7.2	3.3	8,62,643	24,396	2.8	1.2
2005	11,52,682	59,373	5.2	2.5	11,15,663	21,754	2.0	0.9
2006	15,51,378	51,816	3.3	1.9	15,15,669	18,529	1.2	0.7
Public Sector Banks†								
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,877	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	19,335	3.1	1.3
2005	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.1	1.0
2006	11,34,724	42,106	3.7	2.1	11,06,128	14,561	1.3	0.7
Old Private Sector Banks†								
2003	51,329	4,550	8.9	4.3	49,436	2,548	5.2	2.5
2004	57,908	4,393	7.6	3.6	55,648	2,142	3.8	1.8
2005	70,412	4,200	6.0	3.1	67,742	1,859	2.7	1.4
2006	85,154	3,740	4.3	2.5	81,980	1,368	1.6	0.9
New Private Sector Banks								
2003	94,718	7,232	7.6	3.8	89,515	1,365	1.5	0.7
2004	1,19,511	5,961	5.0	2.4	1,15,106	1,986	1.7	0.8
2005	1,27,420	4,582	3.6	1.6	1,23,655	2,353	1.9	0.8
2006	2,32,536	4,042	1.7	1.0	2,30,005	1,793	0.8	0.4
Foreign Banks	†	†	†	†	†	†	†	†
2003	54,184	2,845	5.3	2.4	52,171	903	1.7	0.8
2004	62,632	2,894	4.6	2.1	60,506	933	1.5	0.7
2005	77,026	2,192	2.8	1.4	75,354	639	0.8	0.4
2006	98,965	1,927	1.9	1.0	97,555	808	0.8	0.4

Source : Balance sheets of respective banks.

Table III.31: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(Number of banks)

Bank Group	As at end-March				
	2002	2003	2004	2005	2006
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**27**	**28**	**28**
Up to 2 per cent	0	4	11	19	23
Above 2 and up to 5 per cent	11	14	13	7	5
Above 5 and up to 10 per cent	13	7	3	2	0
Above 10 per cent	3	2	0	0	0
Old Private Sector Banks	**21**	**20**	**20**	**20**	**19**
Up to 2 per cent	2	2	2	4	11
Above 2 and up to 5 per cent	2	4	9	12	7
Above 5 and up to 10 per cent	12	12	7	4	1
Above 10 per cent	5	2	2	0	0
New Private Sector Banks	**9**	**9**	**10**	**9**	**8**
Up to 2 per cent	1	2	4	5	6
Above 2 and up to 5 per cent	3	2	5	3	2
Above 5 and up to 10 per cent	5	4	0	1	0
Above 10 per cent	0	1	1	0	0
Foreign Banks	**42**	**36**	**33**	**31**	**29**
Up to 2 per cent	24	19	22	23	26
Above 2 and up to 5 per cent	4	3	2	2	0
Above 5 and up to 10 per cent	1	6	3	2	0
Above 10 per cent	13	8	6	4	3

3.76 At end-March 2006, the ratio of net NPAs to net advances of public sector banks and old private sector banks was less than 2 per cent at the bank group level. Net NPA ratio of new private banks and foreign banks were 0.8 per cent. As at end-March 2006, 66 banks (as against 51 last year) out of 84 (as against 88 last year) had net NPAs to net advances ratio less than 2 per cent. Only four banks, three of which were foreign banks, had net NPAs ratio higher than 5 per cent as compared with 13 in the previous year (Table III.31). The NPAs to advances ratio improved during 2005-06 for all scheduled banks, except seven banks (Appendix Table III.25 and 26).

3.77 Decline in NPAs ratio was observed across all categories, *viz*., ësub-standardí, ëdoubtfulí and ëlossí. In two categories (ëlossí and ëdoubtfulí), NPAs declined in absolute terms. NPAs in ësub-standardí category increased marginally. More or less the same trend was observed across all bank groups, except old private sector banks, in which case ësub-standardí assets declined and new private sector banks, in which case ëloss assetsí increased marginally (Table III.32).

Sector-wise NPAs

3.78 NPAs of public and private sector banks are classified into three broad sectors, *viz.*, priority sector, public sector and non-priority sector. NPAs in two sectors (priority and non-priority) declined during 2005-06, while those in the public sector increased. Notwithstanding some decline, NPAs were highest in the priority sector, followed closely by the non-priority sector. In the previous year, NPAs were the largest in the non-priority sector (Table III.33). NPAs in the agriculture sector in the case of new private sector banks increased, while those in the SSI sector of all bank groups declined during the year [Appendix Table III.27 (A and B) and 28 (A and B)].

Movements in Provisions for Depreciation on Investments

3.79 The provisions for depreciation on investments increased by 30.6 per cent during the year. Provisions made during the year were far higher than the write-offs and write back of excess provisions as a result of which provisions

Table III.32: Classification of Loan Assets ñ 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											
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.1	68,780	8.8	7,78,040
2004	8,37,130	92.9	21,026	2.3	36,247	4.0	7,625	0.9	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
2006	14,99,431	96.7	14,826	1.0	30,105	2.0	7,016	0.4	51,947	3.3	15,51,378
Public Sector Banks											
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.1	54,089	9.4	5,77,813
2004	6,10,435	92.2	16,909	2.5	28,756	4.4	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,779	3.5	5,929	0.7	47,796	5.4	8,77,825
2006	10,92,607	96.2	11,453	1.0	25,028	2.2	5,636	0.5	42,117	3.7	11,34,724
Old Private Sector Banks											
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	4.0	549	0.8	4,201	6.0	70,413
2006	81,414	95.6	710	0.8	2,551	3.0	479	0.6	3,740	4.4	85,154
New Private Sector Banks											
2003	87,487	92.3	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	3.0	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
2006	2,28,504	98.3	1,717	0.7	1,855	0.8	460	0.2	4,032	1.8	2,32,536
Foreign Banks											
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181
2004	59,619	95.1	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632
2005	74,705	97.0	715	1.0	1,035	1.3	570	0.7	2,320	3.0	77,025
2006	96,907	98.0	946	1.0	670	0.7	441	0.5	2,057	2.0	98,965

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

at end-March 2006 were almost twice the amount of provisions at end-March 2005. Thus, banks have made significant progress to protect their investment portfolio (Table III.34).

Table III.33: Sector-wise NPAs ñ Bank Group-wise*
(As at end-March)

† (Amount in Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8	9
A. Priority Sector	23,397	22,374	182	1,632	407	652	25,586	24,658
i) Agriculture	7,254	6,203	304	265	161	250	7,719	6,718
ii) Small Scale Industries	7,835	6,917	792	656	172	152	8,799	7,725
iii) Others	8,308	9,253	686	711	73	251	9,067	10,215
B. Public Sector	450	340	8	1	34	3	493	345
C. Non-Priority Sector	23,849	18,664	2,444	2,078	4,125	3,463	30,417	24,205
Total (A+B+C)	**47,696**	**41,378**	**4,234**	**3,711**	**4,566**	**4,118**	**56,496**	**49,208**

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

Table III.34: Movements in Provisions for Depreciation on Investment ñ Bank Group-wise

(Amount in Rs. crore)

Particulars	Scheduled Commercial Banks (84)	Public Sector Banks (28)	Nationa-lised Banks (19)	State Bank Group (8)	Old Private Sector Banks (19)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Provision for Depreciation on Investment							
As at end-March 2005	8,333	6,474	1,854	4,576	401	668	790
Add : Provision made during the year	10,861	9,716	4,233	5,285	180	272	693
Less :Write-off, write back of excess during the year	2,849	2,463	1,169	1,277	169	192	25
As at end-March 2006	16,345	13,726	4,918	8,584	412	748	1,459

Note : Figures in brackets indicate the number of banks for 2005-06.
Source: Balance sheets of respective banks.

Investment Fluctuation Reserve

3.80 As treasury profits are sensitive to fluctuations in interest rates, banks were advised to set aside a part of treasury 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. However, in view of move towards Basel II, the Reserve Bank advised in October 2005 that those banks which would maintain capital of at least 9 per cent of the risk-weighted assets for both credit risk and market risk, for both ëHFTí and ëAFSí 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 could transfer the balance in the IFR to Statutory Reserve, General Reserve or balance of Profit and Loss Account. Several PSBs and new private sector banks transferred their entire IFR balances to their Profit and Loss Appropriation Account, to Statutory Reserve, General Reserve or balance of Profit and Loss Account. Accordingly, at end-March 2006, the IFR ratio (IFR as a percentage of investments under HFT and AFS categories) for SCBs dropped sharply to below 0.1 per cent from 4.4 per cent at end-March 2005 (Table III.35 and Appendix Table III.29).

Capital Adequacy

3.81 The overall CRAR for all SCBs declined marginally to 12.4 per cent at end-March 2006 from 12.8 per cent at end-March 2005. The ratio, however, continued to be significantly above the stipulated minimum of 9.0 per cent (Table III.36). The slight decline in the CRAR during the year needs to be viewed in the context of (i) application of capital charge for market risk from March

Table III.35: Investment Fluctuation Reserves ñ Bank Group-wise
(As at end-March 2006)

(Amount in Rs. crore)

Bank Group	Investment: Available for sale (AFS)	Investment: Held for Trading (HFT)	Investment Fluctuation Reserve (IFR)	IFR as percentage to Total of AFS+HFT
1	2	3	4	5
Scheduled Commercial Banks	3,83,649	23,092	1,334	0.3
Public Sector Banks	2,77,930	2,147	625	0.2
Nationalised Banks	1,70,372	679	625	0.4
State Bank Group	99,414	179	0	0.0
Other Public Sector Bank	8,143	1,288	0	0.0
Old Private Sector Banks	18,979	176	416	2.2
New Private Sector Banks	46,752	10,612	0	0.0
Foreign Banks	39,988	10,157	294	0.6

Source : Balance sheets of respective banks.

Table III.36: Scheduled Commercial Banks ñ Component-wise CRAR
(As at end-March)

(Amount in Rs. crore)

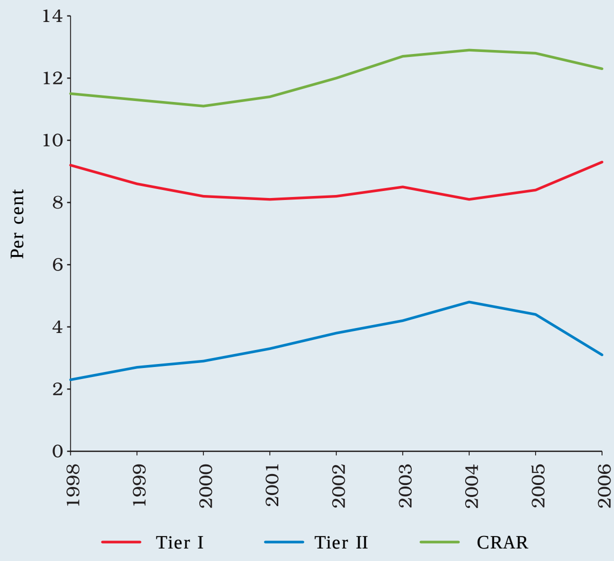
Item / Year	2004	2005	2006
1	2	3	4
A. Capital Funds (i+ii)	1,25,249	1,65,928	2,21,363
i) Tier I Capital	78,550	1,08,949	1,66,538
of which:			
Paid-up Capital	22,022	25,724	25,142
Reserves	65,948	91,320	1,41,592
Unallocated/Remittable Surplus	4,983	6,937	11,075
Deductions for Tier-I Capital	14,403	15,031	11,271
ii) Tier-II Capital	46,699	56,979	54,825
of which:			
Discounted Subordinated Debt	20,011	26,291	43,214
Investment Fluctuation Reserve	19,032	21,732	1,334
B. Risk-weighted Assets	9,69,886	1,29,6,223	17,97,207
of which:			
Risk-weighted Loans and Advances	6,59,921	9,19,544	12,38,163
C. CRAR (A as per cent of B)	12.9	12.8	12.3
of which:			
Tier I	8.1	8.4	9.3
Tier II	4.8	4.4	3.1

Source : Off-site returns submitted by banks.

2006; (ii) a sharp increase in risk-weighted assets on account of higher credit growth (driven partly by shifting of risk free assets); and (iii) increase in risk weights for personal loans, real estate and capital market exposure.

3.82 Tier I capital adequacy ratio increased significantly to 9.3 per cent at end-March 2006 from 8.4 per cent at end-March 2005 partly due to transfer of IFR from Tier II capital and partly due to increase in reserves and surplus and raising of resources from the capital market, both domestic and international (Chart III.19). The higher Tier I ratio implies the more headroom for raising capital funds through the Tier II route.

Chart III.19: CRAR of Scheduled Commercial Banks
(As at end-March)



3.83 Among bank groups, the CRAR of new private sector banks improved, while those of all other bank groups declined. The CRAR of nationalised banks, which had improved marginally in the previous year, declined to the industry average at end-March 2006; the CRAR of the State Bank group and old private sector banks remained below the industry average. Despite decline to 13.0 per cent at end-March 2006, the CRAR of foreign banks was still higher than the industry average (Table III.37). The CRAR of SCBs declined on account of high growth of advances, increase in risk weights for certain

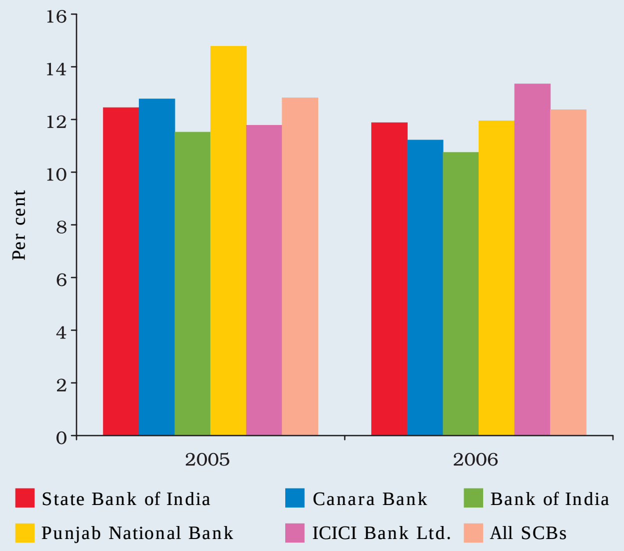
Table III.37: Capital Adequacy Ratio ñ Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	11.3	11.1	11.4	12.0	12.7	12.9	12.8	12.3
Public Sector Banks	11.3	10.7	11.2	11.8	12.6	13.2	12.9	12.2
Nationalised Banks	10.6	10.1	10.2	10.9	12.2	13.1	13.2	12.3
SBI Group	12.3	11.6	12.7	13.3	13.4	13.4	12.4	11.9
Old Private Sector Banks	12.1	12.4	11.9	12.5	12.8	13.7	12.5	11.7
New Private Sector Banks	11.8	13.4	11.5	12.3	11.3	10.2	12.1	12.6
Foreign Banks	10.8	11.9	12.6	12.9	15.2	15.0	14.0	13.0

Source : Off-site returns submitted by banks.

Chart III.20: CRAR of Five Largest Banks
(As at end-March)



sensitive sectors, and also application of capital charge for market risk in respect of AFS category of investments.

3.84 The CRAR of five largest banks, which accounted for 40.7 per cent of total assets of SCBs, behaved in a divergent manner. The CRAR of all banks, except ICICI Bank, declined during the year (Chart III.20).

3.85 At the individual bank level, the CRAR of all banks barring two banks (Sangli Bank Ltd. and United Western Bank)[5] in the old private sector group, was above the minimum capital requirement of nine per cent. The CRAR of as many as 78 banks was above 10 per cent (Table III.38 and Appendix Table III.30). At this level, commercial banks on the whole should be able to meet the Basel II standards of capital adequacy.

6. Banksí Operations in the Capital Market

3.86 In order to meet the requirements of Basel II and increased demand for credit, several commercial banks accessed the capital market during 2005-06.

Resources Raised by Banks from the Primary Capital Market

3.87 Scheduled commercial banks, both in public and private sectors, raised large amount of resources from the domestic and international capital markets to strengthen their capital base. Total resource mobilisation by banks through public issues in the domestic capital market during 2005-06 increased by 24.0 per cent. Encouraged by a firm trend in the prices of the banking sector, eleven banks raised Rs.11,067 crore from the equity market during 2005-06. This included six equity issues aggregating Rs.5,413 crore by public sector banks and five equity issues aggregating Rs.5,654 crore (including premium) by private sector banks (Table III.39).

Table III.38: Distribution of Scheduled Commercial Banks by CRAR

(Number of banks)

Bank Group	2004-05				2005-06			
	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	ñ	ñ	2	17	ñ	ñ	ñ	19
State Bank Group	ñ	ñ	ñ	8	ñ	ñ	ñ	8
Other Public Sector Bank	ñ	ñ	ñ	1	ñ	ñ	ñ	1
Old Private Sector Banks	1	1	3	15	2	ñ	1	16
New Private Sector Banks	ñ	ñ	2	7		ñ	1	7
Foreign Banks	ñ	ñ	1	30	ñ	ñ	2	27
Total	**1**	**1**	**8**	**78**	**2**	**ñ**	**4**	**78**

ñ : Nil/Negligible.

[5] As the CRAR of United Western Bank turned negative, the bank was placed under moratorium and later merged with the IDBI Ltd. (details in Box III.1).

Table III.39: 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	ñ	ñ	1,352	1,104	1,352	**2,456**
2004-05	3,336	ñ	4,108	1,478	7,444	1,478	**8,922**
2005-06	5,413	†ñ	†5,654	†ñ	†11,067	†ñ	**†11,067**

ñ : Nil/Negligible.

3.88 Six public sector banks accessing the capital market were Allahabad Bank, Oriental Bank of Commerce, Syndicate Bank, Andhra Bank, Bank of Baroda and Union Bank of India (Table III.40). Five private sector banks, which raised resources from the capital market during the year were Lakshmi Vilas Bank Ltd., Yes Bank Ltd., ICICI Bank Ltd., the South Indian Bank Ltd. and the United Western Bank Ltd.

3.89 None of the banks raised debt through public issues. Resources raised through the private placement market by banks also increased sharply by 98.1 per cent during 2005-06 (Table III.41).

Table III.40: Resources Raised by Banks through Public Issues ñ 2005-06

Name of the Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
A. Public Sector Banks			**409**	**5,004**	**5,413**
Allahabad Bank	10	82	100	720	820
Oriental Bank of Commerce	10	250	58	1,392	1,450
Syndicate Bank	10	50	50	200	250
Andhra Bank	10	90	85	680	765
Bank of Baroda	10	230	71	1,562	1,633
Union Bank of India	10	110	45	450	495
B. Private Sector Banks			**218**	**5,436**	**5,654**
Lakshmi Vilas Bank Ltd.	10	50	9	36	45
Yes Bank Ltd.	10	45	70	245	315
ICICI Bank Ltd.	10	525	98	5,003	5,101
South Indian Bank Ltd.	10	66	23	127	150
United Western Bank Ltd.	10	24	18	25	43
Total (A+B)			**627**	**10,440**	**11,067**

Performance of Banking Stocks in the Secondary Market

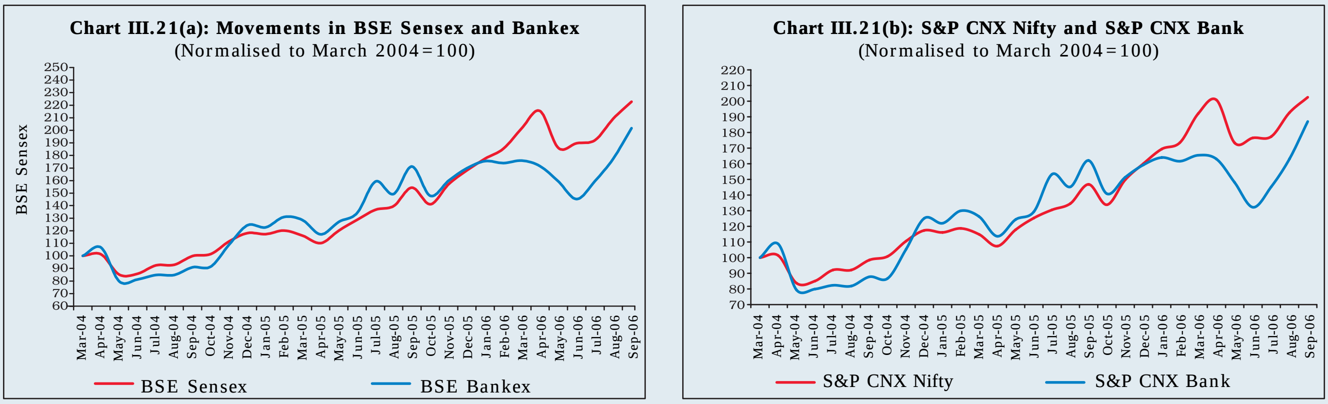
3.90 Continuing the trend of the previous year, the stock markets in India witnessed buoyant conditions during 2005-06 on the back of strong FIIs inflows, driven mainly by robust macroeconomic fundamentals and strong corporate profitability. The BSE Sensex closed at an all-time high level of 12,612.38 on May 10, 2006. However, immediately thereafter, the domestic stock markets witnessed a sharp correction in line with major international equity markets, especially emerging markets, mainly due to sharp decline in base metal prices on London Metal Exchange (LME) and fears of further rise in US interest rates. Heavy net sales by FIIs in the Indian equity market, concerns over sharp rise in global crude oil prices and depreciation of rupee *vis-‡-vis* major currencies also dampened the market sentiment. The BSE Sensex touched 8,929 on June 14, 2006, registering a decline of 20.8 per cent over end-March 2006. Stock markets, however, recouped the losses as the BSE sensex reached a new high of 13,131 on November 3, 2006, reflecting fresh buying by FIIs, strong macroeconomic fundamentals, robust corporate performance and recovery in major international stock markets.

Table III.41: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	2004-05		2005-06	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
A. Public Sector Banks	43	9,039	73	22,317
B. Private Sector Banks	44	6,180	24	7,834
Total (A+B)	**87**	**15,219**	**97**	**30,151**

Chart III.21: Movements in Bank Stocks and the Stock Markets



3.91 In line with the general uptrend, banking sector stocks also remained firm up to December 2005 [Chart III.21(a) and 21(b)]. Apart from favourable macroeconomic fundamentals, bank stocks were driven by some sector-specific developments. The progress of the banking sector reforms along with improvement in bankís balance sheets resulted in an increased interest in bank stocks. Banking sector scrips also gained due to several other factors such as, permission to banks to issue perpetual bonds and other hybrid instruments, favourable proposals in the Union Budget, 2006-07 relating to the banking sector such as conversion of non-tradable special securities into tradable SLR Government of India dated securities and inclusion of fixed deposits of scheduled banks of term not less than five years in Section 80C of the Income Tax Act.

3.92 Beginning January 2006, however, market participants revised downward their expectations of future earnings by banks on account of several factors such as uncertainty of interest rates, hikes in the US Fed Rate, lower than expected financial results of some major banks, concerns over rise in cost of funds of banks and squeeze in banksí profits due to increased loan provisioning and depreciation of investments. Reflecting this, the banking sector stocks underperformed the market during January to June 2006. However, performance of bank stocks improved begining July 2006 due to strong expectations of higher earnings and overall recovery in the stock market. The banking stocks, which underperformed in comparison with the general market and important sectoral indices during 2005-06, outperformed both the market and sectoral indices during 2006-07 (April-September) (Table III.42).

3.93 The returns generated by the banking stocks during 2005-06 at 36.8 per cent were higher than those in the previous year (28.6 per cent). The increase in returns during 2005-06 was particularly significant when viewed along with low volatility (measured in terms of co-efficient of variation) of banking stocks (Table III.43).

Table III.42: Return on Banking Stocks*

(Per cent)

Year	BSE 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
2005-06	73.7	65.2	36.8	109.9	49.2	44.0	156.0	115.4
2006-07 (April-September)	10.4	4.9	14.7	-6.6	9.0	-4.9	0.4	-3.4

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

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

Indices	Returns*		Volatility@	
	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5
Bankex	28.6	36.8	17.1	11.8
BSE Sensex	16.1	73.7	11.2	16.7

* : Percentage variations in indices on a point-to-point basis.
@ : Co-efficient of Variation.

3.94 At an individual bank level, the scrips of most of public and private sector banks witnessed gains during 2005-06, except Oriental Bank of Commerce, Karur Vysya Bank Ltd. and Bank of Punjab Ltd. Among the public sector banks, the major gainers during 2005-06 were: State Bank of Mysore (90.3 per cent), Bank of India (72.8 per cent), Syndicate Bank (71.3 per cent), Allahabad Bank (65.8 per cent), Indian Overseas Bank (57.7 per cent), Andhra Bank (53.3 per cent), State Bank of Travancore (52.2 per cent) and State Bank of India (49.6 per cent). Among the private sector banks, the major gainers during 2005-06 included Kotak Mahindra Bank Ltd. (115.6 per cent), Karnataka Bank Ltd. (94.1 per cent), Centurion Bank of Punjab Ltd. (73.6 per cent), UTI Bank Ltd. (70.6 per cent), ICICI Bank Ltd. (63.5 per cent) and HDFC Bank Ltd. (50.5 per cent). The price/earning ratio of both public and private sector banks ranged widely. At end-March 2006, while the P/E ratio of public sector banks ranged between 5.0 and 26.0, the P/E ratio of private sector banks ranged between 4.8 and 143.6 with one bank (United Western Bank) having negative P/E ratio (Table III.44).

3.95 Bank stocks constituted a significant portion of market capitalisation of the Indian equity market at end-March 2006, even though there was some slide in their share. The share of turnover of bank stocks in total turnover declined during 2005-06 (Table III.45).

Shareholding Pattern in Public Sector Banks

3.96 The process of diversification of ownership of public sector banks continued during 2005-06. The number of public sector banks in which private shareholding ranged between 40-49 per cent increased from six at end-March 2005 to 11 as at end-March 2006. In three

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

Name of the Bank	Average Daily Closing Prices (Rs.)		P/E Ratios End-March	
	2004-05	2005-06	2005	2006
1	2	3	4	5
Public Sector Banks				
Allahabad Bank	51.5	85.4	6.2	5.0
Andhra Bank	62.8	96.3	8.3	8.1
Bank of Baroda	191.1	226.2	9.5	10.4
Bank of India	67.7	117.0	14.8	9.2
Bank of Maharashtra	30.3	33.4	8.0	26.0
Canara Bank	163.6	225.2	7.4	8.2
Corporation Bank	297.6	370.6	12.4	12.3
Dena Bank	28.9	32.9	15.0	14.3
Indian Overseas Bank	57.0	89.9	6.4	6.7
Oriental Bank of Commerce	276.9	260.5	8.2	10.6
Punjab National Bank	322.9	420.4	8.8	10.3
Syndicate Bank	44.2	75.7	6.3	8.7
Union Bank of India	81.9	118.5	7.2	9.1
Vijaya Bank	55.2	60.5	7.3	18.0
State Bank of India	542.5	811.7	8.0	11.6
State Bank of Bikaner and Jaipur	2,044.2	2,757.4	5.7	14.4
State Bank of Mysore	1,845.5	3,513.3	3.5	10.6
State Bank of Travancore	1,772.0	2,697.7	4.1	8.0
UCO Bank	24.2	28.0	7.0	9.1
Old Private Sector Banks				
Bank of Rajasthan Ltd.	45.5	52.1	17.3	31.2
City Union Bank Ltd.	75.9	97.8	4.4	4.8
Dhanalakshmi Bank	25.4	31.8	-4.1	10.5
Federal Bank Ltd.	122.0	175.6	11.2	7.7
ING Vysya Bank	129.5	158.4	-36.7	143.6
IndusInd Bank Ltd.	48.9	61.4	7.1	36.9
Jammu and Kashmir Bank Ltd.	329.8	442.3	15.3	12.4
Karnataka Bank Ltd.	52.9	102.7	5.8	6.9
Karur Vysya Bank Ltd.	360.6	240.4	7.0	6.5
Kotak Mahindra Bank Ltd.	89.5	193.0	49.5	72.7
South Indian Bank Ltd.	56.9	65.7	35.1	8.5
United Western Bank	34.8	37.5	-1.4	-2.4
New Private Sector Banks				
Bank of Punjab Ltd.*	25.5	N.A.	-5.4	N.A.
Centurion Bank of Punjab Ltd.	11.0	19.1	60.3	42.6
HDFC Bank Ltd.	437.4	658.5	25.3	27.8
ICICI Bank Ltd.	309.7	506.3	14.4	20.6
UTI Bank Ltd.	160.3	273.1	19.8	20.5
Yes Bank	N.A.	72.1	N.A.	49.0

N.A. : Not Applicable.
***** : Bank of Punjab Ltd. was merged with Centurion Bank Ltd. from October 1, 2005.
Note : Averages are calculated using daily closing prices.
Source: Money Line Telerate and Prowess Database, CMIE.

public sector banks, the private shareholding ranged between 30-40 per cent, and in another three between 20-30 per cent. However, there were

Table III.45: Relative Share of Bank Stocks ñ 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
2004-05	10.8	8.6
2005-06	6.8	7.1
2006-07 (April-September)	4.7	7.6

* : As at end of the period.
Note : Data for turnover and market capitalisation of banks relate to CNX Bank Index of NSE.

still four public sector banks in which Government shareholding was more than 90 per cent (Table III.46 and Appendix Table III.31).

3.97 Foreign Financial Institutions (FFIs) continued to show interest in Indian banks during 2005-06. As at end-March 2006, there were 20 Indian banks (twelve public sectors banks, five new private sector banks and three old private sector banks) in which shareholding of Financial Institutions (Non-Resident) was more than 10 per cent (Table III.47).

7. Technological Developments in Banks

3.98 Technology has played a significant role in improving the efficiency of the financial system in recent years. It is also being viewed as an excellent tool for providing a fairly exhaustive range of products and extending banking facilities to the vast multitude of population. Indian

Table III.46: Private Shareholding in Public Sector Banks*
(As on March 31, 2006)

Category	Number of Banks
1	2
Up to 10 per cent	4
More than 10 and up to 20 per cent	ñ
More than 20 and up to 30 per cent	3
More than 30 and up to 40 per cent	3
More than 40 and up to 49 per cent	11

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

Table III.47: Foreign Financial Institutions (Non-resident) Shareholding in Indian Banks
(As on March 31, 2006)

Category	Number of Banks		
	Public Sector Banks	New Private Sector Banks	Old Private Sector Banks
1	2	3	4
Nil	14	3	11
Up to 10 per cent	2	ñ	4
More than 10 and up to 20 per cent	10	2	1
More than 20 and up to 30 per cent	2	1	1
More than 30 and up to 40 per cent	ñ	ñ	ñ
More than 40 and up to 50 per cent	ñ	1	1
More than 50 and up to 60 per cent	ñ	ñ	ñ
More than 60 and up to 70 per cent	ñ	ñ	ñ
More than 70 and up to 80 per cent	ñ	1	ñ

banking sector has made a quantum leap forward in terms of switching over from paper-based transactions, which include use of currency notes, cheques or challans, to electronic means, which include Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT) and other electronic modes. Computerisation of banking business received high importance in 2005-06. For this purpose, banks invested heavily in technology. Between September 1999 and March 2006, public sector banks incurred an expenditure of Rs.10,676 crore on computerisation and development of communication networks (Appendix Table III.32).

3.99 The number of branches providing ëcore banking solutionsí (CBS) has increased significantly in recent years. The CBS provides a host of benefits such as ëanywhere bankingí, ëanywhere accessí and quick funds movement at optimal costs and in an efficient manner. While new private sector banks, foreign banks and a few old private sector banks have already put in place core banking solutions, public sector banks are increasingly adopting similar systems. The total number of branches providing CBS increased from 11.0 per cent as on March 31, 2005 to 28.9 per cent as on March 31, 2006 (Table III.48 and Appendix Table III.33). Many of the PSBs having fully computerised branches adopted CBS during the year.

Table III.48: Computerisation in Public Sector Banks
(As on March 31, 2006)

(Per cent)

	1	2
i)	Branches already Fully Computerised #	48.5
ii)	Branches Under Core Banking Solutions	28.9
iii)	Fully Computerised Branches (i+ii)	77.5
iv)	Partially Computerised Branches	18.2

: Other than branches under Core Banking Solutions.

3.100 More than 95 per cent branches of public sector banks at end-March 2006 were fully or partially computerised. Out of 27 public sector banks, branches of as many as ten public sector banks were 100 per cent computerised, while branches of another 12 banks were more than 50 per cent computerised (Table III.49). Branches of only five PSBs were less than 50 per cent computerised.

3.101 Total number of ATMs installed by the banks were 21,147 at end-March 2006. Nationalised banks accounted for the largest share of installed ATMs, followed by the new private sector banks, SBI group, old private sector banks and foreign banks (Table III.50). While SBI group, new private sector banks and foreign banks had more off-site ATMs, nationalised and old private sector banks had more on-site ATMs (Chart III.22).

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

Table III.49: Computerisation of Branches ñ Public Sector Banks
(As on March 31, 2006)

Extent of Computerisation	Number of Banks
1	2
Nil	ñ
Up to 10 per cent	1
More than 10 and up to 20 per cent	ñ
More than 20 and up to 30 per cent	2
More than 30 and up to 40 per cent	2
More than 40 and up to 50 per cent	ñ
More than 50 and up to 60 per cent	3
More than 60 and up to 70 per cent	2
More than 70 and up to 80 per cent	2
More than 80 and up to 90 per cent	ñ
More than 90 and less than 100 per cent	5
Fully Computerised	10
Total*	**27**

* : Excludes IDBI Ltd.

3.103 Convenience and easy acceptability of credit cards and technological advances have resulted in a continuous rise in retail electronic and card-based mode of payments. The volume and value of card and electronic based payments more than doubled in 2006 from the previous year (Table III.51).

3.104 Reflecting the increasing use of electronic and card-based payments in retail transactions, their share in total transactions constituted 46.7 per cent in terms of volume and 51.2 per cent in terms of value in 2006. The use of electronic mode of payment increased both in terms of volume and

Table III.50: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2006)

Bank Group	Number of Branches					Number of ATMs			Per cent of Off-site to total ATMs
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10
i) Nationalised Banks	12,992	7,120	7,056	7,017	34,185	4,812	2,353	7,165	32.8
ii) State Bank Group	5,229	4,043	2,449	2,110	13,831	1,775	3,668	5,443	67.4
iii) Old Private Sector Banks	936	1,447	1,236	947	4,566	1,054	493	1,547	31.9
iv) New Private Sector Banks	97	322	674	857	1,950	2,255	3,857	6,112	63.1
v) Foreign Banks	ñ	1	37	221	259	232	648	880	73.6
Total (i to v)	**19,254**	**12,933**	**11,452**	**11,152**	**54,791**	**10,128**	**11,019**	**21,147**	**52.1**

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

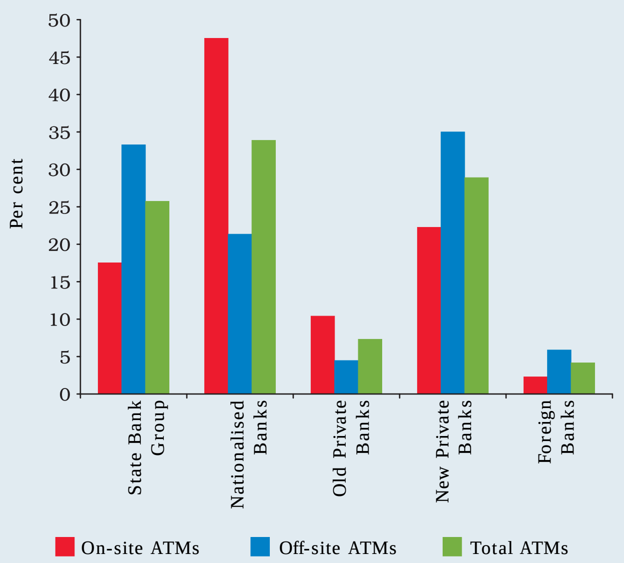
(Volume in thousand; Value in Rs. crores)

Year	Retail Electronic@		Card-based #		Total	
	Volume	Value	Volume	Value	Volume	Value
1	2	3	4	5	6	7
2001-02	178	6,123	N.A.	N.A.	178	6,123
2002-03	237	10,222	N.A.	N.A.	237	10,222
2003-04	290	29,606	1862	35,889	2,152	65,496
2004-05	579	77,702	3615	77,267	4,194	1,54,969
2005-06	832	1,06,599	10453	2,36,994	11,286	3,43,593

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

value during 2005-06 compared with the previous year (Table III.52, Chart III.23).

Chart III.22: ATMs ñ Bank Group-wise Share
(As at end-March 2006)



3.105 The RTGS was operationalised on March 26, 2004. Its usage for transfer of funds, especially for large values and for systemically important purposes, has increased since then. The inter-bank paper-based clearing was discontinued at all the RBI centres from June 2005. All inter-bank

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

Year	Paper-based	Electronic	Total
1	2	3	4
		Volume (in lakhs)	
2002-03	10,139	1,730	11,869
2003-04	10,228	2,152	12,380
2004-05	11,671	4,200	15,871
2005-06	12,895	11,300	24,195
		Value (Rs. crore)	
2002-03	1,34,24,313	37,536	1,34,61,849
2003-04	1,15,95,960	67,461	1,16,63,421
2004-05	1,01,20,716	42,21,153	1,43,41,869
2005-06	1,13,37,062	1,18,84,429	2,32,21,491

Chart III.23: Paper-based *Versus* Electronic Transactions ñ Relative Flows (Value)

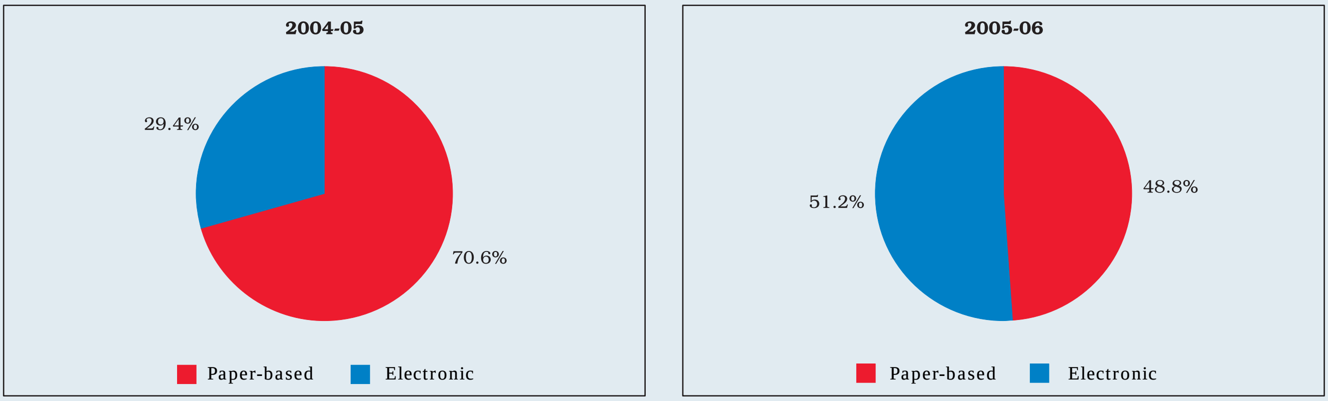


Chart III.24: Progress in RTGS

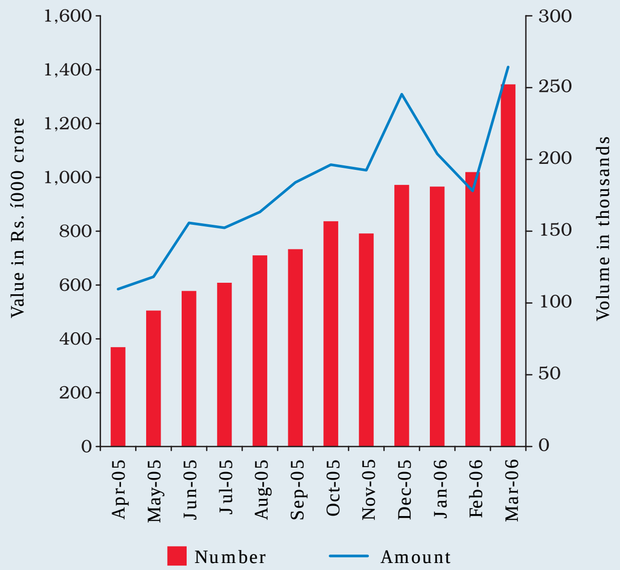
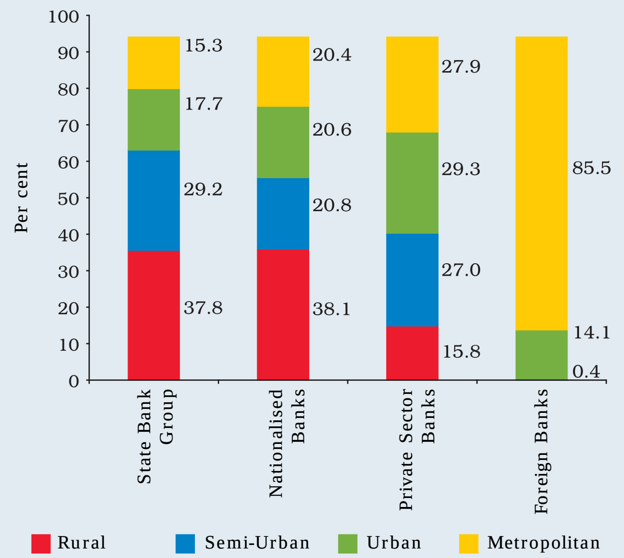


Chart III.25: Distribution of Branches : Bank Group-Wise (As at end-June 2006)



transactions are now settled through RTGS. Apart from inter-bank funds transfer, the RTGS system facilitates customer transactions. As at end-March 2005, the number of RTGS branches reached about 23,000. The volume crossed 200,000 transactions a month by March 2006 (Chart III.24).

8. Regional Spread of Banking

3.106 The total number of branches of SCBs at end-June 2006 increased to 69,417 (from 68,549 at end-June 2005), comprising 30,776 rural branches, 15,370 semi-urban branches and 23,271 urban and metropolitan branches. The share of rural branches declined further to 44.3 per cent during 2005-06 from 44.9 per cent in the previous year, while those of metropolitan branches increased marginally from 16.0 per cent to 16.2 per cent. The share of semi-urban and urban branches during the year remained almost unchanged at around 22.0 per cent and 17.0 per cent, respectively. The decline in the share of rural branches was on account of a large number of new branches opened in the urban and metropolitan centres (Chart III.25 and Appendix Table III.35).

3.107 The top hundred centres arranged according to the size of deposits accounted for 67.0 per cent of total deposits, and the top hundred centres arranged according to the size of bank credit accounted for 76.5 per cent of total bank credit at end-March 2006 (Table III.53). The share of top hundred centres in total deposits and total bank credit increased from their respective levels at end-March 2005.

3.108 The Southern region continued to account for the highest percentage of existing bank branches, followed by the Central, the Eastern, the Northern and the Western regions. The share of North-Eastern region remained low at 2.8 per cent at end-March 2006. During 2005-06, most of the new branches were opened in the Northern (286) and Southern (252) regions. The average population served by a single bank branch in various regions remained more or less at the previous yearís level (Chart III.26 and Appendix Table III.36).

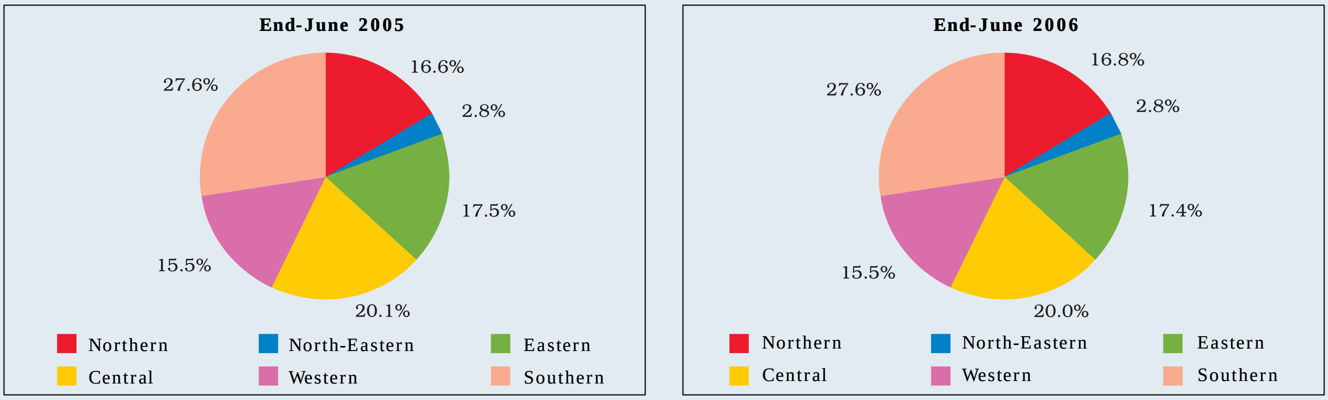
Table III.53: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(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	75.9
2006	24.2	67.0	24.0	76.5

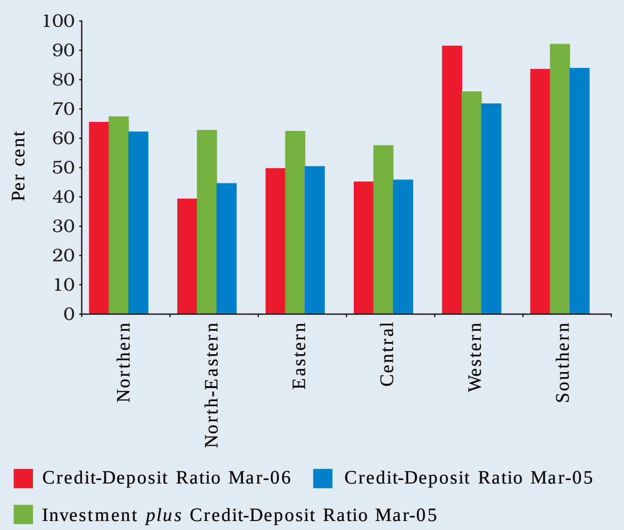
Source : Basic Statistical Return-7.

Chart III.26: Regional Distribution of Bank Branches



3.109 The all-India C-D ratio (as per sanctions) increased sharply to 72.5 per cent at end-March 2006 from 66.0 per cent at end-March 2005. The credit-deposit ratio as well as investment plus credit-deposit ratio of Western and Southern regions remained higher than the all-India level (Chart III.27). While credit-deposit (C-D) ratio in most of the States increased in line with the all-India trend, C-D ratio of some of the States, *viz.*, Chandigarh, Daman and Diu, Goa, Jammu and Kashmir, Meghalaya and Nagaland witnessed a moderate to sharp decline (Appendix Table III.37). The credit-deposit ratio in six States/ Union Territories, including Andhra Pradesh, Chandigarh, Karnataka, Maharashtra, Rajasthan and Tamil Nadu was higher than the all-India level.

Chart III.27: Region-wise Credit-Deposit Ratio and Investment *Plus* Credit-Deposit Ratio of Scheduled Commercial Banks



Foreign Banksí Operations in India

3.110 The total number of foreign banks operating in India was 29 as on September 30, 2006. These banks originated from 19 countries. The 258 branches of foreign banks were spread over 40 centres across 19 States/Union territories. While four banks had 10 or more branches at end-March 2006, nine banks were operating only with one branch each. During July 2005 and June 2006, the existing foreign banks in India were granted approval to open 13 additional branches.

3.111 ING Bank N.V. stopped its banking activities in India from October 28, 2005. The Bank of Tokyo-Mitsubishi Ltd. merged its banking business operations globally with UFJ Bank Ltd., with effect from January 1, 2006, and the new merged entity is known as ëThe Bank of Tokyo-Mitsubishi UFJ Ltd.í Accordingly, the notifications under Section 42(6) (b) and (c) of the Reserve Bank of India Act, 1934, directing the exclusion of UFJ Bank Ltd. from the Second Schedule and indicating the change in name of the new entity were issued. Approval was also granted to Chohung Bank for change in its name to ëShinhan Bankí under Section 42(6) (c) of the Reserve Bank of India Act, 1934 and the relative notification was issued on July 25, 2006.

3.112 While seven foreign banks, *viz.*, Commonwealth Bank of Australia, *Banche Popolari Unite S.c.r.l.*, *Vneshtorgbank*, *Promsvyazbank*, *Banca popolare di Vicenza*, Monte *Dei Paschi Di Siena* and *Zurcher Kontanalbank* set up representative offices in India, three representative offices, *viz.*, *Baden Wruttembergische Bank A.G.*, Union Bank of California and Mizuho Corporate Bank Ltd. closed their operations in India. The Baden *Wruttembergische Bank A.G.* and Union Bank of California amalgamated with *Landesbank Baden-Wurthemberg A.G* and *Wachovia Bank*, respectively. As on September 15, 2006, 31 banks from 14 countries had representative offices in India. Thus, on the whole, 60 foreign banks have presence in India either through branches or representative offices (Table III.54).

Indian Banksí Operations Abroad

3.113 As on September 30, 2006, eighteen Indian banks had overseas operations spread over 47 countries with a network of 112 branches (including offshore units), 6 joint ventures, 18 subsidiaries and 35 representative offices (Table III.55). Bank of Baroda had highest overseas presence with 39 branches, 7 subsidiaries, one joint venture bank and 3 representative offices in 20 countries,

Table III.54: List of Foreign Banks Operating in India ñ Country-wise

(As at end-September, 2006)

Sr. No.	Name of Bank	Country of Incorporation	No. of branches in India
1	2	3	4
1	ABN-AMRO Bank N.V.	Netherlands	24
2	Abu Dhabi Commercial Bank Ltd.	UAE	2
3	Arab Bangladesh Bank Ltd.	Bangladesh	1
4	American Express Bank Ltd.	USA	7
5	Antwerp Diamond Bank N.V.	Belgium	1
6	Bank International Indonesia	Indonesia	1
7	Bank of America	USA	5
8	Bank of Bahrain & Kuwait BSC	Bahrain	2
9	Bank of Nova Scotia	Canada	5
10	Bank of Tokyo-Mitsubishi UFJ Ltd.	Japan	3
11	BNP Paribas	France	8
12	Bank of Ceylon	Sri Lanka	1
13	Barclays Bank Plc	UK	1
14	Calyon Bank	France	5
15	Citi Bank N.A.	USA	39
16	Shinhan Bank	South Korea	1
17	Chinatrust Commercial Bank	Taiwan	1
18	Deutsche Bank	Germany	8
19	DBS Bank Ltd.	Singapore	2
20	HSBC Ltd.	Hongkong	45
21	JP Morgan Chase Bank N.A.	USA	1
22	Krung Thai Bank Public Co. Ltd.	Thailand	1
23	Mizuho Corporate Bank Ltd.	Japan	2
24	Mashreq Bank PSC	UAE	2
25	Oman International Bank SAOG	Sultanate of Oman	2
26	Standard Chartered Bank	UK	81
27	Sonali Bank	Bangladesh	2
28	Societe Generale	France	2
29	State Bank of Mauritius	Mauritius	3
	Total		**258**

Table III.55: Overseas Operations of Indian Banks

(As on September 30, 2006)

(Actually operational)

Name of the Bank	Branch	Subsidiary	Representative Office	Joint Venture Bank	Total
1	2	3	4	5	6
Punjab National Bank	1	ñ	4	1	6
State Bank of India	30	5	7	3	45
Bank of India	20	1	4	1	26
Bank of Baroda	40	7	3	1	51
Indian Bank	3	ñ	ñ	ñ	3
Indian Overseas Bank	5	1	2	ñ	8
UCO Bank	4	ñ	1	ñ	5
Canara Bank	1	1	1	ñ	3
Syndicate Bank	1	ñ	ñ	ñ	1
Bharat Overseas Bank	1	ñ	ñ	ñ	1
ICICI Bank Ltd.	5	3	7	ñ	14
IndusInd Bank Ltd.	ñ	ñ	2	ñ	2
Centurian Bank of Punjab Ltd. ñ	ñ	1	ñ	1	
HDFC Bank Ltd.	ñ	ñ	1	ñ	1
UTI Bank Ltd.	1				1
Andhra Bank			1		1
Allahabad Bank			1		1
Total	**112**	**18**	**35**	**6**	**171**

ñ : Nil.

followed by State Bank of India with 30 branches, five subsidiaries, three joint venture banks and seven representative offices in 29 countries and Bank of India with 20 branches, one subsidiary, two joint venture banks and three representative offices in 14 countries.

3.114 Offshore Banking Units (OBUs) of banks set up in Special Economic Zones (SEZs) operate like foreign branches of the Indian banks, but located in India. These OBUs are exempt from CRR and SLR requirements. They provide finance to SEZ units and SEZ developers at international rates. As such, under the scheme for Offshore Banking Units, 14 approvals were issued to 10 banks for opening of such units. Initially, six banks *viz*., State Bank of India, Bank of Baroda, Union Bank of India, Oriental Bank of Commerce, Punjab National Bank (PNB) and ICICI Bank were given ëin principleí approval to open nine OBUs in SEZs: six in SEEPZ, Mumbai and one each in Kandla, Surat and Cochin. Subsequently in the second phase, five banks (*viz*. PNB, Canara Bank, Bank of India, HDFC Bank and Vijaya Bank) were given permission to open five OBUs: two in Noida, UP and three in SEEPZ, Mumbai. Vijaya Bank, which was permitted to open an OBU in SEEPZ, Mumbai in 2003, did not renew its licence.

Currently, six banks, *viz*. State Bank of India, Bank of Baroda, Union Bank of India, Punjab National Bank, ICICI Bank Ltd. and Canara Bank have opened seven OBUs (up to September 2006). Of the seven functioning OBUs, five are located in SEEPZ, Mumbai and one each in SEEPZ, Noida (Canara Bank) and Kochi, Kerala (SBI).

9. Customer Service and Financial Inclusion

3.115 The Reserve Bank has been taking measures, on an ongoing basis, for protection of customersí rights, enhancing the quality of customer service and strengthening the grievance redressal mechanism in banks. To address the issue of banking services to the common man in particular, the Reserve Bank appointed the Committee for Procedures and Performance Audit of Public Services (CPPAPS) (Chairman: Shri S.S. Tarapore), and constituted a separate Customer Service Department (CSD).

3.116 The Reserve Bank has been making concerted efforts to promote financial inclusion since 2004. In November 2005, banks were specifically advised to make available a basic banking ëno-frillsí account with low or nil balances as well as charges, to expand the outreach of such accounts to vast sections of the population. Several banks have since introduced such ëno-frillsí accounts with and without value-added features.† According to the information available with the Reserve Bank, about five lakh ëno-frillsí accounts were opened till March 31, 2006, of which about two-third were with public sector banks and one-third with private sector banks.

3.117 Complaints received against commercial banks located in the jurisdiction of various Regional Offices of the Reserve Bank for the period July 1, 2005 to June 30, 2006 have been collated and categorised into seven broad heads, *viz*., deposit accounts, remittance/collection facility, loans/advances (general and housing loan), credit cards, activities of direct selling agents (DSAs), harassment in recovery of loans, and general/others. Although number of complaints received against public sector banks, in absolute terms, were the largest, average complaints per branch for public sector banks was much lower ranging from 0.02 to 0.49, as against 0.01 to 1.39 for private sector banks and 0.11 to 8.59 in the case of foreign banks. Most of the complaints were in the category of credit cards (17.20 per cent), followed by deposit accounts (16.39 per cent). Complaints in respect of credit cards were largely against foreign banks and new private sector banks (Appendix Table III.38).

10. Regional Rural Banks

3.118 Regional rural banks (RRBs) have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India, particularly for providing loans to the target groups, including the priority sector. In order to provide a thrust to agricultural lending, the Government of India announced a policy in 2004 to double the flow of credit by banks to the agriculture in three years. With a view to providing guidance to RRBs and monitoring credit flow to agriculture, the Reserve Bank constituted Empowered Committees at all its Regional Offices. In order to make RRBs an important vehicle of credit delivery in rural areas, the Reserve Bank announced, in December 2005, a special package with the following salient features. First, sponsor banks were advised to provide lines of credit to RRBs at reasonable rates of interest to enhance their resource base. Further, RRBs were given access to inter-RRB term money/borrowings and also to the repo/CBLO markets. Second, RRBs were permitted to set up off-site ATMs, issue debit/ credit cards and also to handle pension/ Government business as sub-agents of banks authorised to conduct Government business. Third, the Reserve Bank indicated that taking into account their financial position, requests from RRBs could be considered for opening of currency chests. Fourth, the Reserve Bank is reviewing the existing norms for conduct of various types of foreign exchange transactions by RRBs with a view to allowing them to undertake non-trade related current account transactions relating to release of foreign exchange for certain specified purposes such as overseas education, business travel, medical treatment and private visits. The role of RRBs and their financial performance have been evolving in response to policy initiatives as well as changing business environment (Box III.5).

3.119 In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, the Government of India - after consultation with NABARD, the concerned State Government/s and the sponsor bank/s- initiated State-level amalgamation of RRBs, sponsor bank-wise in September 2005 (Box III.6).

Box III.5: Emerging Role of RRBs

Regional Rural Banks (RRBs) were set up under the Regional Rural Banks Act, 1976. RRBs were expected to operate as State sponsored, region based and rural oriented commercial banks. The basic objective of this set of rural financial institutions was to have a feel and familiarity with local need, and professionally managed alternative channel for credit dispensation to small and marginal farmers, agricultural labourers, socio-economically weaker sections of population for development of agriculture, trade, commerce, industry and other productive activities. RRBs were expected to mobilise resources from rural areas and play a significant role in developing agriculture and rural economy by deploying mobilised resources in rural sectors for the needy not covered by SCBs despite their large network. Keeping this objective in view, the capital of RRBs is held by the Central Government, concerned State Government and sponsor bank in the proportion of 50:15:35.

Table 1: Investment and Advances of RRBs

(Rs. crore)

Item	2000-01	2004-05	2005-06
1	2	3	4
1. Share of Income from			
(i) Advances	34.8	49.7	53.8
(ii) Investment	60.5	42.9	39.5
2. ID Ratio*	72.2	59.2	57.6
3. CD Ratio	41.3	52.9	55.7

* : ID (Investment-Deposit) Ratio = Investments including other bank balances and other investments to total deposits.

Source : NABARD.

During the first decade of their operations, RRBs concentrated on expanding credit services, which were reflected in the credit-deposit ratio of more than 100 per cent up to 1987. Thereafter, the C-D ratio declined, reflecting a reorientation in their activities. However, the credit-deposit ratio improved to 55.7 per cent in 2005-06 from 41.3 per cent in 2000-01. This resulted in an increase in the share of income from advances from 34.7 per cent in 2000-01 to 53.8 per cent in 2005-06 (Table 1). The share of income from investment, in contrast, declined to 39.5 per cent in 2005-06 from 60.5 per cent in 2000-01.

In the wake of introduction of financial sector reforms in 1991-92, the commercial viability of RRBs emerged as the most crucial factor in deciding about their desired role in the emerging economic scenario. The financial health of RRBs turned weak mainly due to its limited business flexibility with hardly any scope of expansion/diversification, smaller size of loans with higher exposure to risk-prone advances and professional inefficiency in financial deployment. To strengthen RRBs and improve their performance, the Reserve Bank allowed RRBs to lend to non-target groups, deregulated their deposit and lending rates, and permitted investment of their surplus funds in profitable avenues. These measures were supported with well-defined business plan preparation from the branches, time bound implementation for attaining profitability, human resource development programmes, and organisational development initiatives as an integrated tool for turnaround.

The RRBs, which incurred losses of Rs.426 crore in 1995-96, started posting profits after various reform measures were introduced. Net profits increased to Rs.769 crore during 2003-04. Although net profits declined thereafter to Rs.510 crore during 2005-06, mainly because of reduction in net margin and also payment of arrears, the overall health of RRBs has improved significantly over the years. The productivity of RRBs, both in terms of per branch and per employee, increased significantly during last 10 years. An improvement in the performance of RRBs from 2000-01 onwards is particularly significant (Table 2).

Table 2: Business and Financial Indicators of RRBs**

Indicator†	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7
No. of RRBs	196	196	196	196	196	133*
Net Profit (Rs.crore)	600.6	607.9	519.3	768.7	748.2	510.3
Per Branch Productivity[1] (Rs.crore)	3.8	4.4	5.0	5.7	6.6	7.7
Per Employee productivity[2] (Rs.crore)	0.8	0.9	1.0	1.2	1.4	1.6
Accumulated Loss as percentage to Assets	5.6	4.7	4.4	3.9	3.5	2.9
Salary as percentage to Assets	2.0	2.2	2.3	2.6	2.0	1.8
Financial Return[3] (per cent)	9.4	10.6	9.6	8.9	8.2	6.6
Financial Cost[4] (per cent)	6.0	6.8	6.1	5.4	4.6	3.5
Financial margin[5] (per cent)	3.4	3.8	3.5	3.5	3.6	3.1
Risk, operational and other cost (per cent)	2.1	2.6	2.6	2.2	2.3	2.9
Net Margin[6] (per cent)	1.2	1.2	0.9	1.3	1.3	0.7

* : Reduction in number of RRBs was due to amalgamation, which began in September 2005.

Note :

1 Average level of business (in terms of total deposits and gross advances) per branch during the reporting year.
2 Average level of business (in terms of total deposits and gross advances) per employee of RRBs during the year.
3 Percentage of total income from both advances and investments against average working funds during the year.
4 Percentage of total interest expended for deposits, borrowings *etc.* against average working funds during the year.
5 Difference between the financial return and financial cost.
6 Difference between the financial margin and risk, operational and other costs, plus miscellaneous income.

Source : NABARD.

Box III.6: Amalgamation of RRBs

The Advisory Committee on Flow of Credit to Agriculture and Related Activities (Chairman: Shri V.S. Vyas) in June 2004 recommended restructuring of RRBs. Following this, an Internal Working Group on RRBs was set up in the Reserve Bank to examine various alternatives available within the existing legal framework for strengthening RRBs. The Group, in its Report submitted in June 2005, observed large variations in the number of districts covered and the branch network of RRBs. While 47 RRBs covered only one district each, 111 RRBs covered 2-3 districts, 29 RRBs 4-5 districts and 9 operated in 6-9 districts. Similarly, 72 RRBs had up to 50 branches, 87 RRBs 51-100 branches, 21 RRBs 101-150 branches and 16 had more than 150 branches. As many as 6 sponsor banks had only one RRB sponsored by them. While 11 sponsor banks had 2 - 4 sponsored RRBs, 3 sponsor banks had up to 10 RRBs and 8 sponsor banks had more than 10 RRBs sponsored by them in various States. Of these, only 2 sponsor banks had more than 20 RRBs.

In order to improve the operational viability of RRBs and take advantage of the economies of scale (by reducing transaction cost), the route of merger/amalgamation of RRBs was suggested taking into account the views of various stakeholders. The merged entities would have a larger area of operation and the merger process would help in strengthening some of the weak RRBs. A two-phase restructuring was suggested: (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. Merger of RRBs with the sponsor bank is not provided for in the RRBs Act 1976. Further, such mergers would go against the spirit of setting up of RRBs as local entities and for providing credit primarily to weaker sections.

The Government of India has initiated the first phase of amalgamation of RRBs sponsor bank-wise at State level to overcome the deficiencies prevailing in RRBs and making them viable and profitable units. The process of amalgamation of RRBs sponsor bank-wise at the State level started on September 12, 2005 with the issue of notification in respect of formation of 9 amalgamated entities. As on March 31, 2005, 196 RRBs were operating in 26 States across 523 districts (525 in 2005-06) with a network of 14,484 branches (14,489 in 2005-06). RRBs had a large branch network in the rural areas, which constituted nearly 45 per cent of rural branch network of all commercial banks. Till October 31, 2006, 137 RRBs were amalgamated to form 43 new RRBs, sponsored by 18 commercial banks in 15 States, bringing down the total number of RRBs in the country to 102 from 196. The amalgamation process of phase I is in process of being completed.

Revised guidelines regarding organisational set-up, appointment of Chairmen and fixation of seniority of staff were issued by NABARD to sponsor banks for implementation in their respective RRBs in the post-amalgamation period. NABARD is providing full guidance and support to smoothen the process of amalgamation.

After amalgamation, RRBs would become bigger in size with a larger area of operation, which would enable them to function in a competitive environment more effectively by taking advantage of the economies of scale and reduction in transaction cost. The process of bringing down the number of RRBs would also make it more convenient for the sponsor banks to manage the affairs of RRBs.

Financial Performance of RRBs

3.120 The consolidated balance sheet of RRBs expanded by 15.1 per cent during 2005-06, notwithstanding the decline in the number of RRBs to 133 at end-March 2006 (due to amalgamation) as compared with 196 at end-March 2005 (Table III.56). On the asset side, net advances of RRBs increased by 21.1 per cent during

Table III.56: Regional Rural Banks: Consolidated Balance Sheet

(Amount in Rs. crore)

Item	March 31, 2005	March 31, 2006 (P)	Percentage Variation	Item	March 31, 2005	March 31, 2006 (P)	Percentage Variation
1	2	3	4	5	6	7	8
Liabilities	**77,867**	**89,645**	**15.1**	**Assets**	**77,867**	**89,645**	**15.1**
Share Capital	196	196	ñ	††			
Reserves	3,819	4,271	11.8	Cash in Hand	966	1,033	6.9
Share Capital Deposits	2,167	2,180	0.6	Balances with RBI	3,026	3519	16.3
Deposits	62,143	71,329	14.8	Other Bank Balances	12,230	16,258	32.9
Currency	3,257	3,953	21.4	Other Investments	24,532	24,925	1.6
Savings	30,740	38,233	24.4	Loans and Advances (net)	31,803	38,520	21.1
Term	28,146	29,143	3.5	Fixed Assets	154	178	15.6
Borrowings from	5,524	7,303	32.2	Other Assets#	5,155	5,214	1.1
NABARD	5,067	6,291	24.2				
Sponsor Bank	450	959	113.4				
Others	8	53	552.1				
Other Liabilities	4,018	4,367	8.7				
Memorandum Items:	†	†	†				
a. Credit-Deposit Ratio	51.2	55.7					
b. Investment-Deposit Ratio	39.5	57.7	†				
c. (Credit+Investment)-Deposit Ratio	90.7	113.4					

ñ : Nil/Negligible. P : Provisional. # : Includes accumulated loss.

Source : NABARD.

2005-06. Among the major items on the liabilities side, borrowings increased by 32.2 per cent and total deposits by 14.8 per cent during the year.

3.121 In view of amalgamation of RRBs, the number of both profit-making and loss-making RRBs declined to 111 and 22, respectively, at end-March 2006 from 166 and 30, respectively, at end-March 2005 (Table III.57). The sharper decline in income as compared with the expenditure resulted in lower net profits of Rs.510 crore for RRBs during 2005-06 as compared with Rs.748 crore during 2004-05. The ratio of gross and net NPAs declined sharply during the year to 7.3 per cent and 4.0 per cent, respectively, enabled by improved recovery to the extent of 80 per cent.

3.122 RRBs issued loans to the extent of Rs.32,871 crore during 2005-06, out of which the share of priority sector was 79.3 per cent. As at end-March 2006, the outstanding advances of RRBs were Rs.39,713 crore, of which the share of priority sector was 81.7 per cent (Table III.58). The share of agricultural loans increased to 54.0 per cent at end-March 2006 from 50.8 per cent at end-March 2005, while the share of non-agricultural loans declined to 46.0 per cent from 49.2 per cent during the period.

Table III.57: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Items	2004-05			2005-06			Variation Col. (7) over Col. (4)
	Loss Making [30]	Profit Making [166]	RRBs [196]	Loss Making [22]	Profit Making [111]	RRBs [133]	
1	2	3	4	5	6	7	8
A. Income (i+ii)	**638**	**5,497**	**6,135**	**684**	**4,915**	**5,599**	**-536**
	†		†	†		†	**(-8.74)**
i. Interest Income	597	5,078	5,675	636	4,586	5,222	-453
	†		†	†		†	(-7.98)
ii. Other Income	41	419	460	48	329	377	-83
B. Expenditure (i+ii+iii)	**792**	**4,595**	**5,387**	**854**	**4,235**	**5,089**	**-298**
†	†		†	†		†	**(-5.52)**
i. Interest Expended	429	2,731	3,160	438	2,346	2,784	-376
†	†		†	†		†	(-11.91)
ii. Provisions and Contingencies	52	208	260	67	211	278	18
†	†		†	†		†	(6.75)
iii. Operating expenses	311	1,656	1,967	350	1,678	2,028	61
† *of which:*	†		†	†		†	(3.11)
† Wage Bill	249	1,277	1,526	291	1,290	1,581	55
C. Profit	**†**		†	†		†	†
i. Operating Profit	-102	1,110	1,008	-104	891	787	-221
†	†		†	†		†	(-21.91)
ii. Net Profit	-154	902	748	-170	681	510	-238
†	†		†	†		†	(-31.87)
D. Total Assets	**9,780**	**68,086**	**77,866**	**11,747**	**77,898**	**88,652**	**10,786**
†	**†**		**†**	**†**		**†**	**13.85**
E. Financial Ratios #	†		†	†		†	†
i) Operating Profit	-1.04	1.63	1.29	-0.88	1.14	0.89	†
ii) Net Profit	-1.57	1.32	0.96	-1.45	0.87	0.57	†
iii) Income	6.52	8.07	7.88	5.82	6.31	6.32	†
iv) Interest Income	6.10	7.46	7.29	5.41	5.89	5.89	†
v) Other Income	0.42	0.62	0.59	0.41	0.42	0.43	†
vi) Expenditure	8.10	6.75	6.92	7.27	5.44	5.74	†
vii) Interest expended	4.39	4.01	4.06	3.73	3.01	3.14	†
viii) Operating expenses	3.18	2.43	2.53	2.98	2.15	2.29	
ix) Wage Bill	2.55	1.88	1.96	2.47	1.66	1.78	†
x) Provisions and Contingencies	0.53	0.31	0.33	0.57	0.27	0.31	†
xi) Gross NPAs	†		8.50	†		7.30	†
xii) Net NPAs	†		5.15	†		3.96	†

: Ratios to Total Assets.

Note : 1. Figures within [ ] brackets represent number of RRBs.
2. Figures within brackets in col. 8 represent percentage variation over the year.
3. Data are provisional.

Source : NABARD.

Table III.58: Outstanding Advances by RRBs ñ Purpose-wise
(As at end-March)

(Amount in Rs. crore)

Purpose	2005	2006P
1	2	3
I. Agriculture (i to iii)	**16,710 (50.8)**	**21,394 (54.0)**
i. Short-term loans (crop loans)	10,980	14,690
ii. Term loans (for agriculture and allied activities)	5,730	6,704
iii. Indirect Advances	ñ	ñ
II. Non-agriculture (iv to vii)	**16,161 (49.2)**	**18,319 (46.0)**
iv. Rural Artisans, *etc.*	713	702
v. Other Industries	580	824
vi. Retail Trade, *etc.*	4,364	3,925
vii. Other purposes	10,504	12,868
Total (I+II)	**32,871**	**39,713**
Memo item:		
a) Priority Sector	26,077	32,453
b) Non-priority Sector	6,794	7,259
Share of priority Sector (per cent)	79.3	81.7

P : Provisional.
ñ : Nil / Negligible.
Note : Figures in brackets are percentages to the total.
Source : NABARD.

11. Local Area Banks

3.123 Four local area banks (LABs) were functional at end-March 2006. These 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. Assets, deposits and gross advances of all local area banks increased significantly during 2005-06 (Table III.59).

Table III.59: Profile of Local Area Banks

(Amount in Rs. crore)

Banks	Assets		Deposits		Gross Advances	
	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	179	252	151	215	90	135
Coastal Local Area Bank Ltd.	45	64	36	50	20	30
Krishna Bhima Samruddhi Local Area Bank Ltd.	17	29	8	13	12	19
Subhadra Local Area Bank Ltd.	12	19	5	12	8	13

Source : Based on off-site returns.

3.124 The income of LABs registered a sharp rise during 2005-06. The high growth of income was mainly on account of interest income. On the expenditure side, interest expenditure and operating expenditure registered a significant rise during the year. The rise in income was more than the expenditure, resulting in higher net profit of 2.8 per cent as compared with 0.9 per cent in the previous year (Table III.60).

Table III.60: Financial Performance of Local Area Banks

(Amount in Rs. crore)

Indicator	2004-05	2005-06	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**21.3**	**30.0**	**8.7**	**41.1**
i) Interest income	17.3	25.5	8.2	47.4
ii) Other income	4.0	4.5	0.5	13.6
B. Expenses (i+ii+iii)	**20.4**	**27.2**	**6.8**	**33.6**
i) Interest expenses	8.7	12.0	3.3	38.0
ii) Provisions and contingencies	2.5	2.6	0.1	5.6
iii) Operating expenses	9.2	12.6	3.4	37.0
of which :	†			
Wage Bill	3.1	4.5	1.4	44.5
C. Profit	†			
i) Operating Profit/Loss	3.4	5.4	2.0	59.9
ii) Net Profit/Loss	0.9	2.8	1.9	210.8
D. Spread (Net Interest Income)	**8.6**	**13.5**	**†4.9**	**56.9**

Source : Off-site returns.

Chapter IV

Developments in Co-operative Banking

4.1 Co-operative banking has passed through many phases since the enactment of the Agricultural Credit Co-operative Societies Act in 1904. Co-operative banks, developed largely as an offshoot of official policy, expanded rapidly in the post-independence era and played an important role in implementation of various Government schemes. Their business is now being re-engineered to strengthen their role in contributing to financial inclusion and deepening banking penetration in an increasingly competitive financial landscape.

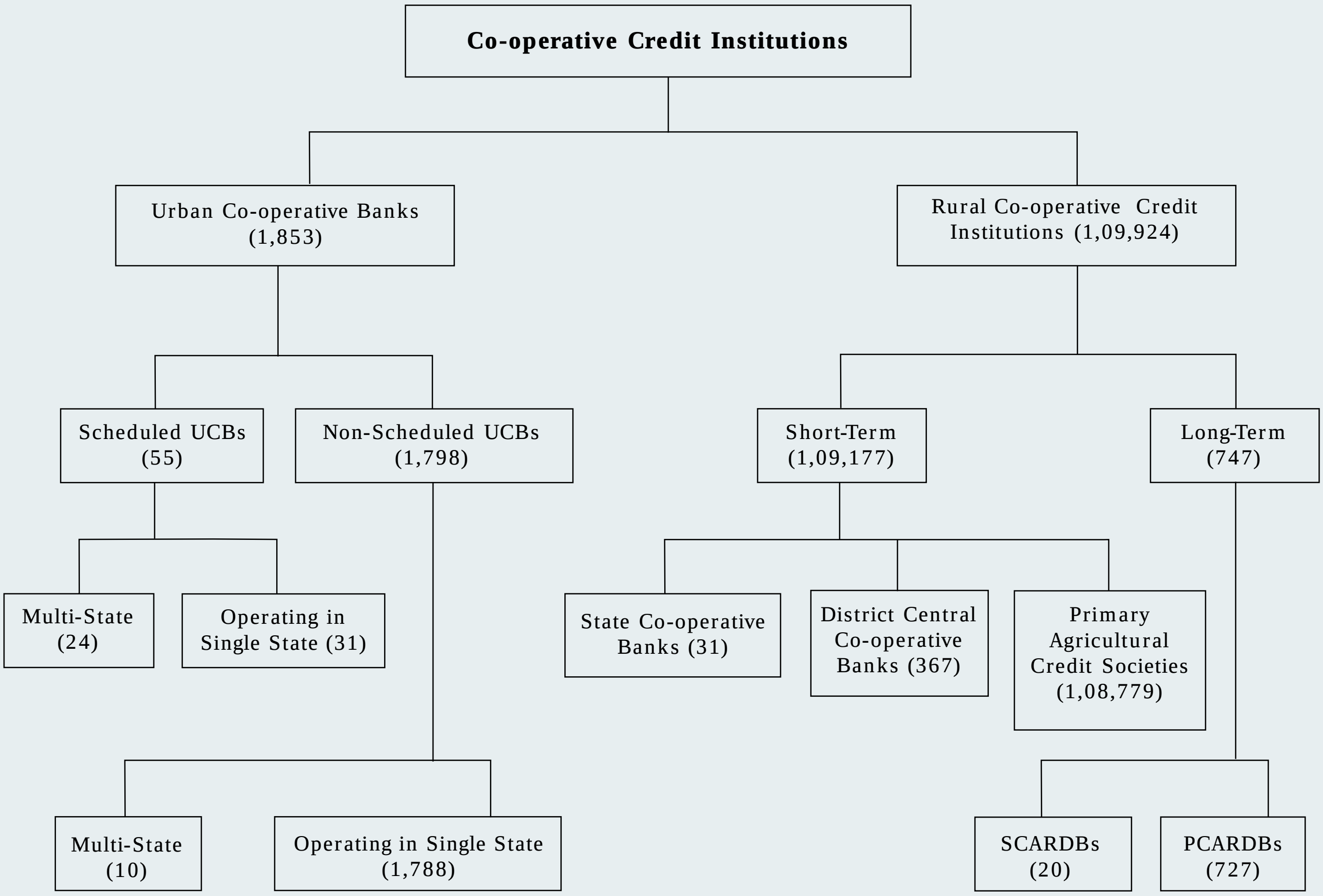
4.2 The co-operative banking structure in India is complex. It comprises urban co-operative banks and rural co-operative credit institutions. Urban co-operative financial institutions consist of a single tier, *viz*., primary co-operative banks, commonly referred to as urban co-operative banks (UCBs). However, they are classified according to their scheduled status, operational outreach and purpose/clientele. Out of the 1,853 UCBs, 55 enjoyed scheduled status, of which 24 had multi-State presence as on March 31, 2006. Of the non-scheduled UCBs, 117 were *Mahila* (women) UCBs and another 6 were Scheduled Caste (SC)/Scheduled Tribe (ST) banks. In addition, there were 79 salary earnersí UCBs. Out of the 1,853 banks, 914 UCBs were unit banks *i.e.*, having a single Head office/branch set up.

4.3 Historically, rural co-operative credit institutions have played an important role in providing institutional credit to the agricultural and the rural sectors. These credit institutions have typically been divided into two distinct structures, commonly known as the short-term co-operative credit structure (STCCS) and the long-term co-operative credit structure (LTCCS). The STCCS, comprising primary agricultural credit societies (PACS) at the village level, district central co-operative banks (DCCBs) at the intermediate level, and the state co-operative banks (StCBs) at the apex level, provides crop and other working capital loans primarily for short-term purposes to farmers and rural artisans. The LTCCS, comprising 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 district or block level, has been providing typically medium and long-term loans for making investments in agriculture, rural industries and, in the recent period, housing. However, the structure of rural co-operative banks is not uniform across all States of the country. Some States have a unitary structure with the State level banks operating through their own branches, while others have a mixed structure incorporating both unitary and federal systems (Chart IV.1).

4.4 Several measures have been initiated in recent years with the primary objective of evolving a turnaround in the financial health of the co-operative sector. As announced in the Mid-Term Review of the Annual Policy 2004-2005, a draft ëVision Document for Urban Co-operative Banksí was formulated and placed in the public domain in March 2005. As UCBs are subject to dual control by the Reserve Bank and the State Governments, the Vision Document envisaged greater convergence in the approach towards regulation and supervision over UCBs for facilitating the development of the sector. For strengthening the rural co-operative credit institutions, the Government of India constituted the ëTask Force on Revival of Rural Co-operative Credit Institutionsí (Chairman: Prof. A. Vaidyanathan) in August 2004 to formulate a practical and implementable action plan for revival of rural co-operative banking institutions. In view of the multi-tier regulatory structure, heterogeneous nature of operations and problems of incentives faced by the co-operative sector, consultative process of policy formulation guided the approach of reform in this important segment of the financial sector. Prudential regulatory standards were designed keeping in view the nature of their business with an overall objective of improving their financial health.

4.5 Business operations of UCBs (scheduled and unscheduled), on the whole, expanded at a moderate rate, though scheduled UCBs grew at a relatively higher rate during the year. The asset quality of UCBs also improved significantly. Profits of scheduled UCBs increased during 2005-06.

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



SCARDBs: State Co-operative Agriculture and Rural Development Banks.

PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Note : Figures in brackets indicate the number of institutions at end-March 2006 for UCBs and at end-March 2005 for rural co-operative credit institutions.

4.6 All segments of the rural co-operative sector were able to expand their business operations during 2004-05, the latest period for which data were available (Appendix Table IV.1). However, their financial performance varied across the institutions. Within the short-term structure, while the StCBs earned lower profits, on account of a sharp decline in income, as compared with 2003-04, DCCBs earned higher profits over the same period due to a significant rise in income. PACS, on the whole, continued to make overall losses, although a sizable number of them earned profit. In the case of long-term structure, while the SCARDBs continued to incur net losses during 2004-05 on account of rise in expenditure, especially in provisions and contingencies, PCARDBs staged a turnaround over the same period, facilitated by a sharp increase in non-interest income and expenditure containment. Asset quality of short-term structure of rural co-operative banks improved, while NPAs of long-term institutions increased. Improvement in the recovery performance of the PACS also brought down their overdues ratio.

4.7 The SHG-Bank linkage programme and extension of financial assistance to micro-finance institutions (MFIs) continued with their high growth. NABARD continued to play a pivotal role in refinancing, monitoring project implementation, administering various Government schemes and capacity building of rural co-operative credit institutions.

4.8 A significant number of co-operative banks are covered under the deposit insurance scheme of Deposit Insurance and Credit Guarantee Corporation (DICGC). As on March 31, 2006, the number of insured co-operative banks were 2,245. The insurance premium received from co-operative banks amounted to Rs.190 crore during 2005-06 as against Rs.143 crore during the previous year. During the year, the DICGC settled claims for 43 co-operative banks for an aggregate amount of Rs.565 crore, an amount much higher than the premium received. The aggregate amount of claims paid and provided for 147 co-operative banks, since the inception of the Scheme, amounted to Rs.1,760 crore. Repayment received by DICGC out of the recoveries since inception amounted to Rs.28 crore (including Rs.8 crore during 2005-06). Together with the strengthening of the prudential standards, deposit insurance also has played a significant role in enhancing stability of this sector.

4.9 The Chapter is organised into six sections. Section 2 details the policy measures, the operations and performance of the urban co-operative banks, followed by a discussion on rural co-operative banks in Section 3. An account of the developments in the area of micro credit is undertaken in Section 4. Section 5 delineates the role of NABARD in the rural co-operative sector. Section 6 outlines the measures initiated for revival of the rural co-operative banking sector.

2. Urban Co-operative Banks

4.10 UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organised with the objective of promoting thrift and self-help among the middle class/lower middle class population and providing credit facilities to the people with small means in the urban/semi-urban centers. On account of their local feel and familiarity, UCBs are important for achieving greater financial inclusion. In recent times, however, UCBs have shown several weaknesses, particularly related to their financial health. Recognising their important role in the financial system, it has been the endeavor of the Reserve Bank to promote their healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years, therefore, the Reserve Bank has provided regulatory support to small and weak UCBs, while at the same time strengthening their supervision (Box IV.1).

Box IV.1: Two-Tier Framework for Regulation and Supervision of Urban Co-operative Banks

In order to address the problems faced by UCBs, a draft Vision Document for UCBs was prepared by the Reserve Bank and placed in the public domain in March 2005. The Vision Document highlighted that the UCB sector was characterised by a high degree of heterogeneity in terms of geographical spread, size, strength, levels of professionalism and performance.

Notwithstanding the varied nature of UCBs, they were subjected to uniform regulations, as in principle, it was considered appropriate to apply uniform regulatory standards within the same sector. However, the application of uniform regulations on all UCBs affected the performance of several banks, specially the smaller ones, which incidentally also operated more closely on the lines of co-operative principles. In the context of supervision also, the adoption of same supervisory approach towards all UCBs increased the cost of supervision for banks in terms of on-site inspections and returns to be submitted even by the smaller banks. This also led to inefficient allocation of supervisory resources, thereby reducing supervisory focus on the larger and riskier banks.

Keeping in view the heterogeneous character of entities in the sector and the need for adopting a differentiated approach, the Vision Document set out the objective of rationalising the regulatory and supervisory framework for UCBs to enable the smaller UCBs to gain in strength. In order to achieve this objective, smaller UCBs whose operations are limited to a single district and have deposits of less than Rs.100 crore have been allowed to adopt 180-day delinquency norm for classification of assets as non-performing, instead of the 90-day norm which is applicable to the larger UCBs and all commercial banks. This is intended to provide a measure of relief to the smaller UCBs as they are required to make lower provisioning, which, in turn, translates into higher profits that could be used to shore up the capital base of these banks. Further, in view of the market risks associated with investments made in Government securities, smaller UCBs have been given exemption from maintaining SLR in Government securities (up to 15 per cent of NDTL) to the extent of funds placed in interest bearing deposits with the public sector banks. These banks have also not been subjected to the provisioning norms of 0.40 per cent of ëstandard advancesí which, have recently been applied to the larger UCBs.

As part of rationalisation of supervision, while the larger UCBs are placed under a composite off-site surveillance (OSS) reporting system comprising a set of eight prudential supervisory returns, a simplified reporting system consisting of five returns has been introduced for the smaller banks having deposits between Rs.50 crore and Rs.100 crore and whose branches are limited to a single district. The simplified OSS reporting framework would be extended to banks with deposits below Rs.50 crore in the near future.

Policy Developments

4.11 The policy initiatives during the year, *inter alia*, sought to address issues relating to dual control by establishing greater convergence of views through the process of consultation between the Reserve Bank, State Governments and representatives of the urban co-operative banking sector. In this context, Memoranda of Understanding (MoU) have been signed with eight States so far. In order to strengthen the sector through consolidation, attention is being paid to restructuring of weak UCBs as also on their non-disruptive exit through mergers and amalgamations, and by seeking to create the environment for augmenting the capital of UCBs. This, *inter alia*, would enhance the ability of the stronger UCBs to take over the weaker ones.

4.12 Prudential norms were also fine-tuned to the evolving circumstances and newer business opportunities were opened for UCBs to enhance their fee based and other non-interest income. Several important measures relating to improvement in credit delivery, customer service, financial inclusion and financial markets, taken for the commercial banks were extended to UCBs with suitable adaptations.

Structural Initiatives

Vision Document/Medium-Term Framework

4.13 The most significant initiative by the Reserve Bank to revive UCBs has been the preparation of the Vision Document for the Urban Co-operative Banks which, *inter alia*, envisages a State-specific strategy for addressing the issues relating to UCBs. As part of this strategy, Memoranda of Understanding are being signed between the Reserve Bank and the respective State Governments. Till October 2006, MoU were signed with eight State Governments, *viz*., Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Uttaranchal, Rajasthan, Chattisgarh and Goa. The MoU, envisages constitution of a State level Task Force for Co-operative Urban Banks (TAFCUB) that would, *inter alia*, identify viable and non-viable UCBs in the State and suggest time bound plans for revival of the viable UCBs and non-disruptive exit for others (Box IV.2).

Restructuring of Scheduled UCBs with Negative Net Worth

4.14 Keeping in view the importance of scheduled UCBs, the Reserve Bank initiated a consultative process with the concerned State Governments for revitalising and rehabilitating the scheduled UCBs with negative net worth. The emphasis was on a time bound programme for restructuring of UCBs by demarcating the contours of their rehabilitation plan and setting up monitorable milestones. During the year, 10 scheduled UCBs were placed under restructuring. The Reserve Bank has been closely monitoring their progress with a view to protecting depositorsí interests and avoiding systemic problems.

Guidelines on Mergers/Amalgamations

4.15 As part of the endeavour towards strengthening UCBs, the Reserve Bank issued guidelines on mergers/amalgamations in February 2005. The protection of depositorsí interests and financial soundness of the merged entity are the two major thrust areas of the guidelines. In order to smoothen the process of merger for UCBs, general permission was given to acquirer UCBs to amortise the losses taken over from the acquired UCBs over a period of not more than five years, including the year of merger (Box IV.3).

Innovative Options for Augmenting Capital

4.16 Share capital and retained earnings constitute the owned funds of urban co-operative banks. Share capital can be withdrawn by members after the minimum lock-in period. Therefore, the shares of UCBs do not have all the characteristics of equity. Co-operative banks are also not permitted to issue shares at a premium. In order to explore various options for raising capital, a Working Group was constituted (Chairman: Shri N.S. Vishwanathan) comprising representatives of the Reserve Bank, State Governments and the urban co-operative banking sector to examine the issues involved and to identify alternate instruments/avenues for augmenting the capital funds of UCBs. The Group has since submitted its report which would be placed in the public domain for feedback.

Regulatory Initiatives

4.17 To strengthen the urban co-operative banking sector, the Reserve Bank took several policy initiatives during the year relating to prudential norms, credit delivery, improvement in customer service and enhancement of business opportunities, and financial inclusion.

Box IV.2: Task Force for Urban Co-operative Banks

Urban co-operative banks are regulated and supervised by State Registrars of Co-operative Societies (RCS) in case of single-State co-operative banks, Central Registrar of Co-operative Societies (CRCS) in case of multi-State co-operative banks and by the Reserve Bank. The RCS exercises powers under the respective Co-operative Societies Act of the States with regard to incorporation, registration, management, amalgamation, reconstruction or liquidation. Such powers in case of UCBs, that have multi-State presence, are exercised by the CRCS. The banking related functions such as issue of license to start new banks/branches, matters relating to interest rates, loan policies, investments and prudential exposure norms are regulated and supervised by the Reserve Bank under the provisions of the Banking Regulation Act, 1949 (aACS). The draft vision document identified this duality of command as the main cause of difficulties in implementing regulatory measures with the required speed and urgency, and as an impediment to effective supervision. In order to develop greater coordination between the agencies responsible for regulation and supervision of UCBs, it was proposed in the Vision Document to have a working arrangement in the form of a Memorandum of Understanding (MoU) between the Reserve Bank and the respective State Governments. As per the commitment made in the MoU with the respective States, the Reserve Bank forms a State level Task Force for Co-operative Urban Banks (TAFCUB) comprising the Regional Director of the Reserve Bank for the concerned State as the Chairman, Registrar of Co-operative Societies as co-Chairman, an official each from the Reserve Bank, National Federation of Co-operative Urban Banks (NAFCUB) and the State Federation of the UCBs as its members.

TAFCUBs, as per their terms of reference, identify the potentially viable and unviable weak banks in the State and suggest revival plans for the potentially viable banks and a non-disruptive exit route for unviable/weak banks. The non-disruptive exit route could include merger/amalgamation with strong banks, conversion into society or, as a last resort, liquidation. TAFCUBs also make recommendations on the future set up of unlicensed banks in the State, based on the assessment of their financial position and strength. MoU have already been signed with eight States, viz., Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Uttaranchal, Chhattisgarh and Goa. In each of these States, a Task Force has also been constituted. These States together account for 45.5 per cent of the total number of UCBs and about 22.0 per cent of deposits of all UCBs.

In 2005-06, four TAFCUBs examined the position of over 250 UCBs and made various recommendations on the future course of action for these banks. Based on the recommendations of the TAFCUB, supervisory actions that have been taken include exiting banks through mergers with other UCBs, cancellations of license of unviable UCBs and rejections of license applications of unlicensed co-operative societies. The MoU signed between the Reserve Bank and the State Government also envisages signing of another MoU between the Registrar of Co-operative Societies of the State and the Regional Director 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 (Table 1).

The salubrious impact of the consultative platform, *i.e.*, TAFCUB is reflected in the decline in the number of weak and sick banks in the States, which were among the first to sign the MoU and where TAFCUBs were constituted, *viz.*, Andhra Pradesh, Gujarat and Karnataka. In these States, while the number of UCBs in Grade I increased, the number of weak and sick UCBs in Grade III and IV declined (refer to Table IV.1).

Table 1: Activities of TAFCUB

Item/State	Andhra Pradesh	Gujarat	Karnataka	Madhya Pradesh	Uttaranchal	Rajasthan	Chhattisgarh	Goa
1	2	3	4	5	6	7	8	9
1. No. of UCBs	124	296	297	61	7	39	14	6
2. Date of signing MOU	June 27, 2005	June 28, 2005	September 5, 2005	January 6, 2006	June 7, 2006	September 6, 2006	October 11, 2006	October 17, 2006
3. Date of formation of TAFCUB	June 27, 2005	June 28, 2005	September 5, 2005	January 6, 2006	June 7, 2006	September 6, 2006	October 11, 2006	October 17, 2006
4. No. of Meetings	13	11	11	5	1	Nil	Nil	Nil
5. No. of weak banks reviewed and recommended revival plan	29	60	78	6	1	Nil	Nil	Nil
6. No. of banks under Direction reviewed and Action Plan given	11	16	15	4	Nil	Nil	Nil	Nil
7. License applications reviewed for unlicenced banks	7	13	8	7	1	Nil	Nil	Nil
8. Exit *via* non-disruptive route (Mergers and Amalgamations)	3	5	1	1	Nil	Nil	Nil	Nil

Box IV.3: Mergers/Amalgamations of Urban Co-operative Banks

Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 36 proposals for merger in respect of 28 weak banks. The Reserve Bank has issued ëno objection certificateí (NOC) in 17 cases. Of these, 14 mergers have become effective upon the issue of statutory orders by the RCS concerned. Three proposals for merger were rejected by the Reserve Bank, while remaining are under consideration.

The process of merger and amalgamation is elaborate and intense. The merger proposal has to be submitted by the acquirer bank to RCS/CRCS and a copy of the proposal is also simultaneously forwarded to the Reserve Bank along with certain specified information. The Reserve Bank examines the proposals and places the same before an expert Group for screening and recommendations. On evaluation, if the proposal is found to be suitable, the Reserve Bank issues NOC to the RCS/CRCS and the banks concerned. RCS/CRCS then issues the order of amalgamation of the target UCB in compliance with the provisions of the Co-operative Societies Act under which the bank is registered.

Table 1: State-wise Break up of Acquirer Banks

Sr. No.	State in which Registered	No. of Acquirer Banks	No. of Proposal Submitted	No. of NOC Issued
	1	2	3	4
1.	Multi-State	4	15	11
2.	Maharashtra	11	12	3
3.	Gujarat	5	5	2
4.	Andhra Pradesh	1	1	1
5.	Karnataka	1	1	ñ
6.	Rajasthan	1	1	ñ
7.	Punjab	1	1	ñ
	Total (1 to 7)	**24**	**36**	**17**

Most of the target banks were loss-making UCBs. In a few cases, mergers were permitted where the acquired banks, though not loss making, were not considered viable on a stand alone basis in the long-run. Out of the 28 target banks from which merger proposal was received, 10 banks were registered in Maharashtra, eight in Gujarat, four in Andhra Pradesh and one each in the States of Karnataka, Goa, Rajasthan, Delhi and Punjab. One merged bank was registered under the Multi-State Co-operative Societies Act, 2002.

Out of the 17 merger proposals for which ëNOCsí were issued, six banks were registered in Maharashtra, six in Gujarat, three in Andhra Pradesh and one in Goa. One bank was registered under the Multi-State Co-operative Societies Act, 2002. UCBs registered under the Multi-State Co-operative Societies Act were the front-runner as acquirers having taken over 10 banks. The State-wise break up of the acquirer and the acquired banks are presented in Tables 1 and 2.

Table 2 : State-wise Break up of Acquired Banks

Sr. No.	State in which Registered	No. of Acquired Banks	No. of Proposals Received	No. of NOC Issued	No. of Banks Merged
	1	2	3	4	5
1.	Multi-State	1	1	1	1
2.	Maharashtra	10	15	6	5
3.	Gujarat	8	9	6	4
4.	Andhra Pradesh	4	4	3	3
5.	Karnataka	1	3	ñ	ñ
6.	Goa	1	1	1	1
7.	Rajasthan	1	1	ñ	ñ
8.	Delhi	1	1	ñ	ñ
9.	Punjab	1	1	ñ	ñ
	Total (1 to 9)	**28**	**36**	**17**	**14**

I. Prudential Norms

4.18 In line with the international best practices, the 180-day delinquency period for reckoning an advance as non-performing was brought down to 90-day with effect from March 31, 2004. However, the norm was relaxed and deferred for certain categories of UCBs considering their difficulty in meeting the norm. Accordingly, banks with deposits of less than Rs.100 crore and having branches within a single district (including unit banks, *i.e.*, having single branch/head office) were permitted to classify their loan accounts as NPAs based on the 180-day delinquency norm instead of the 90-day norm. The relaxation would be operative up to end-March 2007 to enable UCBs concerned to build up adequate provisions and strengthen their procedures in order to transit to the 90-day delinquency norm.

4.19 Taking into account the recent trend in credit growth, general provisioning requirement for ëstandard advancesí in the case of scheduled commercial banks was increased in November 2005 to 0.40 per cent from 0.25 per cent on credit other than direct advances to agriculture and the SME sector. The higher provisioning requirement was made applicable to UCBs having branches within a single district (including unit banks) and those having deposits of Rs.100 crore and above, and for all other UCBs operating in more than one district. For other UCBs, *i.e.*, banks having branches in only one district (including unit banks) and having deposits of less than Rs.100 crore, the existing requirement of provisioning of 0.25 per cent for standard assets continues. Such provisions are eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent as hitherto.

4.20 UCBs were advised in April 2001 to maintain certain percentage of their assets under Section 24 of the Banking Regulation Act, 1949 as Applicable to Co-operative Societies (aACS) in the form of Government and other approved securities. In view of the difficulty in making investments in Government securities, UCBs with a deposit base of less than Rs.100 crore and having branches within a single district were given partial exemption (not exceeding 15.0 per cent) from the prescribed SLR of 25.0 per cent to the extent of funds placed in interest bearing deposits with public sector banks with a view to obviating market risks associated with investment in Government securities. The exemption would be in force up to March 31, 2008.

4.21 Based on the representations received, relaxation was allowed to UCBs to shift their securities to ëheld to maturityí (HTM) category once more before March 31, 2006. Where the market value of the security was lower than the face value, the provision required would be the difference between book value and the face value which could be amortised during the remaining period of maturity, instead of five years as advised earlier to scheduled UCBs. These revised valuation norms were applicable only in respect of transfers to HTM made during 2005-06.

4.22 The Reserve Bank had permitted UCBs in November 1996 to extend unsecured advances without surety against purchase/discount/ withdrawal of third party cheques within a limit of up to Rs.5,000. As the limit was fixed long back, the State Federations of UCBs and NAFCUB had represented for an enhancement of the limit to provide UCBs with a competitive edge. After considering the representation, it was decided to enhance the limit on unsecured advances without surety from Rs.5,000 to Rs.50,000 on a graded scale in respect of purchase/discount/ withdrawal against third party cheques for a temporary period of 30 days in emergent cases. The ceiling on temporary unsecured advances without sureties up to a period of 30 days would, however, continue to be limited to a maximum of Rs.5,000 for other class of unsecured advances, *viz.*, clean bills and *multani hundis*. The total unsecured advances granted by a bank to its members should not exceed 15.0 per cent of its demand and time liabilities (DTL) as against the extant limit of 33.3 per cent. However, banks were permitted to conform to the lower limit in a gradual manner, *i.e.*, 20.0 per cent of DTL by March 31, 2006 and further to 15.0 per cent of DTL by March 31, 2007.

4.23 As a follow up to the announcement made in the Annual Policy Statement for 2006-07 and to achieve greater regulatory convergence with the scheduled commercial banks, the risk weight for loans extended against primary/collateral security of shares/debentures was increased to 125.0 per cent and that of investment in equities of AIFIs/ units of UTI to 127.5 per cent from the present level of 100.0 per cent and 102.5 per cent, respectively.

4.24 In July 2005, the Reserve Bank increased the risk weight on exposures to commercial real estate from 100.0 per cent to 125.0 per cent. In view of the increasing exposure to this sensitive sector, the risk weight was increased further to 150.0 per cent.

4.25 Income recognition and asset classification requirements in respect of State Government guaranteed advances and investments, which were earlier linked to invocation of the State Government guarantee, was reviewed and it was decided to de-link the above requirements, from the year ended March 31, 2006.

4.26 UCBs were prohibited in April 2003 from extending any loans and advances to the directors, their relatives and the firms/concerns/companies in which they have business interests. On reconsideration, in October 2005, it was decided to exclude the following categories of director related loans from the purview of this directive: (a) regular employee - related loans to staff directors on the Boards of UCBs; (b) normal loans as available to members to the directors on the Boards of salary earnersí co-operative banks; and (c) normal employee - related loans to Managing Directors of multi-State co-operative banks.

4.27 With a view to protecting UCBs from being burdened with liabilities arising out of unauthorised collections, and in the interest of integrity and soundness of the payment and banking systems, they were prohibited, in January 2006, from crediting ëaccount payeeí cheques to the account of any person other than the payee named therein.

II. Credit Delivery

4.28 In order to smoothen the flow of credit to the small scale industries (SSIs), a scheme of strategic alliance between branches of banks and SIDBI, located in the clusters of SSI units was worked out in consultation with the Government of India (Ministry of SSI and Ministry of Finance), SIDBI, IBA and select banks. The scheme is called ëSmall Enterprises Financial Centres (SEFCs)í and UCBs were advised to take benefit of the scheme on such terms and conditions as mutually agreed to between them and SIDBI.

4.29 The investment limit in plant and machinery of seven items reserved for manufacturing in the SSI sector was enhanced in May 2005 from Rs.1 crore to Rs.5 crore. The advances given to these units by UCBs were treated as priority sector lending.

4.30 As a part of announcement made by Honíble Finance Minister for improving flow of credit to small and medium enterprises (SMEs), certain guidelines were issued for restructuring of debt of SMEs (also refer to Chapter II). UCBs were advised to formulate the debt restructuring scheme with the approval of concerned State/Central Registrar of Co-operative Societies and give adequate publicity to the scheme among the customers so as to bring it to the notice of all beneficiaries.

III. Improving Customer Service and Enhancing Business Opportunities

4.31 A number of measures were initiated during the year to improve customer service by UCBs and to improve their business opportunities. The Reserve Bank permitted UCBs in States, where MoU have been signed and those registered under the Multi-State Co-operative Societies Act, to offer mutual fund products, as agents, to their customers, subject to certain conditions. The Reserve Bank also allowed well managed scheduled and non-scheduled UCBs to open select off-site/on-site ATMs based on the recommendation of the TAFCUBs. In respect of UCBs that were placed under liquidation, the preparation, submission and settlement of claims and recoveries from assets for distribution were delayed due to the involvement of several agencies and stages in the process of liquidation. In order to ensure appropriate co-ordination among agencies and to expedite the process of settlement of claims and recovery of dues, committees comprising representatives of the State Government, the Reserve Bank and State Federation of UCBs were constituted in Andhra Pradesh, Karnataka and Madhya Pradesh to review the progress made by the liquidator in settlement of claims, recovery of dues and repayment to DICGC and other creditors, including depositors.

4.32 UCBs were advised in March 2006 to install dual display note-counting machines at the payment counters of their branches for the use of their customers towards building confidence in the minds of the public to accept note packets secured with paper bands.

4.33 In pursuance of the announcement made in the Mid-term Review of the Annual Policy Statement for the year 2005-06, the currency chest facility was extended to scheduled UCBs registered under the Multi-State Co-operative Societies Act, 2002 and under the respective State Acts where the State Governments have assured regulatory co-ordination by entering into MoU with the Reserve Bank. The main conditions of the eligibility norms were that the banks should have: (a) minimum net worth of Rs.200 crore; (b) CRAR of 12 per cent; (c) Net NPA at less than 10 per cent; (d) made profit in the preceding three years, net of accumulated losses; (e) complied with CRR and SLR requirements; and (f) elected board of management with at least two professionals.

4.34 The acceptance of non-resident ordinary (NRO) deposits by UCBs was phased out and the UCBs were advised in July 2005 not to accept any fresh deposits in the form of savings/current/ recurring/term deposits and not to renew the existing, recurring/term deposits on maturity. However, in the case of the existing current/savings deposits, UCBs were allowed to continue the accounts up to a period of six months. The accounts should be closed thereafter with advance notice to the deposit holders. It was also decided not to issue any fresh full-fledged money changer (FFMC) licence to UCBs.

4.35 UCBs were encouraged to participate in the Government securities market during the year. In order to further widen the repo market in Government securities as per the proposal in the Annual Policy Statement for the year 2005-06, the Reserve Bank permitted, besides the scheduled UCBs, non-scheduled UCBs having gilt account with an SGL account holder to participate in repo market. UCBs were not permitted to enter into ready forward contracts with non-banking financial companies. However, restriction would not be applicable in the case of repo transactions between UCBs and authorised primary dealers in Government securities.

IV. Financial Inclusion

4.36 With the objective of extending the reach of UCBs to vast sections of the population hitherto uncovered, all UCBs were advised to make available a basic banking ëno-frillsí account either with ënilí or very low minimum balance as well as charges. They were further advised that the nature and number of transactions in such accounts could be restricted, but be made known to the customer in advance in a transparent manner. UCBs were also advised to give wide publicity, including on their websites, to the facility of such a ëno-frillsí account and other facilities and charges in a transparent manner.

4.37 In spite of flexibility in the requirements of documents of identity and proof of address, it was decided to simplify the KYC procedure for opening accounts for those who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and where the total credits in all the accounts taken together are not expected to exceed Rs.1 lakh in a year. Banks could open accounts, subject to introduction from another account holder of at least six months standing, with satisfactory record of transactions and who has been subjected to full KYC procedure. The bank could accept any other evidence as to the identity and address of the customer to its satisfaction. While opening such accounts, the customer is required to be made aware that if at any point of time, the balances in all his/her accounts with the bank (taken together) exceed Rs.50,000 or total credits in the account exceed Rs.1 lakh, no further transactions would be permitted until the full KYC procedure is completed. In order not to cause inconvenience to the customer, the bank must notify the customer, when the balance reaches Rs.40,000 or the total credit in a year reaches Rs.80,000, that appropriate documents for conducting the KYC must be submitted.

4.38 The banks were also advised to open accounts with reduced KYC standards in respect of persons affected by floods to enable them to credit the grant received from the Government. However, the maximum balance in such accounts should not exceed the amount of grant received from the Government or Rs.50,000, whichever was more and the initial credit of the grant amount should not be counted towards the total credit.

Supervision of UCBs

On-site Supervision

4.39 As per the extant policy, the periodicity of inspection of UCBs varies according to the scheduled status of the UCB or the financial position as reflected by its grade. At present, while scheduled and Grade III and IV non-scheduled UCBs are inspected on an annual basis, the non-scheduled UCBs with healthier financial performance (classified under Grade I and II) are inspected once in two years. The Reserve Bank carried out statutory inspections of 1,096 UCBs during 2005-06, *i.e.*, around 60 per cent of the UCBs, as against inspection of 848 UCBs conducted during the previous year. For action required to be initiated on the basis of the inspection report, a system of graded supervisory action (GSA) has been put in place. The GSA serves as a framework for deciding the nature of supervisory intervention based on financial position of UCBs as reflected in their grades arrived at through inspection. In the States where MoU have been signed, the inputs given by respective TAFCUBs are taken into consideration for deciding the nature of supervisory action for the UCBs.

UCBs with Weak Financials

4.40 UCBs are classified in various grades depending on their financial strength based on objective criteria. The gradation of UCBs has enabled the Reserve Bank to optimise supervisory resources and focus on the weaker UCBs to facilitate a turnaround (Box IV.4).

4.41 The number of UCBs classified as Grade III and IV stood at 677 at end-March 2006 (Table IV.1). Although grades of UCBs in most of the States improved, a marked deterioration was observed in Maharashtra.

UCBs Under Directions

4.42 The Reserve Bank issues directions under Section 35A of the Banking Regulation Act, 1949 in respect of banks, which are in serious financial difficulties. The directions are issued either based on inspection findings or due to sudden developments such as a run on the bank. The directions mainly include restrictions on acceptance/withdrawal of deposits, restriction or ban on expansion of loans, and restraint on incurring of expenditure

Box IV.4: Criteria for Gradation of Urban Co-operative Banks

Urban co-operative banks are classified into four grades, *viz*., Grade I, II, III and IV on the basis of certain broad prudential indicators in the following manner:

(a) Grade I: Sound banks having no supervisory concerns.

(b) Grade II: Banks meeting any one of the following parameters:

ï Capital to risk-weighted asset ratio (CRAR) one per cent below the prescribed norms; or

ï Net non-performing assets (NPAs) of 10 per cent or more but below 15 per cent; or

ï Incurred net loss in the previous financial year; or

ï Defaulted in the maintenance of cash reserve ratio (CRR)/ statutory liquidity ratio (SLR) in the previous financial year and/or there is more or less continuous default in maintenance of CRR/SLR during the current year.

(c) Grade III: Banks meeting any two of the following parameters:

ï CRAR below 75 per cent of the minimum prescribed but 50 per cent or above the level required; or

ï Net NPAs of 10 per cent or more but less than 15 per cent; or

ï Incurred net losses for two years out of the last three years.

(d) Grade IV: Banks meeting the following conditions:

ï CRAR less than 50 per cent of the prescribed limit; and

ï Net NPAs of 15 per cent or more as on March 31 of the previous year.

Banks in Grade III and IV broadly correspond to ëweakí and ësickí category under the earlier norms.

other than minimum establishment expenses required for day to day running of the bank. The banks placed under directions are monitored and decision on removing restrictions depends upon the ability of banks to rectify the inadequacies. Total number of 75 UCBs were functioning under directions at end-March 2006, of which 12 UCBs were placed under directions during 2005-06 (Appendix Table IV.2).

UCBs Under Liquidation

4.43 Licences of 14 UCBs were cancelled during 2005-06 and placed under liquidation as compared with 39 during 2004-05. In all 226 UCBs were under liquidation at end-March 2006 (Appendix Table IV.3).

Off-site Surveillance

4.44 On-site inspection, which remains the main instrument of supervision over UCBs, has been strengthened through integration with off-site surveillance (OSS). A supervisory reporting system comprising 10 quarterly OSS returns was introduced for scheduled urban co-operatives banks (UCBs) in April 2001. These returns were rationalised and replaced by a set of one annual and seven quarterly OSS returns for the scheduled UCBs with effect from quarter/year ended March 2004. The rationalisation of the reporting system was done with the objective of reducing the volume of data required to be reported by banks while increasing the breadth and depth of information obtained from them (Box IV.5).

Table IV.1: Gradation of Urban Co-operative Banks ñ Centre-wise

Centre	Grade I		Grade II		Grade III		Grade IV		**Total**	
	2005	2006	2005	2006	2005	2006	2005	2006	**2005**	**2006**
1	2	3	4	5	6	7	8	9	**10**	**11**
1. Ahmedabad	122	136	53	50	87	67	46	43	**308**	**296**
2. Bangalore	80	90	58	76	118	85	40	46	**296**	**297**
3. Bhopal	20	16	17	28	27	17	13	14	**77**	**75**
4. Bhubaneswar	1	1	5	6	4	3	2	4	**12**	**14**
5. Chandigarh	11	10	ñ	1	2	1	4	4	**17**	**16**
6. Chennai	44	54	25	32	54	39	10	7	**133**	**132**
7. Guwahati	6	6	2	4	5	4	5	4	**18**	**18**
8. Hyderabad	44	48	35	43	31	18	17	15	**127**	**124**
9. Jaipur	23	25	11	10	4	3	1	1	**39**	**39**
10. Jammu	2	2	ñ	ñ	2	2	ñ	ñ	**4**	**4**
11. Kolkata	29	30	12	11	4	3	6	7	**51**	**51**
12. Lucknow	54	47	8	13	7	9	8	8	**77**	**77**
13. Mumbai	276	173	64	128	76	84	43	71	**459**	**456**
14. Nagpur	69	53	38	45	48	43	19	33	**174**	**174**
15. New Delhi	12	12	1	1	1	ñ	1	2	**15**	**15**
16. Patna	2	3	2	1	1	1	ñ	ñ	**5**	**5**
17. Thiruvananthapuram	12	10	9	11	26	28	13	11	**60**	**60**
Total (1 to 17)	**807**	**716**	**340**	**460**	**497**	**407**	**228**	**270**	**1,872**	**1,853**

ñ : Nil/Negligible.

Box IV.5: Off-site Surveillance Systems for Urban Co-operative Banks

The off-site surveillance (OSS) statements are designed to monitor compliance and obtain information in the areas of prudential interest, including information on balance sheet and off-balance sheet exposures, profitability, asset quality, sector/segment-wise concentration of advances, connected or related lending and capital adequacy. A collateral objective of OSS reporting system is to sensitise managements of banks to prudential concerns of the supervisory authority and thereby help in self-regulation. A set of eight OSS returns, introduced for scheduled UCBs from the quarter ended March 2004, were extended to non-scheduled banks with deposits of over Rs.100 crore from June 2004 and to UCBs having deposits of Rs.50 crore and above from March 2006. For banks that have deposits less than Rs.100 crore and whose branch network is limited to a single district, a simplified set of five (four quarterly and one annual) returns has been introduced. With this, about 450 banks have been covered by the OSS system, which together account for about 80 per cent of deposits of urban co-operative banks.

The existence of computerised environment is a pre-requisite for the establishment of a successful off-site surveillance system. As such, the OSS project of the Reserve Bank envisaged the development of software for UCBs that enabled preparation of all regulatory/supervisory returns directly by banks and their submission to the Reserve Bank electronically. As envisaged, a software was developed, tested and implemented in Regional Offices (ROs) of the Reserve Bank and in about 450 UCBs that had deposits of over Rs.50 crore by March 2006. The system is being strengthened further by increasing its coverage of information and utility for the banks as a component of their management information system.

The database being maintained in the Reserve Bank contains all regulatory and supervisory returns submitted by UCBs, including the returns and on-site inspections data submitted by inspecting officers (IOs). The data submitted by UCBs to the respective Regional Offices are uploaded to the regional servers after validation checks to ensure integrity of data. The data from Regional Offices are then transmitted to the Central Office (CO) server of the Reserve Bank. The system, facilitates analysis both at the Regional Offices and the Central Office (Charts 1 and 2).

The institution of OSS system has brought many benefits to UCBs and the Reserve Bank.

Benefits for the Urban Co-operative Banks

ï The application obviates the need for keying-in repetitive data since such data entered in the previous period automatically get populated in the returns of succeeding quarters.

ï The facility also stores data at bank level that enables UCBs to analyse their financial position and improve their MIS.

ï The OSS statements are designed to sensitise the management of UCBs to the concerns of the supervisory authority.

Benefits for the Reserve Bank

ï Time for data entry of each tranche of eight OSS returns has reduced significantly. Similar reduction in time has been made possible for all 35 returns submitted by UCBs. The software facilitates instant tracking of banks for non-submission or delayed submission of returns.

ï The software provides for cross checks within each return, across returns and across time to ensure integrity of data.

ï The data uploaded by Regional Offices of the Reserve Bank during the day (including inspection data) get replicated to Central Office server overnight, *via* INFINET (refer Chart 2).

ï The software provides for generation of over 140 standard reports that are instantly available at all locations of the Reserve Bank.

ï The OSS database not only contains all regulatory and supervisory returns submitted by banks, but also the on-site inspection data submitted by inspecting officers, besides important internal registers like penalty and penal interest register.

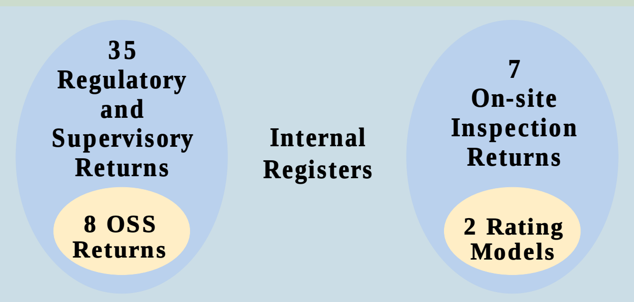
ï The software enables generation of early warning reports at monthly and quarterly intervals which indicate incipient stress in liquidity position, highlights decline in quality of assets, fall in profits/profitability as also any unfavorable change in capital adequacy of UCBs. This facilitates better and more responsive supervision over UCBs and thereby helps in optimal allocation of supervisory resources for banks that show incipient weaknesses.

Way Forward

ï To enhance the use of early warning reports for planning and prioritising scrutiny/inspections of banks, based on their riskiness and thereby further improve supervisory responsiveness.

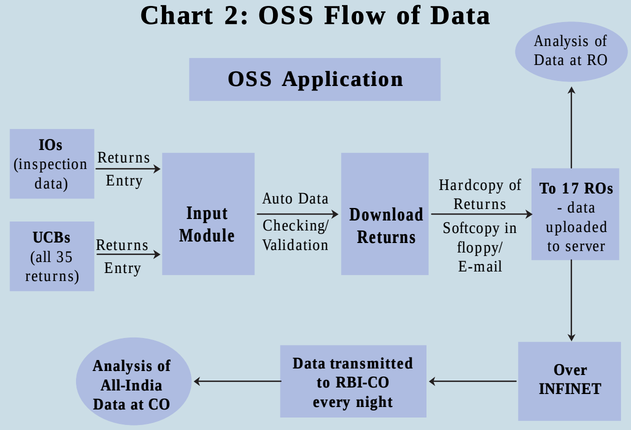
ï Up to end-October 2006, 452 out of 1,853 UCBs have been provided with the software. By mid-2007, it is envisaged that approximately 1,000 UCBs would be covered under the OSS.

Chart 1: Database on UCBs ñ Unified Database



Enables comparison with on-site data and supports the concept of Central Point of Supervision (CPOS)

Chart 2: OSS Flow of Data



Operations and Financial Performance of Urban Co-operative Banks

A Profile of UCBs

4.45 The urban co-operative banking sector comprises a number of institutions which vary in terms of their size, nature of business and their geographical spread. The deposit size of most of UCBs, barring a few, is small and most of them have only a single branch. As at end-March 2006, 1,423 UCBs out of 1,853 (76.8 per cent) had a deposit base of less than Rs.50 crore and 1,633 (88.1 per cent) less than Rs.100 crore. The share of these two categories in total deposits held was 19.0 per cent and 32.5 per cent, respectively. On the other hand, 14 UCBs with deposit base of above Rs.1,000 crore accounted for about one-fourth of deposits of all UCBs (Table IV.2).

Table IV.2: Distribution of Urban Co-operative Banks ñ Deposit-wise
(As at end-March 2006)

Sr. No.	Deposit Base (Rs. crore)	No. of UCBs: No.	No. of UCBs: Share in Total (per cent)	Deposits: Amount (Rs. crore)	Deposits: Share in Total (per cent)
	1	2	3	4	5
1.	> 1,000	14	0.8	25,768	23.0
2.	500 to < 1,000	16	0.9	11,153	9.9
3.	250 to < 500	48	2.6	16,947	15.1
4.	100 to < 250	142	7.7	21,910	19.5
5.	50 to < 100	210	11.3	15,164	13.5
6.	25 to < 50	302	16.3	10,525	9.4
7.	10 to < 25	450	24.3	7,374	6.6
8.	5 to < 10	333	18.0	2,486	2.2
9.	< 5	338	18.2	910	0.8
	Total (1 to 9)	1,853	100.0	1,12,237	100.0

4.46 Fifty five UCBs which have been accorded scheduled status constitute a sizable part with their share in total assets being 44.0 per cent. The non-scheduled UCBs with deposit size of Rs.100 crore and above, which were brought under the off-site surveillance process of the Reserve Bank, constituted another significant share (28.2 per cent) of the sector (Table IV.3).

Operations, Financial Performance and Asset Quality of Urban Co-operative Banks

Operations of UCBs

4.47 As at end-March 2006, total assets/ liabilities of UCBs constituted about 5.0 per cent of assets of scheduled commercial banks. Business operations of UCBs grew by 6.3 per cent during 2005-06. The broad composition of the assets and liabilities of UCBs remained the same as in the previous year. Deposits continued to be the mainstay of resources for UCBs, accounting for 79.9 per cent of total resources. During 2005-06, deposits and capital increased, while statutory reserves declined, *albeit* marginally. On the asset side, nearly one half of the assets of UCBs were deployed in the form of loans and advances, while investments constituted the second major avenue of deployment of funds. During 2005-06, while loans and advances, and investments grew at a moderate rate, cash in hand and balances in the call/notice money market increased sharply (Table IV.4).

Table IV.3: A Profile of Urban Co-operative Banks
(As at end-March 2006)

(Amount in Rs. crore)

Item	No. of UCBs	Assets	Deposits	Investments	Loans and Advances
1	2	3	4	5	6
All UCBs (1+2)	**1,853**	**1,40,432 (100.0)**	**1,12,237 (100.0)**	**48,472 (100.0)**	**70,379 (100.0)**
1. Scheduled UCBs	55	61,832 (44.0)	45,285 (40.3)	18,216 (37.6)	28,022 (39.8)
2. Non-Scheduled UCBs	1,798	78,600 (56.0)	66,952 (59.7)	30,256 (62.4)	42,357 (60.2)
of which:					
Non-Scheduled UCBs with Deposit Size of Rs.100 crore and Above	191	39,657 (28.2)	31,479 (28.0)	9,112 (18.8)	19,489 (27.7)

Note : Figures in brackets are percentages to total of all UCBs.

Table IV.4: Liabilities and Assets of Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
†	2005	2006	2005-06
1	2	3	4
Liabilities			
1. Capital	3,221 (2.4)	3,479 (2.5)	8.0
2. Statutory Reserves	10,383 (7.9)	10,161 (7.2)	-2.1
3. Deposits	1,05,021 (79.5)	1,12,237 (79.9)	6.9
4. Borrowings	1,782 (1.3)	1,799 (1.3)	1.0
5. Other Liabilities	11,738 (8.9)	12,756 (9.1)	8.7
Total Liabilities/Assets	**1,32,145 (100.0)**	**1,40,432 (100.0)**	**6.3**
Assets			
1. Cash in Hand	938 (0.7)	1,539 (1.1)	64.0
2. Balances with Banks	7,136 (5.4)	8,227 (5.9)	15.3
3. Money at Call and Short Notice	1,139 (0.9)	1,996 (1.4)	75.2
4. Investments	46,872 (35.5)	48,472 (34.5)	3.4
5. Loans and Advances	66,874 (50.6)	70,379 (50.1)	5.2
6. Other Assets	9,185 (7.0)	9,819 (7.0)	6.9

Note : Figures in brackets are percentages to total liabilities/assets.

Source: Balance sheets of respective UCBs.

Priority Sector Lending

4.48 Urban co-operative banks are required to lend 60.0 per cent of their total loans and advances to the priority sector and 25.0 per cent of priority sector lending should go towards weaker sections. Credit extended by UCBs to the priority sector and weaker sections increased significantly in recent years. A significant amount of credit was extended to cottage and small scale industries and for housing loans (Table IV.5).

Table IV.5: Priority Sector and Weaker Section Advances by Urban Co-operative Banks ñ 2005-06

Segment	Priority Sector		Weaker Sections	
	Amount (Rs. crore)	Share in Total Advances (Per cent)	Amount (Rs. crore)	Share in Total Advances (Per cent)
1	2	3	4	5
1. Agriculture and Allied Activities	3,007	4.3	1,499	2.1
2. Cottage and Small Scale Industries	9,817	13.9	1,042	1.5
3. Road and Water Transport Operators	1,819	2.6	655	0.9
4. Private Retail Trade (Essential Commodities)	1,850	2.6	876	1.2
5. Private Retail Trade (Others)	3,323	4.7	858	1.2
6. Small Business Enterprises	5,456	7.8	1,725	2.5
7. Professional and Self Employed	2,165	3.1	864	1.2
8. Educational Loans	710	1.0	290	0.4
9. Housing Loans	9,056	12.9	2,773	3.9
10. Consumption Loans	456	0.6	173	0.2
11. Software Industry	55	0.1	6	0.0
Total (1 to 11)	**37,714**	**53.6**	**10,762**	**15.3**

4.49 SLR investments constituted a bulk of investment (94.4 per cent) of UCBs at end-March 2006. While SLR investments, on the whole, grew moderately (2.1 per cent) during 2005-06, investments in other approved securities (non-Government) and term-deposits with the State co-operative banks (StCBs) increased sharply. However, term deposits with district central co-operative banks (DCCBs) declined. Non-SLR investments comprising bonds of public sector institutions/AIFIs, shares of AIFIs and units of UTI witnessed a sharp growth during 2005-06 (Table IV.6).

Asset Quality

4.50 The asset quality of UCBs improved significantly during the year. This was reflected in sharp decline in NPAs (gross and net) in absolute as well as percentage terms. However, NPAs of UCBs at 19.7 per cent (gross) and 9.6 per cent (net) at end-March 2006 were high compared to the level at end-March 2001 (16.1 per cent gross NPAs) and in comparison with scheduled commercial banks (3.3 per cent gross and

Table IV.6: Investments by Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2005	2006	2005-06
1	2	3	4
Total Investments (A+B)	**46,872 (100.0)**	**48,472 (100.0)**	**3.4**
A. SLR Investments (i to v)	**44,817 (95.6)**	**45,740 (94.4)**	**2.1**
i) Central Government Securities	27,147 (57.9)	28,119 (58.0)	3.6
ii) State Government Securities	3,883 (8.3)	3,922 (8.1)	1.0
iii) Other approved securities	848 (1.8)	1,107 (2.3)	30.6
iv) Term deposits with StCBs	4,257 (9.1)	4,745 (9.8)	11.5
v) Term deposits with DCCBs	8,683 (18.5)	7,847 (16.2)	-9.6
B. Non-SLR Investments (in bonds of public sector institutions/AIFIs, shares of AIFIs and units of UTI)	**2,055 (4.4)**	**2,732 (5.6)**	**32.9**

Note: Figures in brackets are percentages to total investments.

1.2 per cent net NPAs) (Table IV.7). The high level of gross NPAs of UCBs was, to an extent, on account of burdensome procedure for write-off of loans.

Table IV.7: 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	ñ	ñ
2002	1,937	13,706	21.9	ñ	ñ
2003	1,941	12,509	19.0	6,428	13.0
2004	1,926	15,406	22.7	8,242	12.1
2005	1,872	15,486	23.4	8,257	12.5
2006 P	1,853	13,871	19.7	6,718	9.6

P : Provisional.

Operations and Performance of Scheduled Urban Co-operative Banks

Operations

4.51 Continuing the growth momentum, liabilities/assets of scheduled UCBs expanded at a healthy rate during 2005-06. Deposits of scheduled UCBs grew at a higher rate in comparison with the previous year. On the asset side, while loans and advances portfolio witnessed an accelerated growth, investments slowed down in sync with the trend witnessed in the commercial banking sector in recent years (Table IV.8).

Table IV.8: Liabilities and Assets of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
†	2005	2006	2004-05	2005-06
1	2	3	4	5
Liabilities				
1. Capital	782 (1.4)	899 (1.5)	16.6	15.0
2. Reserves	6,927 (12.3)	6,594 (10.7)	182.0	-4.8
3. Deposits	40,950 (72.8)	45,285 (73.2)	7.8	10.6
4. Borrowings	890 (1.6)	970 (1.6)	50.8	9.0
5. Other Liabilities	6,668 (11.9)	8,083 (13.1)	-31.6	21.2
Total Liabilities/Assets	**56,217 (100.0)**	**61,832 (100.0)**	**9.2**	**10.0**
Assets				
1. Cash	303 (0.5)	348 (0.6)	-4.9	14.8
2. Balances with Banks	4,795 (8.5)	4,973 (8.0)	-11.7	3.7
3. Money at call and short notice	517 (0.9)	581 (0.9)	20.9	12.3
4. Investments	17,094 (30.4)	18,216 (29.5)	14.1	6.6
5. Loans and Advances	25,061 (44.6)	28,022 (45.3)	8.2	11.8
6. Other Assets	8,447 (15.0)	9,692 (15.7)	18.0	14.7

Note : Figures in brackets are percentages to total liabilities/ assets.

Source: Balance sheets of respective UCBs.

Financial Performance

4.52 Net interest income of scheduled UCBs increased by Rs.1,171 crore during 2005-06 as compared with Rs.999 crore in the previous year. This combined with reduction in banksí burden (excess of operating expenditure over non-interest income) resulted in an increase in the operating profits, in contrast to a decline in the previous year. Nearly same level of provisions and contingencies in comparison with the previous year resulted in higher net profit during the year (Table IV.9). Although, the number of banks suffering losses increased to eight from seven during the previous year, total losses incurred by the loss making scheduled UCBs declined (Appendix Tables IV.4 and IV.5).

Table IV.9: Financial Performance of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item			Percentage Variations	
†	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5
A. Income (i+ii)	**3,735 (100.0)**	**3,951 (100.0)**	**-6.0**	**5.8**
i) Interest Income	3,322 (88.9)	3,458 (87.5)	4.5	4.1
ii) Other Income	413 (11.1)	494 (12.5)	-48.1	19.6
B. Expenditure (i+ii+iii)	**3,598 (100.0)**	**3,617 (100.0)**	**-4.4**	**0.5**
i) Interest Expended	2,323 (64.6)	2,287 (63.2)	-1.2	-1.5
ii) Provisions and Contingencies	335 (9.3)	348 (9.6)	-36.9	3.9
iii) Operating Expenses	940 (26.1)	982 (27.2)	6.6	4.5
of which : Wage Bill	508 (14.1)	521 (14.4)	2.2	2.6
C. Profit				
i) Operating Profit	472	682	-36.3	44.5
ii) Net Profit	137	335	-34.9	144.5
D. Total Assets	**56,217**	**61,832**	**9.2**	**10.0**

Note : Figures in brackets are percentages to respective totals.
Source : Balance sheets of respective UCBs.

Operations and Performance of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Above

Operations

4.53 The non-scheduled UCBs of deposit size of Rs.100 crore and above (numbering 191) were brought under the closer scrutiny of off-site surveillance in view of their large deposit holdings and systemic importance. Total assets/liabilities of these non-scheduled UCBs were Rs.39,657 crore at end-March 2006, constituting 64.1 per cent of assets of scheduled UCBs and 28.2 per cent of total assets of all UCBs (scheduled and non-scheduled). The major source of funds for non-scheduled UCBs was deposits, accounting for 79.4 per cent of total assets at end-March 2006. Most of the assets were held in the form of loans and advances (49.1 per cent) and investments (23.0 per cent). These banks also held a significant part of their assets in the form of balances with banks (16.0 per cent) at end-March 2006 (Table IV.10).

Financial Performance

4.54 Net interest income of non-scheduled UCBs of Deposits of Rs.100 crore and above was Rs.1,046 crore during 2005-06. The wage bill constituted 14.6 per cent of total expenses. As a result, their operating profits were significantly lower than their net interest income. Return on

Table IV.10: Liabilities and Assets of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Above
(As at end-March 2006)

Item	Amount (Rs. crore)	Share in Total Assets (per cent)
1	2	3
Liabilities		
1. Paid-up Capital	1,020	2.6
2. Reserve Fund and other Reserves	2,507	6.3
3. Deposits	31,479	79.4
4. Borrowings	275	0.7
5. Other Liabilities	4,377	11.0
Total Liabilities/Assets	**39,657**	**100.0**
Assets		
1. Cash in Hand	484	1.2
2. Balances with Banks	6,348	16.0
3. Money at Call and Short Notice	295	0.7
4. Investments	9,112	23.0
5. Loans and Advances	19,489	49.1
6. Other Assets	3,929	9.9

Table IV.11: Financial Performance of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Aboveñ 2005-06

Item	Amount (Rs. crore)	Share in Respective Total (per cent)
1	2	3
A. Income (i+ii)	**3,072**	**100.0**
i) Interest Income	2,936	95.6
ii) Other Income	136	4.4
B. Expenditure (i+ii+iii)	**2,772**	**100.0**
i) Interest Expense	1,890	68.2
ii) Provision Against Risks/ Contingencies	195	7.0
iii) Other Operating Expenses	687	24.8
of which: Wage Bill	404	14.6
C. Profit		
i) Operating Profit	495	
ii) Net Profit	300	
D. Total Assets (as at end-March)	**39,657**	

assets of non-scheduled UCBs at 0.76 per cent during 2005-06 was higher than that of scheduled UCBs at 0.54 per cent (Table IV.11).

Urban Co-operative Banks - Regional Operations

4.55 The spatial distribution of UCBs is highly skewed as they are concentrated mainly in five States/Union Territories, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Kerala was also well covered in terms of number of branches of UCBs. As at end-March 2006, two-thirds of total UCBs with four-fifth of total branches operated in Maharashtra and Goa, Karnataka and Gujarat. Maharashtra and Goa alone accounted for 58.8 per cent of total branches of UCBs. Of the 7,217 branches of UCBs, 914 were unit banks, *i.e.*, banks which function as head office-cum-branch. Maharashtra and Goa, Karnataka and Gujarat had the highest number (59.5 per cent) of unit banks (Table IV.12).

4.56 Of 55 scheduled UCBs at end-March 2006, 39 were located in Maharashtra, nine in Gujarat, three in Andhra Pradesh, two in Goa and one each in Karnataka and Uttar Pradesh. Maharashtra and Goa accounted for 85.8 per cent of total deposits and 84.9 per cent of all loans and advances of all scheduled UCBs (Table IV.13).

Table IV.12: Distribution of Urban Co-operative Banks ñ State-wise

(As at end-March 2006)

Sr. No.	State	No. of Banks	Share in Total (Per cent)	No. of Unit Banks	No. of Branches*	No. of Extension Counters
	1	2	3	4	5	6
1.	Andhra Pradesh	124	6.7	95	310	5
2.	Assam/Manipur/Meghalaya/ Mizoram/ Nagaland/Sikkim/ Tripura/Arunachal Pradesh	18	1.0	15	11	ñ
3.	Bihar/Jharkhand	5	0.3	4	1	1
4.	Gujarat	296	16.0	151	637	3
5.	Jammu and Kashmir	4	0.2	1	16	4
6.	Karnataka	297	16.0	153	885	18
7.	Kerala	60	3.2	17	325	ñ
8.	Madhya Pradesh/Chhattisgarh	75	4.0	58	45	4
9.	Maharashtra and Goa	630	34.0	240	4,243	23
10.	New Delhi	15	0.8	ñ	60	1
11.	Orissa	14	0.8	5	50	4
12.	Punjab/Haryana/Himachal Pradesh	16	0.9	10	39	3
13.	Rajasthan	39	2.1	19	142	7
14.	Tamil Nadu and Pondicherry	132	7.1	62	180	0
15.	Uttar Pradesh/Uttaranchal	77	4.2	53	219	28
16.	West Bengal	51	2.8	31	54	0
	Total (1 to 16)	**1,853**	**100.0**	**914**	**7,217**	**101**

* : Including head office-cum-branch.
ñ : Nil/Negligible.

Table IV.13: Select Indicators of Scheduled Urban Co-operative Banks ñ Centre-wise
(As at end-March 2006)

(Amount in Rs. crore)

Centre	Paid-up Capital	Free Reserves	Deposits	Loans and Advances	Demand and Time Liabilities	C-D Ratio (per cent)
1	2	3	4	5	6	7
1. Ahmedabad	93	3,680	5,192	3,441	5,491	66.3
2. Bangalore	6	44	349	213	477	61.0
3. Hyderabad	32	437	709	458	741	64.6
4. Lucknow	5	18	185	125	193	67.6
5. Mumbai	686	2,324	35,752	21,717	35,294	60.7
6. Nagpur	78	91	3,097	2,067	2,098	66.7
Total (1 to 6)	**899**	**6,594**	**45,285**	**28,022**	**44,295**	**61.9**

4.57 Non-scheduled UCBs in five centres, *viz*., Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur accounted for more than three-fourth of capital and reserves and about four-fifth of deposits, advances, and demand and time liabilities of all non-scheduled UCBs at end-March 2006. Wide variations were also observed in the C-D ratio. Chennai had the highest C-D ratio (69.8 per cent), while New Delhi the lowest (38.0 per cent) which incidentally was the only centre with C-D ratio of less than 50 per cent. C-D ratio for other centres remained within the range of 51.8 per cent and 67.4 per cent (Table IV.14).

3. Rural Co-operative Credit Institutions

4.58 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-operatives for

Table IV.14: Select Indicators of Non-Scheduled Urban Co-operative Banks ñ Centre-wise
(As at end-March 2006)

(Amount in Rs. crore)

Centre	Share Capital	Free Reserves	Deposits	Advances	Demand and Time Liabilities	C-D Ratio (per cent)
1	2	3	4	5	6	7
1. Ahmedabad	239	778	6,632	3,717	6,802	56.1
2. Bangalore	375	527	7,952	5,129	7,300	64.5
3. Bhopal	48	71	1,071	570	1,094	53.3
4. Bhubaneswar	25	28	591	389	594	65.8
5. Chandigarh	30	46	648	336	628	51.8
6. Chennai	153	124	2,941	2,054	3,163	69.8
7. Guwahati	12	19	334	182	378	54.5
8. Hyderabad	81	108	1,318	832	1,210	63.1
9. Jaipur	72	99	1,348	782	1,313	58.0
10. Jammu	4	6	194	109	197	56.1
11. Kolkata	123	132	1,856	1,108	1,977	59.7
12. Lucknow	122	125	2,015	1,262	2,472	62.6
13. Mumbai	941	900	27,779	18,714	28,490	67.4
14. Nagpur	228	399	8,611	5,070	4,018	58.9
15. New Delhi	40	82	898	341	928	38.0
16. Patna	3	7	30	19	31	62.9
17. Thiruvananthapuram	83	117	2,734	1,743	2,873	63.8
Total (1 to 17)	**2,580**	**3,567**	**66,952**	**42,357**	**63,469**	**63.3**
Memo Item:						
Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total	75.0	76.5	80.5	81.9	78.4	

long-term and short-term loans has enabled these institutions to improve 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. Rural institutions have a wider outreach, with as many as 1,08,779 primary agricultural co-operative societies (PACS), the grass root organisation of the rural co-operative banking structure, operating in the country as on March 2005.

4.59 The rural co-operative credit institutions face many challenges such as low resource base, lack of diversification, huge accumulated losses, persistent NPAs and low recovery levels. Many institutions continued to make losses during 2004-05. Total accumulated losses aggregated Rs.8,746 crore as on March 31, 2004. NABARD and the Reserve Bank, therefore, have been taking several supervisory and developmental measures in consultation with the Central Government for the revival of weak institutions and orderly growth of this important segment of the financial sector.

Regulation of Rural Co-operative Banks

4.60 The total number of licensed StCBs and DCCBs were 14 and 73, respectively, at end-June 2006. During 2005-06, only one new banking licence was granted which was to Andaman and Nicobar State Co-operative Bank. In 2005-06 (July to June) show cause notices were issued to three DCCBs as to why their licence applications should not be rejected. Two StCBs and 11 DCCBs were placed under the Reserve Bankís directions prohibiting them from granting loans and advances to certain areas and/or accepting fresh deposits. No licence/application for licence was cancelled/ rejected during the year. No StCB was granted scheduled status during the year for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. The total number of scheduled StCBs remained at 16 at end-June 2006. As on June 30, 2006, seven out of 31 StCBs and 134 out of 367 DCCBs did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (aACS). Similarly 134 and 329 out of 367 DCCBs did not comply with the provisions of Section 22(3) (a) and Section 22(3) (b), respectively, of the Act.

4.61 In terms of Section 29 of the Banking Regulation Act, 1949 (aACS), every co-operative bank is required to prepare a balance sheet and profit and loss account in respect of all business transacted by it as on March 31 every year. With a view to ensuring transparency in the annual financial statements (*i.e.*, balance sheets and profit and loss accounts) of the StCBs/DCCBs, it was decided to introduce certain disclosure standards in the form of ëNotes on Accountsí to their balance sheets from the year ended March 31, 2006.

4.62 Consequent upon the announcement in the Mid-term Review of Annual Policy Statement for the year 2005-06, all StCBs and DCCBs were advised to increase general provisioning for ëstandard advancesí to 0.40 per cent from the present level of 0.25 per cent with effect from the financial year beginning April 1, 2007. However, direct advances to agricultural and SME sectors, which are standard assets, were allowed the provisioning of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

4.63 All StCBs and DCCBs were advised in August 2005 that they may 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 specific conditions. The overall limit of non-SLR investment, which was fixed at 10 per cent of the bankís total deposits as on March 31 of the previous year, comprises: (a) bonds of public sector undertakings; and (b) bonds/equity of all-India financial institutions (AIFIs) with a sub-ceiling of 5 per cent for investments covered under (a) above. The banks, which do not comply with the stipulated conditions, are required to obtain prior approval from the Reserve Bank for non-SLR investment on a case-to-case basis as hitherto.

4.64 In February 2005, StCBs and DCCBs were advised to formulate a customer acceptance policy and customer identification procedures to be followed while opening an account. The banks were also advised to categorise the customers into low, medium and high risk according to risk perceived and the ëKnow Your Customerí (KYC) guidelines, which require banks to verify the identity and address of the customer through certain documents. It was decided in August 2005 to further simplify the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and the total credits in all the accounts taken together is not expected to exceed Rs.1 lakh in a year.

4.65 It was decided to allow licensed and/or scheduled StCBs 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 terms and conditions. It was advised that no StCB should undertake co-branded domestic credit card business without obtaining prior permission of the Reserve Bank. The permission granted to a StCB to commence the co-branded credit card business will be normally valid for a period of two years, subject to review before expiry of that period.

4.66 All StCBs and DCCBs were advised that the banks should not credit ëaccount payeeí cheques to the account of any person other than the payee named therein. This measure was initiated with a view to protecting the banks being burdened with liabilities arising out of unauthorised collections, and in the interest of the integrity and soundness of the payment and banking systems. Banks were directed in April 2006 that they should not collect account payee cheques for any person other than the payee constituent.

4.67 All StCBs and DCCBs were allowed in June 2006 to open savings bank accounts in the names of State Government departments/bodies/agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by the State Governments. Banks were advised that they should keep on their record a copy of the authorisation issued by the respective State Government departments.

4.68 Consequent upon the amendment to Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934), the statutory minimum CRR requirement of 3.0 per cent of total demand and time liabilities in respect of scheduled StCBs ceases to exist. Further, the Reserve Bank having regard to the needs of securing monetary stability in the country can prescribe the CRR for scheduled banks without any floor or ceiling rate. The Reserve Bank has decided to continue with the *status quo* on the rate of CRR required to be maintained by scheduled StCBs at 5.0 per cent of their demand and time liabilities. In exercise of the powers conferred by sub-section (7) of Section 42 of the Reserve Bank of India Act, 1934, the Reserve Bank exempted every StCB from the maintenance of CRR at 5.0 per cent on the following liabilities with effect from June 22, 2006: (i) liabilities to the banking system in India as computed under Section 42 of the RBI Act, 1934; and (ii) transactions in CBLO with CCIL. Further, as part of the amendments carried out to the Reserve Bank of India Act, 1934, sub-section (1B) of Section 42 of the Act has been omitted. Accordingly, the Reserve Bank cannot pay any interest on the CRR balances maintained by StCBs once the Act comes into force.

4.69 The Union Finance Minister in his Budget Speech for 2005-06 observed that the sugar industry was under financial stress from 2001 and their financial position became worse due to two successive droughts in certain parts of the country. Consequent upon the announcement made in the Budget Speech, a Committee was set up by NABARD to work out a scheme/package of assistance for the sugar industry. The Committee submitted its report to the Government on July 23, 2005. Accordingly, a package of assistance for sugar industry was worked out (Box IV.6).

Box IV.6 : Package of Assistance for Sugar Industry

For effecting the package of assistance for sugar industry, the sugar mills have been bifurcated in the following two categories:

Category A: The mills which can repay the term loan within a period of five years including a moratorium of two years for payment of interest and principal; and

Category B: The mills which can repay the term loan within a period of 15 years including a moratorium of two years for payment of interest and principal.

The following package was approved by the Government for the sugar mills in the country:

- All co-operative sugar mills in the country, which have term loans outstanding as on March 31, 2005, and which are commercially viable and have adequate operational surplus to repay the said term loans will be categorised as falling under either Category A or Category B.
- Accordingly, the term loans will be restructured/rescheduled to enable repayment within five years (for Category A) or within 15 years (for Category B).
- The rate of interest on the restructured loans will be reduced to 10 per cent per annum with effect from April 1, 2005, irrespective of the original contractual rate.
- The Government of India will provide interest subvention on the restructured loan. The amount of interest subvention is estimated at Rs.525 crore.

Supervision of the Rural Co-operative Credit Structure

4.70 In accordance with the powers vested under Section 35(6) of the Banking Regulation Act, 1949 (aACS), NABARD undertakes inspection of RRBs, StCBs and DCCBs. The frequency of statutory/ voluntary inspections by NABARD was increased from 2005-06. Accordingly, NABARD has decided to conduct statutory inspections, on an annual basis, of all StCBs as well as of those DCCBs and RRBs, which are not complying with minimum capital requirements. The statutory inspections of DCCBs and RRBs with positive networth as also the voluntary inspections of apex co-operative societies/ federations would continue to be conducted once in two years. During the year, NABARD carried out statutory inspections of 416 banks (31 StCBs, 265 DCCBs and 120 RRBs) and voluntary inspections of 18 SCARDBs and an apex co-operative society.

4.71 The Board of Supervision (BoS) constituted by NABARD in 1999 to provide guidance and direction on matters relating to supervision of StCBs, DCCBs and RRBs, met four times during 2004-05. The review conducted by BoS included: (i) the functioning of insolvent StCBs and DCCBs; (ii) State-wise functioning of co-operative credit institutions; (iii) implementation of prudential norms by DCCBs; (iv) frauds, misappropriation, embezzlements and defalcations; (v) agenda to be placed before the Board of Directors of StCBs and DCCBs; (vi) functioning of StCBs and SCARDBs based on inspection findings; (vii) follow-up action taken on the recommendations for initiating regulatory action against StCBs and DCCBs; (viii) financial position of RRBs and co-operative banks with deposit erosion of more than 25 per cent and more than 50 per cent but less than 100 per cent, respectively; (ix) inspection strategy ñ reference date of inspection and coverage of subsequent development; and (x) deposit insurance cover for deposits of co-operative banks.

Management of Co-operatives

4.72 The supersession of elected Boards of Management continued despite NABARDís efforts to ensure that co-operative banks are managed by duly elected Boards of Management. However, the number and proportion of Boards under supersession at end-March 2005 declined for all segments of rural co-operative sector, except StCBs in which case 14 out of 31 banks were superseded (Table IV.15).

A Profile of Rural Co-operative Banks

4.73 The rural co-operative banks with their vast numbers, regional outreach and significant amount of assets is an important segment of the financial sector. As on March 31, 2005, these institutions together held Rs.3,25,170 crore of assets, Rs.1,46,321 crore of deposits and a loan portfolio of Rs.1,89,407 crore. However, their financial performance has raised concern regarding effectiveness of their role in financial penetration. During 2004-05, these institution taken together, however, earned some profit although a majority of them incurred losses. Institution-wise, while the upper-tier of the short-term structure made profit, the lower-tier (*i.e.*, PACS) made overall losses. This was in contrast with the trend for the long-term structure. The problems of non-performing assets and recovery performance of the rural co-operative banks, especially the long-term structure and the lower-tier of the short-term structure continued to persist (Table IV.16).

Table IV.15: Elected Boards under Supersession
(As at end-March 2005)

Particulars	StCBs	DCCBs	SCARDBs	PCARDBs	**Total**
1	2	3	4	5	**6**
(i) Total no. of Institutions	31	367	20	727	**1,145**
(ii) No. of Institutions where Boards are under supersession	14	159	8	372	**553**
Percentage of Boards under supersession [(ii) as percentage of (i)]	**45.2**	**43.3**	**40.0**	**51.2**	**48.3**

Source : NABARD.

Table IV.16: A Profile of Rural Co-operative Credit Institutions*
(As at end-March 2005)

(Amount in Rs. crore)

Item	Short-Term			Long-Term		Total
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs	
1	2	3	4	5	6	7
A. No. of Co-operative Banks	31	367	1,08,779	20	727	**1,09,924**
B. Balance Sheet Indicators						
i) Owned Fund (Capital+Reserves)	9,495	20,495	9,197	5,022	3,494	**47,703**
ii) Deposits	44,316	82,098	18,976	566	365	**1,46,321**
iii) Borrowings	14,608	22,568	40,250	17,180	12,873	**1,07,479**
iv) Loans and Advances Issued	44,452	66,266	39,212	3,292	2,569	**1,55,791**
v) Loans and Advances Outstanding	37,346	73,091	48,785	17,422	12,763	**1,89,407**
vi) Total Liabilities/Assets	71,806	1,33,331	75,407 **	24,271	20,355	**3,25,170**
C. Financial Performance						
i) Institutions in Profit						
a) Number	26	296	47,015	11	262	**47,610**
b) Amount of Profit	328	1,379	728	81	665	**3,181**
ii) Institutions in Loss						
a) Number	4	71	61,323	9	465	**61,872**
b) Amount of Loss	37	405	1,989	244	274	**2,949**
iii) Overall Profit/Loss (-)	291	974	-1,261	-163	391	**232**
iv) Accumulated Loss	274	4,723	N.A.	1,098	2,313	**N.A.**
D. Non-performing Assets						
i) Amount	6,072	14,520	16,052 @	5,437	4,056	**46,138**
ii) As Percentage of Loans Outstanding	16.3	19.9	33.6 #	31.3	31.9	**24.4**
iii) Recovery of Loans to Demand (%)	83.5	71.2	66.4	43.7	50.6	

N.A. Not Available.
* : Based on reporting institutions.
** : Working capital.
@ : Total overdues.
# : Percentage of overdues to demand.
Source : NABARD and NAFSCOB.

Rural Co-operative Banks ñ Short-Term Structure

State Co-operative Banks

Operations

4.74 The State Co-operative Banks (StCBs) continued to grow at a moderate rate during 2004-05. On the liability side, deposits grew at a meagre rate of 1.9 per cent, while borrowings increased sharply. However, the silver lining was the sharp growth of reserves. On the asset side, while the growth in loans and advances accelerated, the investment portfolio slowed down during 2004-05 (Table IV.17).

Financial Performance

4.75 Net interest income of StCBs increased sharply to Rs.1,558 crore in 2004-05 from Rs.1,316 crore in the previous year. However, decline in other income on the one hand and rise in operating expenses on the other, resulted in a decline in operating profit. Net profit also declined despite decline in provisions and contingencies (Table IV.18). Accumulated losses of StCBs, however, increased marginally to Rs.274 crore from Rs.260 crore in 2003-04. Twenty-six out of 31 StCBs earned profits aggregating Rs.328 crore, while four made losses amounting to Rs.37 crore. One StCB reported neither profit nor loss (Appendix Table IV.6).

Asset Quality and Recovery Performance

4.76 The overall NPAs of StCBs declined both in absolute and percentage terms during 2004-05 although the NPAs to total loans ratio at 16.3 per cent continued to be high. Substantial asset slippage, however, occurred from the doubtful to

Table IV.17: Liabilities and Assets of State Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
†	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Liabilities				
1. Capital	951 (1.4)	1,012 (1.4)	6.1	6.4
2. Reserves	7,522 (11.1)	8,483 (11.8)	6.2	12.8
3. Deposits	43,486 (64.1)	44,316 (61.7)	10.4	1.9
4. Borrowings	12,457 (18.4)	14,608 (20.3)	2.0	17.3
5. Other Liabilities	3,421 (5.0)	3,387 (4.7)	19.9	-1.0
Total Liabilities/Assets	**67,838 (100.0)**	**71,806 (100.0)**	8.7	5.8
Assets				
1. Cash and Bank balance	5,986 (8.8)	6,602 (9.2)	71.8	10.3
2. Investments	22,187 (32.7)	23,289 (32.4)	13.0	5.0
3. Loans and Advances	35,105 (51.7)	37,346 (52.0)	1.0	6.4
6. Other Assets †	4,560 (6.7)	4,569 (6.4)	0.2	0.2

Note : 1. Figures in brackets are percentages to total.
2. ëReservesí include credit balance in profit and loss account shown separately by some of the banks.
3. Data for StCBs in the States of Jammu and Kashmir and Manipur is repeated for the year 2004-05 from previous year.
4. Data are provisional.

Source : NABARD.

Table IV.18: Financial Performance of State Co-operative Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Percentage Variations	
			2003-04	2004-05
1	2	3	4	5
A. Income (i+ii)	**6,046 (100.0)**	**5,420 (100.0)**	**-2.4**	**-10.4**
i) Interest Income	5,314 (87.9)	5,039 (93.0)	-4.8	-5.2
ii) Other Income	732 (12.1)	380 (7.0)	18.9	-48.1
B. Expenditure (i+ii+iii)	**5,673 (100.0)**	**5,129 (100.0)**	**-0.9**	**-9.6**
i) Interest Expended	3,998 (70.5)	3,481 (67.9)	-5.5	-12.9
ii) Provisions and Contingencies	1,204 (21.2)	1,164 (22.7)	20.0	-3.3
iii) Operating Expenses	471 (8.3)	484 (9.4)	-4.0	2.8
of which : Wage Bill	317 (5.6)	344 (6.7)	1.8	8.5
C. Profit				
i) Operating Profit	1,577	1,455	7.1	-7.7
ii) Net Profit	373	291	-20.5	-22.1
D. Total Assets	**67,838**	**71,806**	**8.7**	**5.8**

Note : 1. Figures in brackets are percentages to the respective total.
2. Data for StCBs in the States of Jammu and Kashmir and Manipur repeated for the year 2004-05 from previous year.
3. Data are provisional.

Source : NABARD.

the loss assets category. Recovery performance need to improve to reduce the high NPAs. In sync with earlier years, StCBs met the provisioning requirement during 2004-05 (Table IV.19).

Regional Dimensions

4.77 Twenty six StCBs earned profits, while four StCBs made losses. Fifteen StCBs earned higher profits during 2004-05, while nine StCBs (in the States/UTs of Chandigarh, Punjab, Andaman and Nicobar, Bihar, West Bengal, Goa, Maharashtra, Kerala and Tamil Nadu) earned lower profits. Profits remained the same for StCBs in Jammu and Kashmir and Manipur. The Chhattisgarh StCB made a loss during 2004-05 as against some profit during the previous year. Losses increased by other three loss making StCBs in the North-Eastern region (Assam, Nagaland and Tripura) (Appendix Table IV.6).

4.78 NPAs of StCBs varied widely across the States/UTs at end-March 2005. In some States such as Haryana, Rajasthan and Punjab, NPAs were less than 3.0 per cent, while in some other States (Arunachal Pradesh, Assam, Manipur and Nagaland) NPAs were more than 50 per cent. Only in nine out of 31 States/UTs, NPA ratio was less than 10 per cent. The recovery rate of StCBs also varied significantly across the States. StCBs operating in Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttaranchal and Tamil Nadu

Table IV.19: Asset Quality of State 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
A. Asset Classification Total NPAs (i+ii+iii)	**6,548 (100.0)**	**6,072 (100.0)**	**3.6**	**-7.3**
i) Sub-standard	3,288 (50.2)	2,961 (48.8)	-7.5	-9.9
ii) Doubtful	3,010 (46.0)	1,975 (32.5)	18.8	-34.4
iii) Loss Assets	250 (3.8)	1,136 (18.7)	6.4	354.4
B. NPAs to Loans Ratio	**18.7**	**16.3**		
Memo Items:				
i) Recovery to Demand	83.3	83.5		
ii) Provisions Required	3,435	2,806	11.3	-19.5
iii) Provisions Made	3,696	2,982	15.5	-20.2

Note : 1. Figures in brackets represent percentages to total.
2. Data are provisional.

Source : NABARD.

achieved more than 90 per cent recovery during 2004-05. However, in several States such as Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Tripura and Bihar, the recovery rate was less than 50 per cent (Appendix Table IV.6).

District Central Co-operative Banks

Operations

4.79 The business operations of the District Central Co-operative Banks (DCCBs) witnessed a moderate growth during 2004-05. On the liabilities side, while deposit growth slowed down, borrowing increased sharply. However, net owned funds increased significantly. On the assets side, loans and advances registered a healthy growth, while investment portfolio expanded at a very low rate (Table IV.20).

Financial Performance

4.80 In contrast to the upper structure, the financial performance of the DCCBs improved significantly due to increase in income, especially non-interest income on the one hand, and reduction in the expenditure on the other. However, the decline in expenditure was entirely due to decline in provisions and contingencies (Table IV.21). As a result of increased profit, the accumulated losses declined to Rs.4,723 crore during 2004-05 from Rs.5,126 crore during 2003-04.

Table IV.20: Liabilities and Assets of District Central 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	3,897 (3.1)	4,342 (3.3)	6.6	11.4
2. Reserves	15,234 (12.1)	16,155 (12.1)	15.6	6.0
3. Deposits	79,153 (63.0)	82,098 (61.6)	7.1	3.7
4. Borrowings	20,256 (16.1)	22,568 (16.9)	3.1	11.4
5. Other Liabilities	7,145 (5.7)	8,168 (6.1)	0.5	14.3
Total Liabilities/Assets	**1,25,685 (100.0)**	**1,33,331 (100.0)**	**7.0**	**6.1**
Assets				
1. Cash and Bank balance	7,689 (6.1)	8,676 (6.5)	5.2	12.8
2. Investments	35,180 (28.0)	35,830 (26.9)	13.1	1.8
3. Loans and Advances	67,152 (53.4)	73,091 (54.8)	4.6	8.8
6. Other Assets †	15,664 (12.5)	15,735 (11.8)	5.4	0.5

Note : 1. Figures in brackets are percentages to total.
2. ëReservesí include credit balance in profit and loss account shown separately by some of the banks.
3. Data for Jammu and Kashmir repeated for the year 2004-05 from previous year.
4. Data are provisional.

Source : NABARD.

Asset Quality and Recovery Performance

4.81 NPAs of DCCBs during 2004-05 declined sharply both in absolute and relative terms. At the same time, recovery performance also improved. However, substantial asset slippage was also noticed, mainly in loss assets category. Provisions made increased from Rs.6,900 crore in 2003-04 to Rs.11,387 crore in 2004-05 (Table IV.22).

Table IV.21: Financial Performance of District Central Co-operative Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Percentage Variations	
			2003-04	2004-05
1	2	3	4	5
A. Income (i+ii)	**11,912 (100.0)**	**12,737 (100.0)**	**-1.4**	**6.9**
i) Interest Income	11,023 (92.5)	11,427 (89.7)	-2.4	3.7
ii) Other Income	888 (7.5)	1,310 (10.3)	11.8	47.5
B. Expenditure (i+ii+iii)	**11,804 (100.0)**	**11,763 (100.0)**	**-4.5**	**-0.3**
i) Interest Expended	7,318 (62.0)	7,409 (63.0)	-6.3	1.2
ii) Provisions and Contingencies	2,414 (20.5)	2,124 (18.1)	-6.1	-12.0
iii) Operating Expenses	2,071 (17.5)	2,230 (19.0)	5.1	7.7
of which : Wage Bill	1,526 (12.9)	1,607 (13.7)	4.0	5.3
C. Profit				
i) Operating Profit	2,522	3,098	9.5	22.8
ii) Net Profit	108	974	-140.3	801.9
D. Total Assets	**1,25,685**	**1,33,331**	**7.0**	**6.1**

Note : 1. Figures in brackets are percentage to the respective total.
2. Data for Jammu and Kashmir repeated for the year 2004-05 from previous year.
3. Data are provisional.

Source : NABARD.

Table IV.22: Asset Quality of District Central 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
A. Asset Classification Total NPAs (i+ii+iii)	**16,144 (100.0)**	**14,520 (100.0)**	**17.0**	**-10.1**
i) Sub-standard	8,428 (52.2)	6,468 (44.5)	11.3	-23.3
ii) Doubtful	6,068 (37.6)	6,053 (41.7)	23.2	-0.2
iii) Loss Assets	1,648 (10.2)	1,999 (13.8)	26.7	21.3
B. NPAs to Loans Ratio	**24.0**	**19.9**		
Memo Items:				
i) Recovery to Demand	62.9	71.2		
ii) Provisions Required	6,297	8,678	5.8	37.8
iii) Provisions Made	6,900	11,387	8.1	65.0

Note : 1. Figures in brackets represent percentages to total.
2. Data are provisional.

Source : NABARD.

Regional Dimensions

4.82 During 2004-05, out of 367 reporting DCCBs, 296 made profits amounting to Rs.1,379 crore, while 71 DCCBs made losses to the tune of Rs.405 crore. DCCBs operating in 16 out of 19 States made profits, while DCCBs in three States made losses. Number of profit-earning DCCBs during 2004-05 increased in Rajasthan, Bihar, Jharkhand, Orissa, Chattisgarh, Madhya Pradesh, Andhra Pradesh and Tamil Nadu. In the case of Chattisgarh, while the number of profit-making DCCBs increased, the amount of profit earned declined. The number of loss making DCCBs increased in Maharashtra. The overall losses incurred by loss making DCCBs declined in all States, except Rajasthan, Uttaranchal, West Bengal, Kerala and Uttar Pradesh (Appendix Table IV.7).

4.83 NPAs ratio in respect of DCCBs varied significantly across the States from 5.2 per cent to 69.2 per cent at end-March 2005. Only in three States (Punjab, Haryana and Himachal Pradesh), the NPAs ratio was less than 10 per cent, while the NPAs ratio was highest in Jharkhand (69.2 per cent), followed by Bihar (57.0 per cent). NPAs in certain States, which traditionally had low NPAs, increased such as Himachal Pradesh, Punjab and Uttaranchal. NPAs in some other States such as Jharkhand and Karnataka, which already had high NPA levels, increased further during the year. At the all-India level, the recovery performance of DCCBs increased from 62.9 per cent during 2003-04 to 71.2 per cent during 2004-05. The recovery by DCCBs generally improved in all States. In some States such as Haryana, Punjab, Rajasthan, Uttranchal, Kerala and Tamil Nadu, the recovery rate was more than 80 per cent during 2004-05 (Appendix Table IV.7).

Primary Agricultural Credit Societies (PACS)

4.84 Primary agricultural credit societies (PACS) form the lower-tier of the short-term structure of the rural co-operative credit institutions.

Constituted mainly as societies for various purposes, many PACS have significant deposits and are engaged in financial intermediation, particularly in certain parts of the country.†The PACS directly interface with the farmers, provide short and medium-term credit, supply agricultural inputs, distribute consumer articles and arrange marketing of produce of its members through co-operative marketing societies. Total number of PACS increased to 108,779 in 2004-05 from 105,735 in the previous year. However, the membership of PACS declined by 5.9 per cent to 127 million. Borrowing members at 45 million constituted 35.4 per cent of the total membership as compared with 37.9 per cent in the previous year. The borrowing members of PACS declined, both in absolute terms and in relation to total members, in recent years on account of high defaults that make members ineligible for further borrowing and discontinuance of refinance of weak PACS from their upper-tier (Table IV.23).

Operations

4.85 Total resources and working capital of PACS increased sharply at an accelerated pace during 2004-05. Sharp enhancement in the working capital was mainly financed by borrowing and contribution from owned funds. Reversing the trend of the previous year, deposits registered a modest growth. On the asset side, total loans grew by 11.7 per cent due mainly to a sharp growth of medium-term loans. This resulted in a sharp increase in total loans outstanding. Despite decline in the borrowing membership, total loans and advances increased on account of increase in limits of eligible borrowers (Table IV.24).

Table IV.23: Primary Agricultural Credit Societies ñ Membership

Item	As at end-March	
	2004	2005
1	2	3
1. No. of Societies	1,05,735	1,08,779
2. Total Membership (in million)	135.41	127.41
of which:		
a) SC	30.61	30.93
b) ST	11.89	11.80
3. Total No. of Borrowers (in million)	51.27	45.07
of which:		
a) SC	6.49	7.25
b) ST	3.44	3.46
4. Total No. of Employees	3,47,176	3,88,118

Note : Data are provisional.
Source : NAFSCOB.

Financial Performance

4.86 During 2004-05, 47,015 PACS earned profits amounting to Rs.728 crore, while 61,323 PACS incurred losses of Rs.1,989 crore. Thus, PACS, as a group, incurred net losses of Rs.1,261 crore. While total demand increased during 2004-05, total collections also improved significantly. Total overdues declined both in absolute terms and relative to demand. Overdues as percentage of total demand, however, witnessed a steady decline in

Table IV.24: Primary Agricultural Credit Societies ñ Select Indicators

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
†	2004	2005	2003-04	2004-05
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	60,797	68,423	5.6	12.5
2. Owned Funds†(a+b)	8,397	9,197	2.4	9.5
a. Paid-up Capital	5,166	5,571	4.3	7.8
of which: Government Contribution	630	621	1.8	-1.4
b. Total Reserves	3,231	3,626	-0.4	12.2
3. Deposits	18,143	18,976	-5.1	4.6
4. Borrowings	34,257	40,250	13.1	17.5
5. Working Capital	62,047	75,407	1.5	21.5
B. Assets				
1. Total Loans Issued (a+b)*	35,119	39,212	3.3	11.7
a) Short-Term	29,326	31,887	7.8	8.7
b) Medium-Term	5,793	7,325	-14.8	26.4
2. Total Loans Outstanding (a+b)+	43,873	48,785	3.4	11.2
a) Short-Term	30,808	32,481	5.8	5.4
b) Medium-Term	13,065	16,304	-1.8	24.8
C. Overdues				
1. Total Demand	44,237	47,785	9.7	8.0
2. Total Collection	27,942	31,733	11.5	13.6
3. Total Balance (Overdues) (a+b)	16,295	16,052	6.6	-1.5
a) Short-Term	12,279	11,656	6.1	-5.1
b) Medium-Term	3,918	4,396	5.3	12.2
4. Percentages of Overdues to Total Demand	36.8	33.6		

* : During the year. + : As at the beginning of the year.
Note : Data are provisional.
Source : NAFSCOB.

recent years, reflecting the improved recovery performance (Table IV.24).

Regional Dimensions

4.87 PACS were mostly concentrated in the Western and Eastern regions of the country. The North-Eastern region is relatively underserved. On an average, a PACS served†seven villages for the country as a whole at end-March 2005. However, PACS in Southern and Eastern Regions operated with a higher membership and borrowing members. The average size of PACS of the Southern Region was much bigger than in other regions. The average fund under management of PACS operating in Kerala and Tamil Nadu stood much higher at Rs.587 lakh and Rs.332 lakh, respectively (Table IV.25 and Appendix Table IV.8).

Table IV.25 : Select Indicators of Primary Agricultural Co-opeartive Societies-State-wise ñ 2004-05

Sr. No.	State/Region	No. of PACS	No. of Villages	Average Deposits (Rs. Lakh)	Working Capital (Rs. Lakh)	Societies in Profit*		Societies in Loss*	
						No.	Amount (Rs. Lakh)	No.	Amount (Rs. Lakh)
1		2	3	4	5	6	7	8	9
Northern Region		**14,997**	**91,238**	**10.7**	**11,10,885**	**8,334**	**17,915**	**6,230**	**9,605**
1.	Chandigarh	32	22	0.2	18	15	ñ	17	ñ
2.	Delhi	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ
3.	Haryana	2,433	7,093	11.1	4,26,334	1,517	8,219	916	2,053
4.	Himachal Pradesh	2,089	19,388	27.6	83,883	449	980	1,640	79
5.	Jammu and Kashmir	807	7,146	0.1	7,178	173	40	201	752
6.	Punjab	3,985	12,428	15.4	3,51,688	2,256	4,236	1,729	2,335
7.	Rajasthan	5,651	45,161	2.6	2,41,784	3,924	4,440	1,727	4,385
North-Eastern Region		**3,628**	**32,045**	**2.2**	**79,413**	**490**	**8,081**	**3,138**	**11,306**
8.	Arunachal Pradesh	31	3,649	5.0	1,636	20	25	11	8
9.	Assam	809	23,422	1.1	7,533	309	7,639	500	9,909
10.	Manipur	186	N.A.	1.0	45,904	ñ	ñ	186	201
11.	Meghalaya	179	2,458	0.4	780	70	7	109	16
12.	Mizoram	165	660	0.1	175	20	70	145	9
13.	Nagaland	1,719	969	3.7	11,246	ñ	ñ	1,719	N.A.
14.	Sikkim	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ
15.	Tripura	539	887	0.2	12,139	71	341	468	1,163
Eastern Region		**29,182**	**2,70,859**	**11.1**	**9,13,314**	**14,634**	**2,788**	**14,548**	**15,633**
16.	Andaman and Nicobar Islands	46	204	0.4	195	9	3	37	2
17.	Bihar	5,936	45,097	0.8	47,655	1,120	507	4,816	6,416
18.	Jharkhand	208	3,611	6.1	1,523	60	91	148	N.A.
19.	Orissa	4,036	44,811	56.3	4,94,987	1,380	853	2,656	6,931
20.	West Bengal	18,956	1,77,136	4.7	3,68,954	12,065	1,335	6,891	2,285
Central Region		**15,329**	**1,95,555**	**3.8**	**5,50,813**	**7,425**	**9,407**	**7,904**	**13,595**
21.	Chhattisgarh	1,368	21,546	6.8	64,924	805	1,081	563	1,330
22.	Madhya Pradesh	4,586	55,305	8.6	3,48,132	1,873	6,445	2,713	12,076
23.	Uttaranchal	446	5,900	6.6	11,830	211	107	235	37
24.	Uttar Pradesh	8,929	1,12,804	0.8	1,25,927	4,536	1,774	4,393	153
Western Region		**30,332**	**57,907**	**1.0**	**13,25,382**	**12,138**	**20,817**	**18,194**	**47,700**
25.	Goa	255	1,123	11.2	14,176	60	32	195	29
26.	Gujarat	9,093	17,478	1.7	3,98,475	4,983	9,191	4,110	8,835
27.	Maharashtra	20,984	39,306	0.6	9,12,731	7,095	11,593	13,889	38,836
Southern Region		**15,303**	**80,306**	**85.6**	**35,60,870**	**3,994**	**13,794**	**11,309**	**1,01,066**
28.	Andhra Pradesh	4,512	30,715	16.9	5,56,967	1,103	3,686	3,409	16,743
29.	Karnataka	4,051	28,513	19.1	3,17,783	1,227	2,688	2,824	8,577
30.	Kerala	1,796	1,714	464.3	10,53,498	728	3,321	1,068	13,115
31.	Pondicherry	52	264	83.0	6,435	17	1	35	5
32.	Tamil Nadu	4,892	19,100	65.1	16,26,187	919	4,099	3,973	62,626
Total (All-India)		**1,08,779**	**7,27,911**	**17.4**	**75,40,741**	**47,015**	**72,802**	**61,323**	**1,98,905**

ñ : Nil/Negligible. N.A. : Not Available.
* : Based on reporting PACS.
Note : Data are provisional.
Source : NAFSCOB.

4.88 Southern Region accounted for nearly 69.0 per cent of the total deposits held by PACS, while Eastern Region held another 17.0 per cent. Average deposits held by a PACS in Kerala at Rs.464 lakh was much higher than the next highest of Rs.83.0 lakh in the Union Territory of Pondicherry. Average deposit mobilistion by most of the PACS was insignificant.

4.89 The number of profit-making PACS were more than the number of loss making PACS in Northern, Eastern and Central Region. However, the amount of losses incurred by loss making PACS outweighed the volume of profits earned by profit making PACS across all regions. The number of profit making PACS as well as profits earned by them outweighed the loss making PACS (both in number and amount) in eleven States/ Union Territories (Chandigarh, Haryana, Himachal Pradesh, Punjab, Rajasthan, Arunachal Pradesh, Mizoram, Jharkhand, Uttaranchal, Uttar Pradesh and Gujarat). While the number of profit making PACS were higher in West Bengal and Chhattisgarh, the losses of loss making PACS in these States outweighed the profits of profit making PACS. On the other hand, profits of fewer PACS in the Union Territory of Andaman and Nicobar Island and the State of Goa overwhelmed the losses made by a larger number of loss making PACS (Table IV.25 and Appendix Table IV.8).

4.90 Out of 1,08,779 PACS as on March 31, 2005, 66,756 (61.4 per cent) were viable, 32,614 (30.0 per cent) potentially viable, 4,741 (4.4 per cent) dormant, 2,033 (1.9 per cent) defunct and 2,635 (2.4 per cent) others. Problem of viability was most acute in the North-Eastern region with nearly 33.4 per cent PACS being dormant/defunct. However, the performance of PACS in the North-Eastern region varied significantly. The Western Region had highest share of viable PACS (viable/potentially viable), aided mainly by high performance of PACS in Maharashtra (Appendix Table IV.8).

Rural Co-operative Banks - Long-Term Structure

Structure, Spread and Growth

4.91 As at end-March 2005, the long-term co-operative credit structure consisted of 20 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and 727 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). Of the 20 SCARDBs, having 864 branches, eight were with unitary structure with branches, while twelve were federal/mixed in nature. In those States which were not served by the long-term structure, separate sections of the state co-operative banks look after long-term credit needs. In the North-Eastern region, only three States (Assam, Manipur and Tripura) had long-term structure. The number of operational PCARDBs declined to 727 in 2004-05 from 766 functioning in 2003-04 due to the amalgamation of 47 PCARDBs in Haryana into nine district PCARDBs and merger of three PCARDBs in Orissa. Two PCARDBs were liquidated during 2005, reducing the number of functional PCARDBs in Orissa to 51 (excluding one PCARDB whose status was not available) in 2005 from 53 in 2004. Further, two new PCARDBs became operational in Kerala.

State Co-operative Agriculture and Rural Development Banks

Operations

4.92 The business operations of the SCARDBs registered a moderate growth during 2004-05. The main source of funds for SCARDBs is borrowings, which grew moderately during 2004-05. Net owned funds of SCARDBs, however, increased sharply. On the asset side, loans and advances grew by 7.1 per cent, while investments declined sharply during 2004-05 (Table IV.26).

Financial Performance

4.93 Financial performance of the SCARDBs worsened further during 2004-05. Net interest income improved during 2004-05 to Rs.729 crore from Rs.604 crore during 2003-04. With other income and expenditure remaining nearly the same, the increase in net interest income was reflected in the operating profits of SCARDBs. However, higher provisioning during the year resulted in net losses on top of net losses in the previous year (Table IV.27). Ten SCARDBs made profit, while nine recorded losses. One SCARDB did not record any profit or loss (Appendix Table IV.9). Consequently, accumulated losses increased to Rs.1,098 crore at end-March 2005 from Rs.856 crore at end-March 2004.

Asset Quality and Recovery Performance

4.94 The overall NPAs of SCARDBs increased during 2004-05 both in absolute terms and in

Table IV.26: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March 2004	As at end-March 2005	Percentage Variations 2004-05
1	2	3	4
Liabilities			
1. Capital	764 (3.3)	792 (3.3)	3.7
2. Reserves	3,639 (15.6)	4,230 (17.4)	16.2
3. Deposits	524 (2.2)	566 (2.3)	8.0
4. Borrowings	16,933 (72.4)	17,180 (70.8)	1.5
5. Other Liabilities	1,526 (6.5)	1,504 (6.2)	-1.4
Total Liabilities/Assets	**23,385** **(100.0)**	**24,271** **(100.0)**	**3.8**
Assets			
1. Cash and Bank Balances	675 (2.9)	360 (1.5)	-46.7
2. Investments	2,309 (9.9)	1,905 (7.8)	-17.5
3. Loans and Advances	16,263 (69.5)	17,422 (71.8)	7.1
4. Other Assets	4,138 (17.7)	4,584 (18.9)	10.8

Note : 1. Figures in brackets are percentages to total.
2. ëReservesí include provisions and credit balance in profit and loss account.
3. Data for Jammu and Kashmir repeated from 2004 and Manipur from 2002, respectively.
4. Data are provisional.

Source : NABARD.

Table IV.27: Financial Performance of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Percentage Variations 2004-05
1	2	3	4
A. Income (i+ii)	**2,083** **(100.0)**	**2,145** **(100.0)**	**3.0**
i) Interest Income	2,048 (98.3)	2,100 (97.9)	2.5
ii) Other Income	35 (1.7)	45 (2.1)	28.6
B. Expenditure (i+ii+iii)	**2,201** **(100.0)**	**2,308** **(100.0)**	**4.8**
i) Interest Expended	1,444 (65.6)	1,371 (59.4)	-5.1
ii) Provisions and Contingencies	551 (25.0)	727 (31.5)	31.9
iii) Operating Expenses	206 (9.4)	209 (9.1)	1.5
of which : Wage Bill	162 (7.4)	165 (7.2)	1.9
C. Profit			
i) Operating Profit	433	564	30.4
ii) Net Profit	-119	-163	37.1
D. Total Assets	**23,385**	**24,271**	**3.8**

Note : 1. Figures in brackets are percentages to respective totals.
2. Data for Jammu and Kashmir repeated from 2003-04 and Manipur from 2001-02, respectively.
3. Data are provisional.

Source : NABARD.

relation to total loan portfolio. However, most of the NPAs of SCARDBs were in the sub-standard and doubtful categories. Loss assets constituted a small portion of overall NPAs. SCARDBs performed poorly on the recovery to demand and worsening asset quality warranted higher provisioning during 2004-05 (Table IV.28).

Regional Dimensions

4.95 While SCARDBs operating in ten States earned profits, in nine States they incurred losses. Profits earned by SCARDBs in five States (Rajasthan, Assam, Kerala, Madhya Pradesh and Uttar Pradesh) improved during the year. SCARDB of Pondicherry turned around and earned profits during 2004-05, while Haryana SCARDB incurred losses during 2004-05 as against profits earned during the previous year. Profits of SCARDBs declined in four States (Himachal Pradesh, Punjab, West Bengal and Gujarat). While losses incurred by SCARDBs declined in two States (Karnataka and Orissa), they increased in four States (Tripura, Bihar, Maharashtra and Tamil Nadu) (Appendix Table IV.9).

4.96 NPAs, as percentage of advances, of SCARDBs across the States varied from nil (Punjab) to 98.7 per cent (Manipur) at end-March 2005. NPAs in two other States (Madhya Pradesh

Table IV.28: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
†	2004	2005	2003-04	2004-05
1	2	3	4	5
A. Asset Classification Total NPAs (i+ii+iii)	**4,336 (100.0)**	**5,437 (100.0)**	**35.1**	**25.4**
i) Sub-Standard	2,630 (60.6)	3,288 (60.5)	25.1	25.0
ii) Doubtful	1,686 (38.9)	2,129 (39.2)	55.2	26.3
iii) Loss Assets	20 (0.5)	20 (0.4)	-9.1	ñ
B. NPAs to Loans Ratio	**26.7**	**31.3**		
Memo Items:				
i) Recovery to Demand	43.8	43.7		
ii) Provisions Required	833	1,024	36.8	22.9
iii) Provisions Made	833	1,097	36.6	31.8

Note : 1. Figures in brackets are percentages to total.
2. Data are provisional.

Source : NABARD.

and Kerala) were less than 10 per cent, apart from Punjab. In as many as nine States (Assam, Bihar, Gujarat, Maharashtra, Manipur, Orissa, Tamil Nadu, Jammu and Kashmir, and Karnataka), NPAs ratio was more than 50 per cent. The recovery ratio also varied widely between 1.0 per cent (Manipur) to 100.0 per cent (Punjab). The average recovery of SCARDBs was 43.7 per cent of total demand. In as many as 11 States, the recovery rate was less than 50 per cent (Appendix Table IV.9).

Primary Co-operative Agriculture and Rural Development Banks

Operations

4.97 Business operations of PCARDBs expanded moderately during the year. Like SCARDBs, PCARDBs meet most of their fund requirement through borrowings, which increased significantly during the year. Their reserves, another important source of funds, however, declined sharply. On the asset side, loans and advances portfolio registered a healthy growth. Their investments grew moderately (Table IV.29).

Table IV.29: Liabilities and Assets of Primary Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2004	2005	2004-05
1	2	3	4
Liabilities			
1. Capital	914 (4.7)	927 (4.6)	1.4
2. Reserves	2,942 (15.1)	2,567 (12.6)	-12.7
3. Deposits	395 (2.0)	365 (1.8)	-7.6
4. Borrowings	11,879 (60.9)	12,873 (63.2)	8.4
5. Other Liabilities	3,384 (17.3)	3,624 (17.8)	7.1
Total Liabilities/Assets	**19,515 (100.0)**	**20,355 (100.0)**	**4.3**
Assets			
1. Cash and Bank Balances	230 (1.2)	210 (1.0)	-8.7
2. Investments	780 (4.0)	806 (4.0)	3.3
3. Loans and Advances	11,311 (58.0)	12,763 (62.7)	12.8
4. Other Assets	7,194 (36.9)	6,577 (32.3)	-8.6

Note : 1. Figures in brackets are percentages to total.
2. ëReservesí include provisions and credit balance in profit and loss account.
3. Data for Tamil Nadu repeated from 2003-04.
4. Data are provisional.

Source : NABARD.

Financial Performance

4.98 The financial performance of the PCARDBs witnessed a turnaround during 2004-05. Income of PCARDBs increased sharply due mainly to non-interest income. Expenditure on interest and operating expenses, on the other hand, increased moderately, resulting in a sharp increase in operating profits. This combined with the lower provisions and contingencies resulted in sizable profits during 2004-05 as against net losses in the last year. In 2004-05, losses incurred by 465 loss-making PCARDBs amounted to Rs.274 crore as compared with losses of Rs.335 crore by 489 PCARDBs in the previous year. Similarly, the profit recorded by 262 profit making PCARDBs amounted to Rs.665 crore as against profits of Rs.77 crore by 282 profit making PCARDS in the previous year.

Table IV.30: Financial Performance of Primary Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Percentage Variations 2004-05
1	2	3	4
A. Income (i+ii)	**1,792 (100.0)**	**2,368 (100.0)**	**32.1 †**
i) Interest Income	1,471 (82.1)	1,488 (62.9)	1.2 †
ii) Other Income	321 (17.9)	879 (37.2)	173.8
B. Expenditure (i+ii+iii)	**2,050 (100.0)**	**1,976 (100.0)**	**-3.6**
i) Interest Expended	1,145 (55.9)	1,143 (57.9)	-0.2
ii) Provisions and Contingencies	612 (29.9)	521 (26.4)	-14.9 †
iii) Operating Expenses	292 (14.3)	312 (15.8)	6.8
of which : Wage Bill	204 (10.0)	204 (10.3)	ñ
C. Profit			
i) Operating Profit	354	913	157.9
ii) Net Profit	-258	391	ñ
D. Total Assets	**19,515**	**20,355**	**4.3**

ñ : Nil/Negligible.

Note : 1. Figures in brackets are percentages to respective total.
2. Data for Tamil Nadu repeated from 2003-04.
3. Data are provisional.

Source : NABARD.

The rise in profits led to a decline in the accumulated losses of PCARDBs from Rs.2,788 crore at end-March 2004 to Rs.2,475 crore at end-March 2005 (Table IV.30, Appendix Table IV.10).

Asset Quality and Recovery Performance

4.99 The overall NPAs of PCARDBs increased during 2004-05, although substantial growth in loan portfolio brought down the NPAs to loan ratio. No significant asset slippage was observed during the year. Although recovery performance improved during the year, it needs to improve much further to lower the level of the NPAs. Provisioning made by PCARDBs was more than the provisioning required, a trend in sync with other institutions in the rural co-operative banking sector (Table IV.31).

Table IV.31: Asset Quality of Primary Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
†	2004	2005	2003-04	2004-05
1	2	3	4	5
A. Asset Classification Total NPAs (i+ii+iii)	**4,016 (100.0)**	**4,056 (100.0)**	**10.0**	**1.0**
i) Sub-Standard	2,079 (51.8)	2,161 (53.3)	3.5	3.9
ii) Doubtful	1,890 (47.1)	1,845 (45.5)	17.5	-2.4
iii) Loss Assets	47 (1.2)	50 (1.2)	38.2	6.4
B. NPAs to Loans Ratio*	**35.8**	**31.9**		
Memo Items:				
i) Recovery to Demand	43.9	50.6		
ii) Provisions Required	944	872	17.0	-7.6
iii) Provisions Made	943	910	14.6	-3.5

***** : Includes data for Tamil Nadu.

Note : 1. Figures in brackets are percentages to total.
2. Data are provisional.

Source : NABARD.

Regional Dimensions

4.100 Out of the 727 PCARDBs operating in 11 States, only 262 PCARDBs made profits. PCARDBs operating only in six States (Himachal Pradesh, Punjab, Orissa, Rajasthan, Maharashtra and Kerala) earned net profits. PCARDBs in other States (Chhattisgarh, Haryana, West Bengal, Karnataka, Madhya Pradesh, and Tamil Nadu) incurred net losses (Appendix Table IV.10).

4.101 NPA ratio of PCARDBs in all the States was more than 15.0 per cent at end-March 2005. PCARDBs operating in Maharashtra had the lowest NPA ratio (15.5 per cent) and those in Karnataka the highest (62.5 per cent). NPAs of PCARDBs operating in Haryana, Himachal Pradesh, Karnataka, Kerala, Orissa, Rajasthan, Tamil Nadu and West Bengal were above 20 per cent. The average recovery of 283 PCARDBs was more than 60 per cent of total demand. Recovery rate of 229 PCARDBs ranged between 40 per cent and 60 per cent. For another 215 PCARDBs, the recovery rates were below 40 per cent (Appendix Table IV.10).

4. Micro-Finance

4.102 Micro-finance initiatives are now recognised as a cost effective and sustainable way of expanding outreach of the banking system to the rural poor. The guiding spirit behind micro-finance initiatives is: (i) to offer cost effective approach to formal institutions for expanding outreach to poor; (ii) to develop collateral substitutes; (iii) to focus on the rural and the urban poor, especially women; (iv) to pilot test other micro-credit delivery mechanisms as alternative channels to the formal banks; and (v) to effectively pursue the objectives of macro-economic growth. There are two major models under micro-finance, *i.e.*, Self-Help Group (SHG)-Bank Linkages and Micro-Finance Institutions (MFI) - Bank Linkages being operated in the country.

A. Self-Help Group (SHG)-Bank Linkage Programme

4.103 The SHG-bank linkage programme was launched in 1992 as a Pilot Project for linking 500 SHGs and supported by the Reserve Bank through its policy support. The Programme envisaged organisation of the rural poor into SHGs, building their capacities to manage their own finances and then negotiating bank credit on commercial terms. The poor were encouraged to voluntarily come together to save small amounts regularly and extend micro loans among themselves. Once the group attained the required maturity for handling larger resources, bank credit could follow. The focus of micro-finance initiatives is largely on those rural poor who have no access to the formal banking system. The target-group broadly comprises small and marginal farmers, landless agricultural and non-agricultural labourers, artisans and craftsmen and other rural poor engaged in small businesses such as vending and hawking.

4.104 The SHG-bank linkage program has proved its efficacy as a mainstream programme for banking with the poor. The main advantages of the program are on-time repayment of loans to banks; reduction in transaction costs both to the poor and to the banks; door-step savings and credit facilities to the poor; and exploitation of the untapped business potential in rural India. The programme, which started as an outreach programme, has, in fact, achieved more than mere provision of thrift and credit facilities to the poor women. It has set in motion an irreversible process of socio-economic empowerment of rural women. As more and more NGOs and others take up community organisation activities, including SHG promotion and nurturing, the programme is expected to gradually take the shape of a womenís movement in many parts of the country. The programme continues to be the worldís largest micro-finance programme.

Progress during 2005-06

4.105 Significant progress was made during the year that witnessed sustained expansion of the programme with credit linkage of 0.6 million new SHGs by the banking system, taking the cumulative number of such SHGs from 1.6 million as on March 31, 2005 to 2.2 million as on March 31, 2006. Banks extended loans of Rs.4,499 crore during 2005-06, registering a growth of 50.3 per cent over previous year. The average per SHG bank loan increased from Rs.44,624 in 2004-05 to Rs.50,915 in 2005-06, reflecting deepening of the credit access among the SHGs. The programme continued to enlist massive support of the rural poor women into the self-managed and door-step based micro-finance movement. The number of poor families, thus, benefiting through SHGs increased from 24.3 million as on March 31, 2005 to over 32.9 million as on March 31, 2006 registering a growth of 35.4 per cent (Table IV.32).

4.106 The SHG-bank linkage programme is now considered by the banking system as a commercial proposition, with advantages of lower transaction costs and higher coverage of rural clientele by the bank branches. Commercial banks have maintained good progress in financing SHGs as their share increased from 52.1 per cent in 2004-05 to 53.1 per cent in 2005-06 (Table IV.33). The share of co-operative banks in SHG-linkage increased marginally from 13.0 per cent to 13.9 per cent over the period, while that of RRBs declined to 33.1 per cent from 34.8 per cent. Total number of SHGs financed by co-operative banks increased sharply from 2,11,137 at end-March 2005 to 3,10,230 by end-March 2006, reflecting significant interest being evinced by many co-operative banks (Table IV.33).

4.107 The SHG-bank linkage programme has been continuously supported by a large number of Self-Help Promoting Institutions (SHPIs). Organising rural poor into SHGs, building their capacities to manage their own finances and

Table IV.32: SHG-Bank Linkage Programme

(Amount in Rs. crore)

Year	Total SHGs financed by banks (Nos.in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1992-99	33	33	57	57	52	52
1999-00	82 (147.9)	115 (247.9)	136 (138.1)	193 (238.1)	98 (88.4)	150 (188.4)
2000-01	149 (82.3)	264 (129.9)	288 (111.8)	481 (149.2)	245 (150.0)	395 (163.3)
2001-02	198 (32.6)	461 (74.9)	545 (89.5)	1,026 (113.4)	395 (61.4)	790 (100.0)
2002-03	256 (29.5)	717 (55.4)	1,022 (87.4)	2,049 (99.6)	622 (57.5)	1,413 (78.8)
2003-04	362 (41.4)	1,079 (50.4)	1,856 (81.5)	3,904 (90.6)	705 (13.3)	2,118 (49.9)
2004-05	539 (49.1)	1,618 (50.0)	2,994 (61.4)	6,898 (76.7)	968 (37.2)	3,086 (45.7)
2005-06	620 (15.0)	2,239 (38.3)	4,499 (50.3)	11,398 (65.2)	1,068 (10.3)	4,154 (34.6)

Note : Figures in brackets indicate annual percentage growth.
Source : NABARD.

negotiating bank credit on commercial terms continues to be a challenging task for SHPIs. The poor are encouraged and supported to voluntarily come together to make small amount of savings regularly and extend micro loans among themselves to meet their emerging needs. Once the group attains required maturity of handling larger resources, the NGOs support the SHGs in getting bank loans.

4.108 Out of the three models emerged under the SHG-Bank Linkage Programme over the years, about 80.7 per cent of the SHGs were financed by banks under Model II, involving NGOs and Government agencies (Table IV.34).

Table IV.33: Linkage Position ñ Agency-wise*
(As at end-March)

(Amount in Rs. crore)

Agency	Number (in '000) of SHGs				Bank Loan			
	2004-05	2005-06	Percentage variation		2004-05	2005-06	Percentage variation	
			2004-05	2005-06			2004-05	2005-06
1	2	3	4	5	6	7	8	9
i) Commercial Banks	843 (52.1)	1,188 (53.1)	56.7 (60.3)	40.8 (61.3)	4,159	6,987	84.4	68.0
ii) Regional Rural Banks	564 (34.8)	740 (33.1)	38.9 (30.4)	31.2 (29.1)	2,100	3,322	64.3	58.2
iii) Credit Co-operative Banks	211 (13.0)	310 (13.9)	56.8 (9.3)	46.9 (9.5)	640	1,087	72.5	69.9
Total (i+ii+iii) †	**1,618 (100.0)**	**2,239 (100.0)**	**50.0 †**	**38.3 †**	**6,898 (100.0)**	**11,398 (100.0)**	**76.7**	**65.2**

* : Cumulative position as at the end of the period.
Note : 1. Figures in brackets are percentages to total.
2. Figures may not add up to their respective total due to rounding off.
Source : NABARD.

Table IV.34: Linkage Position ñ Model-Wise

Model Type		As at March 31, 2005		As at March 31, 2006	
		No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)
1		2	3	4	5
i)	SHGs promoted, guided and financed by banks	343 (21.2)	1,013 (14.7)	449 (20.1)	1,637 (14.4)
ii)	SHGs promoted by NGOs/ Government agencies and financed by banks	1,158 (71.6)	5,529 (80.2)	1,646 (73.5)	9,200 (80.7)
iii)	SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries	117 (7.2)	356 (5.2)	143 (6.4)	561 (4.9)
Total (i+ii+iii)		**1,618**	**6,898**	**2,239**	**11,398**

Note: Figures in brackets are percentages to total.
Source: NABARD.

4.109 Historically, there is a concentration of SHGs in Southern States mainly on account of proactive role played by the State Governments. However, NABARD has taken up intensification of the SHG-bank linkage program in 13 identified priority States which account for about 70.0 per cent of the rural poor population, *viz*., Uttar Pradesh, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Gujarat, Rajasthan, Chhatisgarh, Jharkhand, Bihar, Uttaranchal, Assam and Himachal Pradesh. Consequently, the share of cumulative SHGs credit linked in Southern States declined to 54.0 per cent in March 2006 from 71.0 per cent in March 2001. During 2005-06, the number of SHGs credit linked increased significantly in some of the major priority States such as Maharashtra (60,234), Orissa (57,640), West Bengal (43,553), Uttar Pradesh (42,263), Rajasthan (38,165), Assam (25,215) and Chhattisgarh (12,722). During 2005-06, the number of SHGs credit linked in 13 priority States constituted 54.4 per cent of the all India credit linkage of 6,20,109 SHGs.

4.110 At present, there are over 2.2 million SHGs credit linked with banks. Out of this, there are over a million SHGs which are now over three years old. These SHGs have not only availed of loans but have also gone in for repeat loans. It is being emphasised that a number of the older SHGs would now be in a position to graduate into micro enterprises by taking to income generating activities. Though micro enterprises are not a panacea for the complex problem of chronic unemployment and poverty, yet promotion of micro enterprises is a viable and effective strategy for achieving significant gains in incomes and assets of poor and marginalised people. Graduation of SHG members to take up micro enterprises requires intensive training on various aspects of management including understanding the market structure, fine-tuning of skills and entrepreneurship management. During 2005-06, a focussed and location specific micro enterprise development programme (MEDP) on skill upgradation and development for sustainable livelihood for members of matured SHGs was launched. The MEDP aims at facilitating quick inputs to members of matured SHGs on technical skills in enterprises, basic entrepreneurial inputs and aspects covering markets.

4.111 In line with the announcement in the Union Budget for 2006-07, a new refinance scheme, *viz*., separate line of credit for financing farm and investment activities through SHGs was introduced by NABARD. A sum of Rs.500 crore was earmarked for providing refinance under the scheme during 2006-07. Under the scheme, term loan and cash credit limit to SHGs extended by scheduled commercial banks, regional rural banks and co-operative banks, exclusively for farm production and investment activities covering agriculture and allied activities, are eligible for 100 per cent refinance from NABARD. Consumption credit up to 30 per cent of the overall limit is also eligible for the purpose.

B. MFI ñ Bank Linkages

4.112 Continuous efforts are being made to promote linkages of micro-finance institutions (MFIs) with banks. With a view to promoting flow of commercial loans from banks to MFIs, a scheme was launched by NABARD during 2005-06 to provide financial support to banks towards rating of MFIs. This scheme has since been made more liberal and extended up to March 31, 2008.

4.113 A scheme called ìCapital/Equity Support to MFIs from MFDEFî was announced by NABARD. The scheme provides for capital/equity support to various types of MFIs by NABARD to enable them to leverage capital/equity for accessing commercial and other funds from banks for providing financial services at an affordable cost to the poor and to enable MFIs to achieve sustainability in their credit operations over a period of three to five years.

Micro-finance and the Reserve Bank

4.114 In order to examine the issues relating to allowing banks to adopt agency model by using infrastructure of civil society organisations, appointment of ëbanking correspondentsí to function as intermediaries between the lending banks and the beneficiaries and identification of steps to promote MFIs, an in-house Group (Chairman: Shri H.R. Khan) was set up in the Reserve Bank. The Group submitted its final report in July 2005. Based on the recommendations of the Group and with the objective of ensuring greater financial inclusion and†increasing the outreach of the banking sector, banks have been permitted to use the services of non-governmental organisations/self-help groups (NGOs/SHGs), micro-finance institutions (MFIs) and other civil society organisations (CSOs) as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

5. NABARD and the Co-operative Sector

4.115 National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 as a development bank to perform the following functions: (i) to serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas; (ii) to take 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; (iii) to co-ordinate the rural financing activities of all institutions engaged in developmental work at the field level and maintain liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and (iv) to undertake monitoring and evaluation of projects refinanced by it.

4.116 NABARDís refinance is available to SCARDBs, StCBs,RRBs, commercial banks and other financial institutions approved by the Reserve Bank. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally extended to individuals.

Resources of NABARD

4.117 The Reserve Bank has been providing two General Lines of Credit (GLC) to NABARD under Section 17(4E) of the RBI Act, 1934, to enable it to meet the short-term requirements of scheduled commercial banks, state co-operative banks and RRBs. During 2005-2006 (July-June), a GLC of Rs.3,000 crore was sanctioned at an interest rate of 6 per cent per annum, for providing refinance to state co-operative banks and RRBs for seasonal agricultural operations (SAO). However, NABARD has been permitted to operate the GLC limit sanctioned for 2005-06 for drawals as well as for repayments up to December 31, 2006. As the limit would not be available after December 31, 2006, NABARD has been advised to start accessing the markets on a regular basis for sufficient amounts so that the timeframe indicated for withdrawal of GLC is adhered to.

4.118 Net accretion to the resources of NABARD at Rs.6,826 crore during 2005-06 registered a sharp increase of 39.6 per cent. Rural Infrastructure Development Fund (RIDF) and issuance of bonds, emerged as the two most important source of funds for NABARD. After repaying a significant amount of borrowing from commercial banks resorted to in the previous year and repayment to the Reserve Bank, it was left with a sizable amount for lending activity during the year (Table IV.35).

Rural Infrastructure Development Fund

4.119 Rural Infrastructure Development Fund (RIDF) was set up in NABARD by the Central Government in 1995-96 with an initial corpus of

Table IV.35: Net Accretion in the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	2004-05	2005-06
1	2	3
1. Capital	ñ	ñ
2. Reserves and Surplus	908	775
3. National Rural Credit (NRC) (i+ii)	93	42
i) Long-Term Operations (LTO) Fund	82	31
ii) Stabilisation Fund	11	11
4. Deposits (i+ii)	-2,926	4,827
i) Ordinary Deposits	-6	21
ii) RIDF Deposits	-2,920	4,806
5. Borrowings (i+ii+iii+iv+v)	6,695	873
i) Bonds and Debentures	5,321	3,609
ii) Borrowings from Central Government	-159	-4
iii) Borrowings from the Reserve Bank	-267	-929
iv) Foreign Currency Loans	ñ	-3
v) Borrowings from Commercial Banks	1,800	-1,800
6. Other Liabilities	-25	60
7. Other Funds	145	249
Total	**4,890**	**6,826**

ñ : Nil/Negligible.
Source : NABARD.

Rs.2,000 crore with the objective to provide loans to the State Governments and State owned corporations for financing rural infrastructure projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. The domestic scheduled commercial banks, both in the public and private sectors, having shortfall in priority sector and/or agricultural lending target, are required to deposit funds in RIDF. The Fund has completed its eleventh year of operation. With the receipt of Rs.6,092 crore as deposits from commercial banks during the year, the cumulative deposits received under RIDF aggregated Rs.28,749 crore up to March 31, 2006 (Table IV.36).

4.120 The total corpus of the RIDF (Tranches I to XI) aggregated Rs.50,000 crore. Financial assistance sanctioned and disbursed under RIDF I to XI was Rs.51,283 crore and Rs.31,337 crore, respectively, as on March 31, 2006 (Table IV.37). RIDF IV was closed on May 31, 2005. However, the disbursements were allowed up to September 30, 2005 for the expenditure incurred up to May 31, 2005. The implementation period for the projects sanctioned under RIDF V to VIII were extended up to March 31, 2006 to enable the State Governments to complete ongoing projects and avail reimbursement of expenditure incurred (Appendix Table IV.11).

4.121 Under RIDF XI, 30,440 projects were sanctioned involving a loan amount of Rs.8,514 crore, thereby enhancing the cumulative number of projects to 2,44,651 and amount sanctioned to Rs.51,283 crore. The amount sanctioned and

Table IV.36: Deposits Mobilised under Rural Infrastructure Development Fund

(Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	RIDF X	RIDF XI	**Total**
1	2	3	4	5	6	7	8	9	10	11	12	**13**
1995-96	350	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	**350**
1996-97	842	200	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	**1,042**
1997-98	188	670	149	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	**1,007**
1998-99	140	500	498	200	ñ	ñ	ñ	ñ	ñ	ñ	ñ	**1,338**
1999-00	67	539	797	605	300	ñ	ñ	ñ	ñ	ñ	ñ	**2,307**
2000-01	ñ	161	412	440	850	790	ñ	ñ	ñ	ñ	ñ	**2,653**
2001-02	ñ	155	264	ñ	689	988	1,495	ñ	ñ	ñ	ñ	**3,591**
2002-03	ñ	ñ	188	168	541	817	731	1,413	ñ	ñ	ñ	**3,857**
2003-04	ñ	ñ	ñ	ñ	261	503	257	681	457	ñ	ñ	**2,159**
2004-05	ñ	ñ	ñ	ñ	125	488	752	1,213	1,354	422	ñ	**4,353**
2005-06	ñ	ñ	ñ	ñ	215	165	461	923	1,372	2,020	936	**6,092**
Total	**1,587**	**2,225**	**2,308**	**1,413**	**2,982**	**3,751**	**3,696**	**4,230**	**3,182**	**2,441**	**936**	**28,749**

ñ : Nil/Negligible.
Source : NABARD.

Table IV.37: Loans Sanctioned and Disbursed under Rural Infrastructure Development Fund
(As at end-March 2006)

RIDF	Year	No. of Projects	Corpus (Rs. crore)	Loans Sanctioned (Rs. crore)	Loans Disbursed (Rs. crore)	Loan disbursed as percentage of loans sanctioned
1	2	3	4	5	6	7
I	1995	4,168	2,000	1,906	1,761	92.4
II	1996	8,334	2,500	2,667	2,398	89.9
III	1997	14,346	2,500	2,734	2,454	89.7
IV	1998	6,172	3,000	2,903	2,482	85.5
V	1999	12,254	3,500	3,477	3,033	87.2
VI	2000	43,354	4,500	4,525	3,851	85.1
VII	2001	24,987	5,000	4,658	3,757	80.7
VIII	2002	21,012	5,500	6,009	4,440	73.9
IX	2003	19,605	5,500	5,599	3,388	60.5
X	2004	59,979	8,000	8,290	2,968	35.8
XI	2005	30,440	8,000	8,514	807	9.5
Total	†	**2,44,651**	**50,000**	**51,283**	**31,337**	**61.1**

Source : NABARD.

disbursed to the States in the North Eastern region aggregated Rs.659 crore and Rs.235 crore, respectively, during 2005-06. The total amount disbursed during the year was Rs.5,953 crore as against the target of Rs.5,000 crore.

4.122 The disbursements under RIDF I to XI aggregated Rs.31,337 crore as on March 31, 2006. Taking all the RIDF tranches together, nine States (Andhra Pradesh, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Madhya Pradesh, West Bengal, Rajasthan and Karnataka) accounted for 72.0 per cent of total disbursements and also for 70.0 per cent of total sanctions. Of the total amount sanctioned under RIDF I to RIDF XI, the main beneficiaries were rural roads and bridges (45.2 per cent), irrigation projects (34.0 per cent) and others (21.0 per cent, including of power sector 3.0 per cent and of social sector 10.0 per cent).

4.123 As advised by the Government of India, loans under RIDF XI were sanctioned for the projects under 30 activities, including, rural roads and bridges; irrigation and hydel projects; drinking water; soil conservation; watershed development; drainage; flood protection; forest development; market yards; *apna mandi*, rural *haats* and other marketing infrastructure; cold storages; seed/agriculture/horticulture farms; plantation and horticulture; grading and certifying mechanisms; community irrigation wells; fishing harbour/jetties; riverine fisheries; animal husbandry; infrastructure for rural educational institutions; public health institutions, construction of toilet blocks in existing schools specially for girl students; ëpay and useí toilets in rural areas, village knowledge centres, desalination plants in coastal areas and infrastructure for information technology in rural areas. Special impetus was given under this tranche for setting up of village knowledge centres (VKC) by providing Rs.100 crore out of the corpus of Rs.8,000 crore.

4.124 Pursuant to the announcement made in the Union Budget for 2006-07, RIDF XII was set up with a corpus of Rs.10,000 crore. A separate window would be opened under RIDF XII for financing of rural roads under *Bharat Nirman* programme with a corpus of Rs.4,000 crore during 2006-07 and specified projects would be allowed, under the Public Private Partnership (PPP) model, to access RIDF funds. The deposit and lending rates of interest for RIDF XII will be the same as applicable to RIDF XI.

Credit extended by NABARD

4.125 NABARD provides short-term credit facilities to StCBs for financing seasonal agricultural operations (SAO); marketing of crops; pisciculture activities; production/procurement and marketing activities of co-operative weavers societies; purchase and sale of yarn by apex/regional societies; production and marketing activities of industrial co-operatives; financing of individual rural artisans through PACS; purchase and distribution of fertilisers and allied activities; and marketing activities. Medium-term facilities were provided to StCBs and RRBs for converting short-term loans for financing SAO to medium-term (conversion) loans and for approved agricultural purposes. Long-term loans are provided to the State Governments for contributing to share capital of co-operative credit institutions. During 2005-06, NABARD sanctioned total credit limits aggregating Rs.13,099 crore as against Rs.13,230 crore during 2004-05 for various short and medium-term purposes to StCBs and RRBs, and long-term loans to the State Governments. While limits granted to the state co-operative banks declined significantly, those granted to RRBs increased during the year. However, amounts drawn by these institutions were significantly higher than the previous year, leading to a sharp increase in outstanding amount at end-March 2006 (Table IV.38).

4.126 To enhance the flow of credit to agriculture sector, NABARD advised StCBs, DCCBs and RRBs in June 2004 about the measures to be taken under various schemes to give relief to farmers. While implementing these measures and extension of the conversion/reschedulement of loans to farmers in distress and farmers in arrears, it was apprehended that there could be a liquidity crunch in co-operative banks and RRBs, impairing their ability to provide fresh loans and achievement of the envisaged growth rate during the year. In order to enable co-operative banks and RRBs to tide over such liquidity gap, NABARD extended liquidity support to StCBs on behalf of DCCBs for a fixed period of 36 months at a concessional interest rate of five per cent and to RRBs for a period of 18 months at a interest rate of 6.5 per cent. As on 30 June 2006, sanctions under the scheme amounted to Rs.515 crore to StCBs and Rs.482 crore to RRBs (Table IV.38).

Interest Rates charged by NABARD

4.127 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. Weak StCBs are 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 MoU with NABARD for implementing the Development Action Plans (DAPs). This facility was extended to Rajasthan SCARDBs in 2005-06 and to Madhya Pradesh SCARDBs in 2006-07. Interest rate charged by NABARD for term loans effective July 22, 2006 ranged from 6.5 to 8.0 per cent (Table IV.39).

Kisan Credit Card Scheme

4.128 The Kisan Credit Card (KCC) Scheme was introduced in 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. Cumulatively, the number of KCCs issued by public sector banks stood at 21.8 million at end-March 2006. Of the 59.09 million KCCs issued till end-March 2006, co-operative

Table IV.38: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks

(Amount in Rs. crore)

Category	2004-05				2005-06			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1.State Co-operative Banks (a+b)	**10,811**	**11,820**	**10,413**	**6,790**	**9,834**	**13,791**	**10,975**	**9,606**
a. Short-term	9,041	11,030	10,159	5,709	9,319	12,590	10,764	7,535
b. Medium-term	1,770	790	253	1,081	515	1,201	211	2,071
2. State Governments								
Long-term	**39**	**11**	**65**	**406**	**23**	**47**	**65**	**387**
3. Regional Rural Banks (a+b)	**2,380**	**2,065**	**1,385**	**1,381**	**3,243**	**3,222**	**1,833**	**2,770**
a. Short-term	2,221	2,047	1,379	1,360	2,761	2,613	1,831	2,142
b. Medium-term	159	18	5	21	482	609	2	628
Grand Total (1+2+3)	**13,230**	**13,896**	**11,862**	**8,577**	**13,099**	**17,059**	**12,873**	**12,763**

Source : NABARD.

Table IV.39: Rates of Interest on Refinance from NABARD on Investment Credit under Farm/Non-Farm Sectors
(As at end-March 2006)

(Per cent)

Size of loan	Rate of Interest to Ultimate Beneficiaries			Rate of Interest on Refinance*		
	Commercial Banks	RRBs	StCBs/ SCARDB	Commercial Banks	RRBs	StCBs / SCARDB
1	2	3	4	5	6	7
Up to Rs.50,000	Free up to a ceiling of PLR	Free	Free with a floor of 12 per cent (for all loan slabs)	7.5	7.0	6.5
Above Rs.50,000 and up to Rs.2 lakh	Do	Do	Do	8.0	7.5	7.0
Above Rs.2. lakh	Free	Do	Do	8.0	7.5	7.0

* : With effect from July 22, 2006.

Note : 1. The interest on refinance in respect of North-Eastern States, Sikkim and Andaman and Nicobar Island was 6.5 per cent for term loans up to Rs.50,000 and 7.0 per cent for term loans above Rs.50,000.

2. The interest on refinance in respect of term loans of SHGs was 6.5 per cent for term loans up to Rs.50,000 and 7.0 per cent for term loans above Rs.50,000. The size of loan for SHGs is determined on the basis of per capita loan.

banks constituted 51.5 per cent, followed by commercial banks (36.9 per cent) and RRBs (11.6 per cent) (Table IV.40). During 2005-06, public sector banks issued 41,64,551 KCCs.

4.129 An analysis of the State-wise KCCs issued up to March 31, 2006 suggest that the co-operative banks in six States, *i.e.*, Maharashtra, Uttar Pradesh, West Bengal, Orissa, Madhya Pradesh and Chhattisgarh accounted for 67.4 per cent share of the total cards issued by the co-operative banks across the country. The RRBs in three States, *i.e.*, Uttar Pradesh, Andhra Pradesh and Karnataka accounted for 59.3 per cent of the total cards issued by RRBs throughout the country.

Table IV.40: Number of Kisan Credit Cards Issued ñ Agency-wise and Year-Wise
(As at end-March 2006)

(Numbers in Million)

Year	Co-operative Banks	RRBs	Commercial Banks	**Total Banks**
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	1.28	3.09	**9.25**
2004-05	3.56	1.73	4.40	**9.68**
2005-06	2.60	1.25	4.17	**8.01**
Total	**30.41**	**6.88**	**21.80**	**59.09**
Share in Total (per cent)	**51.5**	**11.6**	**36.9**	**100.0**

Source : NABARD.

Public sector commercial banks issued bulk of the cards in five States of Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and Maharashtra. These states accounted for 65.2 per cent of the total cards issued by commercial banks across the country. Eight States *viz.*, Uttar Pradesh, Andhra Pradesh, Maharashtra, Tamil Nadu, Madhya Pradesh, Karnataka, Orissa and West Bengal accounted for 74.4 per cent of the total cards issued by banks throughout the country. The States of Jammu and Kashmir, Himachal Pradesh and the North-Eastern States continued to lag behind in implementation of the Scheme (Appendix Table IV.12).

Recent Initiatives by NABARD

4.130 With a view to making KCC more user-friendly and comprehensive in its coverage of credit needs of the farmers through a single window, NABARD enlarged the scope of the KCC Scheme to cover term loans for agriculture and allied activities, including a reasonable component of consumption needs, besides the existing facility of providing crop loan limit.

4.131 In order to safeguard the interests of the KCC holders for coverage under Personal Accident Insurance Scheme (PAIS) on an ongoing basis on competitive terms, the Reserve Bank advised scheduled commercial banks, and NABARD advised state co-operative banks and RRBs to use their discretion to opt for ìany insurance company of their choiceî. However, while negotiating with the insurance companies, banks have to keep in view the guiding principles of PAIS, especially the premium sharing formula and coverage. This ëadd oní benefit to the farmers under the KCC scheme is expected to bring in an increasingly large number of farmers.

4.132 Taking a cue from the Government of India directive for doubling the flow of credit to agriculture sector in the next one to two years, NABARD advised the co-operative banks and RRBs to identify and bring into the fold an increasing number of farmers, including defaulters, oral lessees and tenant farmers. Further, banks are required to ensure that KCCs are continued to be renewed in a hassle-free manner and direct their efforts towards ensuring quality in operations on the KCCs. More importantly, banks have to ensure that the crop loans are routed only through KCC.

4.133 NABARD constituted a Co-operative Development Fund (CDF) during 1992-93 mainly with the objective of supporting co-operative credit institutions in undertaking various developmental initiatives such as HRD, building up better MIS, infrastructure creation, and setting up of Business Development Department with technical personnel. During 2005-06, an amount of Rs.6 crore was sanctioned and disbursed. As on March 31, 2006, cumulative amount of Rs.71 crore and Rs.61 crore was sanctioned and disbursed, respectively. The support provided through the Fund resulted in an improved MIS and availability of trained manpower, contributing to overall efficiency in co-operative credit structure.

4.134 The process of preparing institution specific Development Action Plans (DAPs) and execution of MoU was initiated during 1994-95 with a view to enabling co-operative banks and RRBs to achieve turnaround and function as viable organisations on a sustainable basis. In view of the persisting weakness in the co-operative credit structure, it was decided to continue the DAP/MoU process with certain refinements. Thus, the process was extended for a period of three years (2004-07) co-terminous with the Tenth Plan period. With a view to making the process more focused and effective, several refinements were introduced. First, PACS were brought into the development planning process and they were advised to prepare viability action plans under the guidance of DCCBs and enter into MoUs with the respective DCCBs. A model MoU containing viability action plan was circulated by NABARD for guidance of DCCBs and PACS. Feedback obtained shows that grassroot level co-operatives in many States have started participating in the exercise. Second, a special thrust was given to DCCBs that were not complying with Section 11(1) of the BR Act, 1949 (aACS). Accordingly, Regional Offices of NABARD were advised to select a few such banks for focused execution of institutional development initiatives with a view to making them comply with Section 11(1) of the BR Act,1949 (aACS), and achieving turnaround within three to five years.

6. Revival of Rural Co-operative Credit Institutions

4.135 Co-operative banks have been displaying several weaknesses which have been inhibiting their ability to effectively compete with commercial banks in the emerging financial market. These weaknesses include low resource base, dependence on higher financing agencies, poor business diversification and recoveries, huge accumulated losses, lack of professionalism and skilled staff, weak MIS, poor internal check and control systems. The share of the co-operative banks in agricultural credit declined from 62.0 per cent in 1992-93 to 34.0 per cent in 2002-03. The financial health of co-operative banks has also deteriorated. As on March 31, 2005, four out of 31 StCBs, 71 out of 367 DCCBs, 61,323 out of 1,08,779 PACS, nine out of 20 SCARDBs and 465 out of 727 PCARDBs incurred losses. Accumulated losses as on March 31, 2005, in the short-term co-operative credit structure have been estimated at about Rs.10,000 crore, and those in the long-term co-operative credit structure at about Rs.4,000 crore. Concerned with the need for strengthening the co-operative credit structure in the country, the Government of India constituted a Task Force on Revival of Rural Co-operative Credit Institutions in August 2004 (Chairman: Prof. A. Vaidyanathan) to formulate a practical and implementable action plan to rejuvenate the rural credit co-operatives.

4.136 The Task Force submitted its report to the Government of India in February 2005 and recommended a financial package together with reforms to be brought about in the credit co-operatives with a view to making the credit co-operatives truly democratic, autonomous, vibrant, member driven, professionally managed and financially strong.

Box IV.7: Revival Package for Short-term Co-operative Credit Structure

The Revival Package for short-term co-operative credit structure envisages provision of financial assistance aggregating Rs.13,596 crore to the short-term co-operative credit institutions to be shared by the Government of India, the State Governments and units of co-operative credit structure, subject to certain legal and institutional reforms to be initiated by the State Governments. The assistance will be available for: (i) wiping out accumulated losses; (ii) covering invoked but unpaid guarantees given by the State Governments; (iii) increasing the capital to achieve a minimum level of seven per cent CRAR; and (iv) technical assistance (including cost of special audit, human resources development and computerisation).

The Task Force envisaged the following sharing formula for the financial assistance -

ï *Government of India* : The Government of India will provide its share as grants to cover:

(i) accumulated losses relating to (a) all credit business of PACS and agricultural credit business of DCCBs/StCBs, (b) a major portion of non- agricultural credit business of DCCBs/StCBs, and (c) 50 per cent of non credit business, *i.e.*, public distribution system (PDS) of PACS;

(ii) costs towards human resources development;

(iii) special audit;

(iv) computerisation, including software; and

(v) implementation costs.

ï *State Governments* : The State Governments are required to provide for:

(i) accumulated losses relating to (a) a small portion of non-agricultural credit business of DCCBs/StCBs, and (b) 50 per cent of PDS business of PACS;

(ii) 100 per cent unpaid invoked and uninvoked guarantees and other receivables from the State Governments.

ï *Co-operative Credit Society Units* : The StCBs/DCCBs will have to bear a very small portion of accumulated losses pertaining to non-agricultural credit. If required, soft loans would be provided to the State Governments/ co-operative credit society (CCS) units by the Government of India to meet their share.

ï The sharing pattern shall be based on origin of losses. While the broad share of the Government of India, the State Governments and CCS units works out approximately to 68:28:04, the share, however, would depend on the pattern of loan portfolio and accumulated losses in each CCS unit, the extent of guarantees issued by the State Governments and the amount of other receivables from the State Governments. This, however, would be finalised based on special audit to be conducted.

The release of financial assistance under the financial package will be back ended and linked to achievement of pre-defined benchmarks in respect of legal, institutional and regulatory reforms and will, therefore, be phased out over a period.

4.137 The Central Government accepted the recommendations of the Task Force in principle. The Task Force recommendations were extensively discussed with the State Governments and a consensus was arrived at, based on which the Government of India approved a revival package for short-term co-operative credit structure (Box IV.7).

4.138 The Task Force sought to redefine the role of the State Governments in the credit co-operatives and recommended suitable amendments to the State Co-operative Societies Act and Banking Regulation Act, 1949 (Box IV.8). These form part of the important conditionalities to be complied with under the revival package.

4.139 A model co-operative law that can be enacted by the State Governments was suggested by the Task Force. It also recommended that in States where there are already two laws, the old Co-operative Societies Act and the new Act on the lines of the model Act, it would be better to gradually converge and have only one Act so as to reduce confusion and legal problems.

Current Initiatives for Revival of Short-term Co-operative Credit Institutions

4.140 As per the Revival Package approved by the Government of India, NABARD has been appointed as the implementing agency for the scheme. The Department for Co-operative Revival and Reforms (DCRR) has been constituted in NABARD for this purpose. NABARD is providing dedicated manpower at the national, state and district levels for implementing the revival package.

4.141 At the national level, implementation of the scheme will be guided and monitored by a National Level Implementing Monitoring Committee (NIMC) constituted by the Government of India. Similar Committees at the State and district levels would be constituted for guiding and monitoring implementation. Accordingly, the Ministry of Finance, Government of India had set up a National Implementing and Monitoring Committee under the Chairmanship of Governor, the Reserve Bank in April 2006 with members from the Government of India, the Reserve Bank, NABARD, participating State Governments and two eminent co-operators

Box IV.8: Amendments to the State Co-operative Societies Act and Banking Regulation Act, 1949 ñ Recommendations of the Task Force

A. Proposed Amendments to the State Co-operative Societies Act

ï Ensuring full voting membership rights for all users of financial services, including depositors in co-operatives other than co-operative banks.

ï Removing State intervention in all financial and internal administrative matters in co-operatives.

ï Providing a cap of 25 per cent on Government equity in co-operatives and limiting participation in the boards of co-operative banks to only one nominee. Any State Government or a co-operative wishing to reduce the state equity further would be free to do so and the co-operative will not be prevented from doing so.

ï Allowing transition of co-operatives registered under the Co-operative Societies Act (CSA) to migrate under the Parallel Act (wherever enacted).

ï Withdrawing restrictive orders on financial matters.

ï Permitting co-operatives in all the three tiers freedom to take loans from any financial institution and not necessarily from only the upper-tier and similarly placing their deposits with any regulated financial institution of their choice.

ï Permitting co-operatives under the parallel Acts (wherever enacted) to be members of upper-tiers under the existing co-operative societies Acts and *vice versa*.

ï Limiting powers of the State Governments to supersede Boards.

ï Ensuring timely elections before the expiry of the term of the existing Boards.

ï Facilitating regulatory powers for the Reserve Bank in the case of co-operative banks.

ï Prudential norms, including CRAR for all financial co-operatives, including PACS.

B. Proposed Amendments to the Banking Regulation Act

ï All co-operative banks to be on par with the commercial banks as far as regulatory norms are concerned.

ï The Reserve Bank will prescribe ëfit and properí criteria for election to the boards of co-operative banks. Such criteria would, however, not be at variance with the nature of membership of primary co-operatives which constitute the membership of the DCCBs and StCBs.

ï However, as financial institutions, these Boards would need minimum support at the Board level. Thus, the Reserve Bank will prescribe certain criteria for professionals to be on the Boards of co-operative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the Board will be required to co-opt such professionals in the Board and they would have full voting rights.

ï The CEOs of co-operative banks would be appointed by the respective banks themselves and not by the State. However, as these are banking institutions, the Reserve Bank will prescribe the minimum qualifications of the CEO to be appointed and the names proposed by the co-operative banks for the position of CEO would have to be approved by the Reserve Bank.

ï 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 ëbankí, ëbankingí, ëbankerí or any other derivative of the word ìbankî in their registered name.

to be selected by the Government of India. The Chairman of the Committee has been empowered to set up Sub-Committee/Groups and co-opt non-official experts/ representatives of banks/ NABARD/ the Reserve Bank, if required, for implementing and monitoring the Revival Package for short-term co-operative credit structure. The first meeting of NIMC took place on May 30, 2006. Similar state and district level committees are also being constituted for the purpose.

4.142 The process of implementing the revival package in any State begins with the signing of the MoU between the Government of India, the participating State Government and NABARD (Box IV.9). The draft of the MoU finalised by the NIMC was sent to the States. Consequently, the Government of Andhra Pradesh executed MoU with the Government of India and NABARD on August 29, 2006.

4.143 The next step is conducting a special audit to determine the correct amount of accumulated losses in PACS, DCCBs and StCB of a State. Special formats, manual and frequently asked questions (FAQs), have been designed by NABARD to facilitate this exercise. These special audits would be conducted either by the personnel from the co-operative audit department of the State or by selected outsourced auditors. In either case, the exercise will be test checked by a set of independent Chartered Accountants who will report to the District Level Implementation and Monitoring Committee (DLIC) constituted for guiding and overseeing the implementation in each district. Preparatory arrangements for conducting special audit of PACS as on March 31, 2004 have been made through the State Governments. Training of workforce has been undertaken and Master Trainers have been trained in the States of Maharashtra, Orissa, Rajasthan, Gujarat,

Box IV.9: Memorandum of Understanding

The package for revival of Short-Term Rural Co-operative Credit Structure approved by the Government of India envisages execution of MoU among the participating States, NABARD and the Government of India as a first step in the implementation process. The MoU envisages the following:

Objectives

- Efficient delivery of financial services, including saving and loan products, at grassroots level in rural areas through the CCS with minimum regulatory burden.
- Ensuring safety of public deposits accepted by the co-operative banking system.

Overarching Principles

- Extension of financial relief under the package based on intent towards reform demonstrated through signing of MoU and undertaking requisite changes in legislation.
- Flexibility in accommodating State specific issues without compromising the objectives.
- Incentivisation of accelerated performance and disincentivisation of slippages.
- Issues, if any, on interpretation of specific aspects to be referred to NIMC, the views of which would be final.

In realisation of these objectives and guided by the above principles, it is necessary that the co-operative credit institutions satisfy the following criteria:

- They are democratic, well governed, professionally managed and audited.
- They have requisite autonomy in raising resources, deploying funds and other operational matters connected therewith.
- They undertake financial activities as principal business and separately account for and fund other activities, if undertaken,
- StCBs and DCCBs are effectively regulated on par with other entities accepting public deposits.

Besides, the MoU also lays down the roles and responsibilities of parties that are signatories and the important conditionalities of the Package.

Madhya Pradesh and Andhra Pradesh who, in turn, would train auditors identified for conducting special audit.

4.144 Seven States, *viz.*, Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Sikkim, and one Union Territory of Dadra and Nagar Haveli have communicated their in-principle acceptance of the revival package to the Government of India. Steps have been initiated in these States for the implementation of the revival package (Table IV.41).

Other Reform Measures

4.145 Several other measures are also being envisaged. First, the State entering in to MoU would also amend the State Co-operative Societies Act to give effect to the institutional and legal reforms envisaged in the revival package and

Table IV.41: State-wise Status of Implementation of Revival Package

Name of the State	Status of Implementation
1	2
Andhra Pradesh	The State Government signed the MoU on August 29, 2006. Training of master trainers for special audits completed in August 2006.
Gujarat	Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006.
Maharashtra	Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in July 2006.
Madhya Pradesh	Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006.
Orissa	Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006.
Rajasthan	Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in July 2006.
Sikkim	Letter of acceptance in-principle communicated to the Government of India. Since there are no accumulated losses in the balance sheets of multi-purpose co-operative societies in the State, the State Government has asked for intensive HRD and computerisation initiatives.

would enact the necessary legislation in due course. Second, certain provisions are also being made within the NABARD Act†to enable availability of NABARD refinance to the co-operatives at any of the levels either directly or through a federal co-operative or any regulated financial institutions. Third, the Reserve Bank would prescribe ëfit and properí criterion for election to the Boards of the co-operative banks along with criterion for professionalisation of the boards of these banks. The Reserve Bank would also prescribe the minimum qualifications for the CEOs of DCCBs and StCBs. Fourth, a common accounting system is being designed for the short-term co-operative credit institutions, which will ensure transparency and prudent accounting methods. The system would be computerised as part of the revival package and would generate necessary MIS for internal control and management decisions as well as meeting the needs of other associated agencies. Fifth, training modules for training of the elected directors and staff of the co-operative credit insitutions are being designed. A dedicated working group is being set up in the National Bank Staff College, Lucknow for this purpose. Sixth, NABARD has requested the Government of India to release an amount of Rs.400 crore as the first instalment for the implementation of the revival package. The Government of India is also discussing with bilateral and multilateral agencies for funding of the package.

Revival of the Long-term Co-operative Credit Structure

4.146 The long-term structure is almost totally dependent on NABARD refinance. These institutions have a strong presence in rural areas and have been mainly responsible for private capital formation in agriculture. NABARD has significant exposure to these institutions. Although, all loans granted to SCARDBs are secured by Government guarantee, their continued weakness is a worrisome development.

4.147 The Government of India has entrusted the work of studying the long-term co-operative credit structure for agriculture and rural development also to the same Task Force. The Task Force submitted its report to the Government in August 2006 (Box IV.10).

Box IV.10: Recommendations of the Task Force on Revival of Long-term Rural Co-operative Credit Institutions

The Task Force on Revival of Long-Term Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) made the following recommendations in the draft Report:

I. Recapitalisation

ï Financial assistance estimated at Rs.4,839 crore, be provided to cover accumulated losses, cost of special audit and other technical assistance;

ï The Government of India to bear all losses arising out of long-term loans for agriculture and related activities and entire cost of special audit, technical assistance, including HRD efforts and implementation costs;

ï The State Governments to bear all dues payable by them to the long-term co-operative credit institutions and 50 per cent of losses arising from non-agricultural loans; and

ï The LTCCI to bear 50 per cent of losses arising from non-agricultural loans.

II. Institutional Restructuring

ï PCARDBs be allowed to access all types of deposits from members, provide all types of loans to members and borrow from any regulated financial institution, including federal units of the STCCS;

ï SCARDBs be allowed to mobilise public deposits on the lines of NBFCs under a suitable regulatory regime;

ï Entire State equity in the LTCCI be retired;

ï Branches of unitary structure be converted into autonomous PCARDBs;

ï PCARDBs be allowed to federate themselves with an upper tier of their choice;

ï SCARDBs should join hands with the StCB in its State and set up a support services unit on mutually acceptable terms to provide such services to lower tiers in both the structures; and

ï CRAR of minimum 7 per cent be stipulated, and be increased to 12 per cent in 5 years.

Chapter V

Non-Banking Financial Institutions

5.1 Non-banking financial institutions (NBFIs) play a crucial role in broadening the access to financial services, enhancement of competition and diversification of the financial sector. However, NBFIs are heterogeneous as a group, functionally as well as in terms of size and nature of incorporation. The flexibility with which they have been able to innovate strategies and evolve a responsive mechanism has allowed them to market themselves successfully. Development finance institutions (DFIs), in particular, have played an important role in rapid industrialisation in several countries, particularly, in Europe and Japan at a time when the capital market had not developed sufficiently. Having attained their developmental goals, at a later period, DFIs in several countries were either restructured or repositioned.

5.2 Apart from commercial banks and co-operative institutions (urban and rural), the financial system in India consists of a wide variety of NBFIs such as financial institutions, insurance companies, non-bank financial companies, primary dealers and capital market intermediaries such as mutual funds. Although commonly grouped as 'NBFIs', the nature of operations of different types of NBFIs is quite distinct from one another. In this Chapter, the focus is on NBFIs under the regulatory/supervisory purview of the Reserve Bank. These comprise all-India financial institutions (AIFIs or FIs), non-banking financial companies (NBFCs) and primary dealers (PDs).

5.3 Although AIFIs have played a key role in extending development finance in India, the Government's fiscal imperatives and market dynamics forced a reappraisal of the policies and strategy with regard to the role of AIFIs in the economy. A major restructuring in the financial sector occurred when two major DFIs, *viz*., ICICI and IDBI converted into banks. NBFCs, incorporated under the Companies Act, 1956 are actively engaged in lease finance, hire purchase finance, investments in securities, grants of loans in any manner, including bills discounting, insurance, stock broking, merchant banking and housing finance. PDs have played an important role in developing the Government securities market. Business operations and financial performance of different types of NBFIs are driven mainly by sector-specific factors.

5.4 Keeping in view the contribution that NBFIs make to the financial sector as financial intermediaries, the Reserve Bank has endeavoured to create a conducive atmosphere for NBFIs so that they are able to carve a *niche* for themselves. With several policy initiatives, the Reserve Bank has been able to strengthen many NBFIs, while weak and unhealthy players have been weeded out of the system. The objective of reforms in this sector is to ensure that NBFIs function on healthy lines, in tandem with other counterparts of the financial system, and that their existence does not engender any systemic risk.

5.5 Regulatory initiatives in respect of FIs during 2005-06 focussed mainly on strengthening the prudential guidelines relating to provisioning of assets, securitisation of standard assets and introduction of one-time settlement scheme for SMEs. Operations of FIs expanded during 2005-06 while a shift in asset portfolio away from investments to loans and advances was observed. Sharp growth in net interest income as well as non-interest income resulted in higher profits for FIs. Asset quality of FIs improved significantly during the year. The capital adequacy ratio, in general, continued to be significantly higher than the minimum prescribed.

5.6 The focus of regulatory measures with respect to NBFCs was on expanding the coverage of the reporting arrangements, fair practice codes for credit card operations, merger/amalgamation of NBFCs with banks, securitisation of standard assets, increase in the directed investments by RNBCs and prior public notice about change in control/management. The business of NBFCs contracted marginally during 2005-06. A sharp increase in expenditure resulted in a sharp fall in the profitability of NBFCs during the year. However, asset quality improved significantly. While the proportion of NBFCs with the capital to risk-weighted assets ratio (CRAR) above 30 per cent increased, the proportion of NBFCs with CRAR of less than 12 per cent declined over the year.

5.7 In terms of provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank is precluded from participating in the primary issuance of Central Government securities from April 1, 2006. Consequently, the responsibility of ensuring full subscription to the primary issues rests on PDs. With the objective of imparting greater efficiency, transparency and flexibility in the conduct of Government securities transactions and strengthening the PD system, the Reserve Bank took several initiatives during 2005-06. Banks were allowed to undertake PD business departmentally. The system of bidding commitment was revamped with a mandatory underwriting commitment for PDs. Income earned by PDs increased sharply during 2005-06. As a result, PDs were able to earn a sizeable net profit. The number of PDs posting net profit rose to 14 during 2005-06 from 10 in the previous year. The CRAR of PDs was much in excess of the stipulated minimum norm of 15 per cent of aggregate risk-weighted assets.

5.8 Against the above backdrop, this Chapter sets out 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

5.9 Financial institutions owed their origin to the objective of State driven planned economic development, when the capital markets were relatively underdeveloped and incapable of meeting the long-term requirements of the economy adequately. Over the years, a wide range of FIs came into existence to cater to the medium to long-term financing requirements of different sectors of the economy. While most of them extend direct finance, some others only undertake refinance. Based on their major activity undertaken, all India financial institutions can be classified as (i) term-lending institutions (IFCI Ltd., IIBI Ltd., EXIM Bank and TFCI), 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 banks as well as non-banking financial intermediaries for on-lending to agriculture, small scale industries (SSIs) and the housing sector, respectively; and (iii) investment institutions (LIC), 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 Limited (NEDFi). Some of these FIs have been notified as Public Financial Institutions by the Government of India under Section 4A of the Companies Act, 1956.

5.10 At end-March 2006, four FIs, *viz.*, NABARD, SIDBI, NHB and EXIM Bank were under the full-fledged regulation and supervision of the Reserve Bank. However, FIs not accepting public deposits, but having an asset size of Rs.500 crore and above, are subjected to only limited off-site supervision by the Reserve Bank. In addition, NABARD, SIDBI and NHB also shoulder the responsibilities of regulating and/or supervising financial intermediaries in varying degrees. The regulatory/supervisory domain of NHB covers housing finance companies. SIDBI supervises State Finance Corporations and State Industrial Development Corporations, and NABARD supervises co-operative banks and regional rural banks. The focus of the analysis in this section is, however, limited to the seven institutions currently being regulated by the Reserve Bank. These institutions include IFCI, IIBI, EXIM Bank, TFCI, SIDBI, NABARD and NHB.

Regulatory Initiatives for Financial Institutions

5.11 With a view to moving closer to international best practices and ensuring alignment of regulatory norms for the financial institutions with those applicable to the banking sector, several regulatory measures were initiated during 2005-06.

5.12 In pursuance of the announcement in the Mid-term Review of Annual Policy Statement for 2005-06, the general provisioning requirement for 'standard advances' in the case of banks was raised from 0.25 per cent to 0.40 per cent of outstandings in November 2005. Consequently, in December 2005, it was announced that the standard assets of FIs, with the exception of direct advances to the agricultural and the SME sectors, would attract a uniform provisioning requirement of 0.40 per cent of the outstandings on a portfolio basis.

5.13 Guidelines relating to one-time settlement scheme for recovery of NPAs below Rs.10 crore for SME accounts issued to public sector banks were also made applicable to FIs in November 2005. The revised guidelines covered all NPAs in the SME sector, classified as 'doubtful' or 'loss' as on March 31, 2004 and also those NPAs classified as 'sub-standard' as on March 31, 2004, which subsequently became 'doubtful' or 'loss' with outstanding balance of Rs.10 crore and below on the date on which the account was classified as 'doubtful'. Further, cases on which the banks had initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002 are also covered under the scheme. However, cases of wilful default, fraud and malfeasance were not covered. The minimum amount that is required to be recovered in respect of one-time settlement is 100 per cent of the outstanding balance in the account in the case of NPAs classified as 'doubtful' or 'loss' as on March 31, 2004.

5.14 Guidelines on securitisation of standard assets were issued for FIs along with banks and NBFCs (including RNBCs) in February 2006. The guidelines mainly include definitions and norms relating to true sale, criteria to be met by SPVs, special features including representations and warranties and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services, prudential norms for investment in the securities issued by SPVs and accounting treatment of securitisation transactions.

5.15 An Internal Working Group on Future Role of Refinance Institutions (Convenor: Shri P. Vijaya Bhaskar) was constituted in December 2005 with the following terms of reference: (i) to evaluate the performance of RFIs *vis-à-vis* the objectives for which these were set up; (ii) to examine the relevance of their objectives in the present context of developments in the financial sector; (iii) to suggest their future role in view of (ii) above; (iv) to explore the possibilities of alternative avenues for the deployment of surplus funds; (v) to evaluate the modes of raising of resources by the RFIs; and (vi) to examine the issues having a bearing on mortgage credit guarantee companies, including Indian Mortgage Guarantee Company (IMGC). The report of the Group is expected to be submitted shortly.

Operations of Financial Institutions

5.16 Financial assistance sanctioned and disbursed by AIFIs registered a sharp increase during 2005-06, in contrast to the sharp decline in the previous year. The increase was accounted for mainly by all-India term-lending institutions (SIDBI) and investment institutions (LIC) (Table V.1 and Appendix Table V.1). Although IFCI did not sanction any fresh financial assistance, the amount disbursed by it increased sharply by 104.9 per cent during 2005-06.

Table V.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(As at end-March)

(Amount in Rs. crore)

Item	Amount				Percentage Variation			
	2004-05		2005-06		2004-05		2005-06	
	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9
i) All-India Term-lending Institutions*	9,091	6,279	11,942	9,237	-24.6	-9.6	31.4	47.1
ii) Specialised Financial Institutions#	111	72	132	86	-74.8	-81.8	18.9	19.4
iii) Investment Institutions@	10,404	8,972	15,165	11,200	-55.2	-47.2	45.8	24.8
Total Assistance by FIs (i to iii)	**19,606**	**15,323**	**27,239**	**20,522**	**-45.1**	**-37.0**	**38.9**	**33.9**

S : Sanctions. D : Disbursements.

* : Relating to IFCI, SIDBI and IIBI.

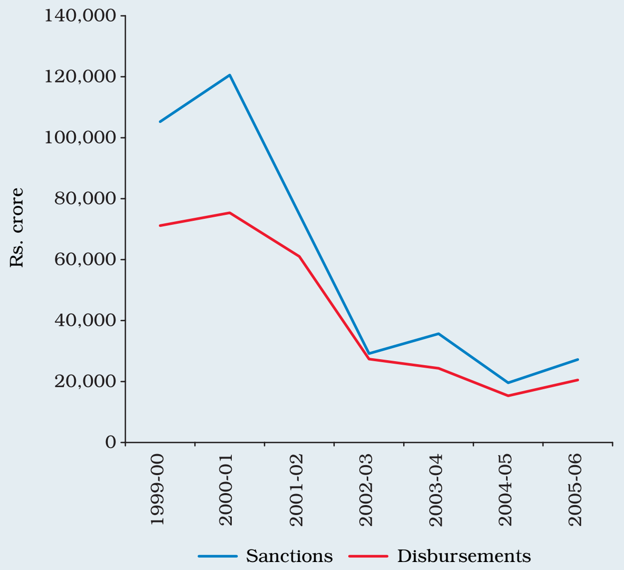
: Relating to IVCF, ICICI Venture and TFCI.

@ : Relating to LIC and GIC. Data for 2005-06 pertain only to LIC.

Note : All data are provisional.

Source : Respective FIs.

Chart V.1: Financial Assistance Extended by AIFIs



5.17 Financial assistance sanctioned and disbursed by AIFIs, which declined sharply between 2000-01 and 2002-03, exhibited a steady trend thereafter. The gap between sanctioned and disbursed amounts narrowed down significantly in recent years (Chart V.1).

Assets and Liabilities of FIs

5.18 Assets/liabilities of FIs during 2005-06 expanded more or less at the same rate as in 2004-05. On the liabilities side, the resources raised by way of bonds and debentures increased sharply during 2005-06. On the assets side, loans and advances portfolio increased sharply in sync with the sharp credit growth by the banking sector. Like banks, FIs also liquidated their investment portfolio significantly to accommodate the sharp increase in the loan portfolio (Table V.2).

Table V.2: Liabilities and Assets of Financial Institutions

(As at end-March)

(Amount in Rs. crore)

Item	Amount		Percentage Variation	
	2005	2006	2004-05	2005-06
1	2	3	4	5
Liabilities (1 to 6)				
1. Capital*	5,331 (4.0)	5,431 (3.7)	3.3	1.9
2. Reserves*	14,074 (10.5)	15,211 (10.5)	10.8	8.1
3. Bonds and Debentures	60,150 (44.7)	67,145 (46.2)	20.3	11.6
4. Deposits	13,355 (9.9)	14,520 (10.0)	-24.0	8.7
5. Borrowings	17,421 (13.0)	18,950 (13.0)	25.4	8.8
6. Other Liabilities	24,105 (17.9)	24,217 (16.6)	1.9	0.5
Total Liabilities/Assets	**1,34,436 (100.0)**	**1,45,474 (100.0)**	**9.8**	**8.2**
Assets (1 to 6)				
1. Cash and Bank Balances	16,490 (12.3)	9,915 (6.8)	39.9	-39.9
2. Investments	13,617 (10.1)	10,423 (7.2)	0.6	-23.5
3. Loans and Advances	91,874 (68.3)	1,11,441 (76.6)	8.0	21.3
4. Bills Discounted/Rediscounted	1,048 (0.8)	1,810 (1.2)	-14.0	72.7
5. Fixed Assets	1,145 (0.9)	1,088 (0.7)	-1.8	-5.0
6. Other Assets	10,262 (7.6)	10,797 (7.4)	7.0	5.2

* : Without taking into account accumulated losses of IFCI and IIBI.

Note : 1. Data include IFCI, TFCI, IIBI, EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in brackets are percentages to total liabilities/assets.

Source : Balance sheets of respective FIs.

Resources Mobilised by FIs

5.19 AIFIs raised resources during 2005-06 in both rupee and foreign currency. Rupee resources include both long-term and short-term funds. While long-term rupee resources consist of borrowings by way of bonds and debentures, short-term resources comprise commercial papers (CPs), term deposits, inter-corporate deposits (ICDs), certificate of deposits (CDs) and borrowings from the term money market. Foreign currency resources mainly include bonds and borrowings.

5.20 Resources raised by FIs during 2005-06 were marginally lower than those raised during 2004-05. While short-term rupee resources declined, long-term rupee resources increased marginally. Resources raised in foreign currency increased significantly. NABARD mobilised the largest amount of resources, followed by EXIM Bank, NHB and SIDBI (Table V.3 and Appendix Table V.2). IFCI and IIBI continued to be barred from mobilising fresh resources on account of their poor financial performance.

5.21 Resources raised by FIs from the money market declined during 2005-06. FIs utilised 13.1 per cent of the total umbrella limit allowed to them for raising resources in the money market during the year as compared with 25.7 per cent during the previous year (Table V.4).

5.22 The practice of extending loans by the Reserve Bank to industrial financial institutions from the National Industrial Credit Long Term Operations (NIC-LTO) Fund 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 this fund from 1992-93. There were no outstanding borrowings by any institution under the NIC-LTO Fund at end-June 2006. The outstanding credit to NHB under the National Housing Credit (NHC-LTO) Fund amounted to Rs.50 crore at end-June 2006.

Table V.4: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instrument	2004-05	2005-06
1	2	3
A. Total (i to v)	**3,339**	**1,977**
i) Term Deposit	705	44
ii) Term Money	175	–
iii) Inter-corporate Deposits	477	–
iv) Certificates of Deposits	233	2
v) Commercial Paper	1,749	1,931
Memo:		
B. Umbrella limit	**13,001**	**15,157**
C. Utilisation of Umbrella limit (A as percentage of B)	**25.7**	**13.1**

– : Nil/Negligible.

Source : Balance sheets of respective FIs.

Sources and Uses of Funds

5.23 Total sources/deployment of funds of FIs increased to Rs.1,00,456 crore in 2005-06,

Table V.3: Resources Mobilised by Financial Institutions

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding as at end-March	
	Long-term		Short-term		Foreign Currency		Total			
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2005	2006
1	2	3	4	5	6	7	8	9	10	11
1. IIBI	–	–	–	–	–	–	–	–	2,008	1,576
2. IFCI	–	–	–	–	–	–	–	–	15,025	13,678
3. TFCI	23	71	–	–	–	–	23	71	429	390
4. EXIM Bank	1,480	3,260	1,632	1,124	2,189	2,814	5,301	7,198	11,771	15,836
5. SIDBI	1,607	2,610	799	420	28	459	2,434	3,489	9,346	11,030
6. NABARD	10,642	8,195	–	–	–	–	10,642	8,194	26,429	27,303
7. NHB	2,419	2,631	1,063	199	–	–	3,482	2,830	12,395	14,365
Total (1 to 7)	**16,171**	**16,767**	**3,494**	**1,743**	**2,217**	**3,273**	**21,882**	**21,782**	**77,403**	**84,178**

– : Nil/Negligible.

Note : Long-term rupee resources comprise borrowings by way of bonds/debentures; and short-term resources comprise CPs, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise largely bonds and borrowings in the international market.

Source : Respective FIs.

registering a growth of 17.9 per cent. Significantly, 63.3 per cent of the funds by FIs were raised from internal sources and 33.3 per cent from external sources. A large part of the funds raised were used for fresh deployments (71.9 per cent), enabled by a decline in the repayment of past borrowings. Interest payments declined marginally during the year (Table V.5 and Appendix Table V.3).

Cost and Maturity of Borrowings

5.24 The weighted average cost of long-term resources of refinance institutions (SIDBI, NABARD and NHB) declined during the year. Decline in the weighted average cost of NHB was possibly due to shortening of the maturity profile of its resources. The marginal increase in the weighted average cost of EXIM Bank was despite shortening of weighted average maturity of its borrowings (Table V.6 and Appendix Table V.4).

Table V.5: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources / Deployment of Funds	2004-05	2005-06	Percentage Variation	
			2004-05	2005-06
1	2	3	4	5
A) Sources of Funds (i to iii)	**85,237 (100.0)**	**1,00,456 (100.0)**	**16.3**	**17.9**
(i) Internal	53,543 (62.8)	63,557 (63.3)	13.3	18.7
(ii) External	28,925 (33.9)	33,475 (33.3)	22.4	15.7
(iii) Others@	2,768 (3.2)	3,424 (3.4)	15.0	23.7
B) Deployment of Funds (i to iii)	**85,238 (100.0)**	**1,00,456 (100.0)**	**16.3**	**17.9**
(i) Fresh Deployments	53,291 (62.5)	72,273 (71.9)	21.6	35.6
(ii) Repayment of past Borrowings	20,019 (23.5)	14,402 (14.3)	18.9	-28.1
(iii) Other Deployments	11,928 (14.0)	13,781 (13.7)	-5.4	15.5
of which :				
Interest Payments	4,597 (5.4)	4,502 (4.5)	-18.1	-2.1

* : IFCI, IIBI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.

@ : Includes cash and balances with banks (cash in hand), balances with the Reserve Bank and other banks.

Note : Figures in brackets are percentages to total.

Source : Respective FIs.

Table V.6: Weighted Average Cost and Maturity of Long-term Rupee Resources

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5
IIBI	–	–	–	–
IFCI	–	–	–	–
TFCI	10.4	–	4.9	–
EXIM Bank	6.9	7.0	5.1	4.7
SIDBI	6.3	4.5	7.0	7.0
NABARD	6.6	5.8	2.0	2.1
NHB	6.5	5.9	2.8	2.2

– : Nil/Negligible.

Note : Data are provisional.

Source : Respective FIs.

Lending Interest Rates

5.25 NHB raised all its prime lending rates during the year, while SIDBI and IFCI maintained their PLRs at the previous year's level (Table V.7).

Financial Performance of Financial Institutions

5.26 Net interest income of select all-India FIs increased to Rs.2,555 crore during 2005-06 from Rs.2,125 crore during 2004-05. Non-interest

Table V.7: Lending Rate Structure of Select Financial Institutions

(Per cent Per annum)

Effective	PLR	IFCI	SIDBI	NHB@
1	2	3	4	5
March 2004	Long-term PLR	12.5	11.5	6.7-6.5
	Medium-term PLR	–	–	6.5
	Short-term PLR	12.5	10.0	6.4
July 2004	Long-term PLR	12.5	11.5	6.5-6.7
	Medium-term PLR	–	–	6.3
	Short-term PLR	12.5	10.0	6.0
March 2005	Long-term PLR	12.5	11.5	7.3
	Medium-term PLR	–	–	6.8
	Short-term PLR	12.5	10.0	6.5
March 2006	Long-term PLR	12.5	11.5	7.5
	Medium-term PLR	–	–	7.2
	Short-term PLR	12.5	10.0	7.0

– : Nil/Negligible.

@ : Relating to the fixed rate.

Source: Respective FIs.

income of FIs also increased significantly during the year. These two factors more than compensated for the sharp growth in operating expenses, resulting in a significant growth in operating profit. With no significant change in the provisions, increase in operating profit was more or less reflected in net profit (Table V.8).

5.27 Income, both interest and non-interest, as a percentage of average working funds of major FIs declined during 2005-06. However, operating profit as percentage of average working funds of most of FIs, including IFCI, improved during 2005-06. Operating profit as a percentage of average working funds was the highest for IFCI, followed by TFCI and SIDBI. IIBI continued to incur operating losses, although lower than the last year. Return to asset ratio of NHB and SIDBI improved marginally (Table V.9). Net profit per employee of NHB and EXIM Bank increased during the year. Net profit per employee in respect of EXIM Bank and NHB during 2005-06 was more than Rs.1 crore.

Soundness Indicators

Asset Quality

5.28 The asset quality of all FIs improved significantly during 2005-06, both in absolute terms and in relation to net loans. Net NPAs of IFCI, IIBI and TFCI declined sharply during the year, reflecting the combined impact of recovery of dues and increased provisioning. As at end-March 2006, NABARD and NHB did not have any NPAs, while NPAs of EXIM Bank and SIDBI were at less than one and two per cent, respectively (Table V.10).

Table V.8: Financial Performance of Select All-India Financial Institutions*

(Amount in Rs. crore)

Item	2004-05	2005-06	Variation	
			Amount	Percentage
1	2	3	4	5
A) Income (i+ii)	**8,722**	**9,599**	**877**	**10.1**
i) Interest Income	7,588	8,246	658	8.7
	(87.0)	(85.9)		
ii) Non-Interest Income	1,134	1,353	219	19.3
	(13.0)	(14.1)		
B) Expenditure (i+ii)	**7,118**	**7,606**	**488**	**6.9**
i) Interest Expenditure	5,463	5,691	228	4.2
	(76.7)	(74.8)		
ii) Operating Expenses	1,655	1,915	260	15.7
	(23.3)	(25.2)		
of which : Wage Bill	379	372	-7	-1.8
C) Provisions for Taxation	**507**	**591**	**84**	**16.6**
D) Profit				
i) Operating Profit (PBT)	1,604	1,993	389	24.3
ii) Net Profit (PAT)	1,097	1,402	305	27.8
E) Financial Ratios@				
i) Operating Profit (PBT)	1.2	1.4		
ii) Net Profit (PAT)	0.8	1.0		
iii) Income	6.5	6.6		
iv) Interest Income	5.6	5.7		
v) Other Income	0.8	0.9		
vi) Expenditure	5.3	5.2		
vii) Interest expenditure	4.1	3.9		
viii) Other Operating Expenses	1.2	1.3		
ix) Wage Bill	0.3	0.3		
x) Provisions	0.4	0.4		
xi) Spread (Net Interest Income)	1.6	1.8		

– : Nil/Negligible.
* : IFCI, IIBI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.
@ : As percentage of total assets.
Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective FIs.

Table V.9: Select Financial Parameters of Financial Institutions

(As at end-March)

(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)	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9	10	11
IFCI	7.4	11.3	1.5	2.3	1.8	6.7	-2.2	-0.6	-0.6	-0.2
IIBI	11.1	11.0	7.5	8.4	-7.6	-1.4	..	..	-0.8	-0.1
TFCI	11.4	10.2	0.2	0.2	3.6	4.0	2.0	1.9	0.4	0.4
EXIM Bank	6.1	7.6	0.5	0.6	2.0	2.1	1.5	1.5	1.3	1.4
NABARD	6.9	6.3	–	-0.1	3.2	2.1	1.8	1.8	0.2	0.2
NHB*	6.7	6.2	0.4	0.2	0.5	1.1	0.3	0.5	0.5	1.1
SIDBI	5.9	6.2	0.6	0.2	3.0	3.4	1.7	2.0	0.3	0.3

– : Nil/Negligible. .. : Not Available. * : Position as at end-June.
Source: Balance sheets of respective FIs.

Table V.10: Net Non-Performing Assets
(As at end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2005	2006	2005	2006
1	2	3	4	5
IFCI	2,688	667	28.0	9.1
IIBI	405	132	27.3	13.1
TFCI	68	15	11.0	3.0
EXIM Bank	109	105	0.9	0.6
NABARD	1	–	–	–
NHB*	–	–	–	–
SIDBI	407	261	3.9	1.9

– : Nil/Negligible.
* : Position as at end-June.
Source : Balance sheets of respective FIs.

5.29 Improvement in asset quality was also observed in various categories of asset classification. Significantly, none of the FIs had any NPAs in the 'loss' asset category at end-March 2006 (Table V.11).

Capital Adequacy

5.30 Capital adequacy ratio of FIs, barring the two loss making institutions (IFCI and IIBI), continued to be significantly higher than the minimum stipulated norm, even as the ratio of all FIs, barring TFCI, declined during the year on account of significant growth in their loans and advances portfolio (Table V.12). The CRAR of IIBI and IFCI deteriorated further during the year on account of financial losses.

Table V.11: Asset Classification of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Institution	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
	2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9
IFCI	6,909	6,635	205	54	2,483	613	–	–
IIBI	1,079	874	23	14	382	118	–	–
TFCI	531	546	4	–	64	15	–	–
EXIM Bank	12,714	17,692	47	105	62	–	–	–
NABARD	48,354	58,088	–	–	1	–	–	–
NHB*	10,812	16,241	–	–	–	–	–	–
SIDBI	9,845	13,001	8	1	399	260	51	–

– : Nil/Negligible.
* : Position as at end-June.
Source: Balance sheets of respective FIs.

Table V.12: Capital Adequacy Ratio of Select Financial Institutions*

(Per cent)

Institution	As at end-March						
	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8
IFCI	8.8	6.2	3.1	1.0	-17.0	-23.4	-27.9
IIBI	9.7	13.9	9.2	-11.0	-20.1	-41.1	-64.2
TFCI	16.2	18.6	18.5	19.8	22.8	27.4	34.9
EXIM Bank	24.4	23.8	33.1	26.9	23.5	21.6	18.4
NABARD	44.4	38.5	36.9	39.1	39.4	38.8	34.4
NHB@	16.5	16.8	22.1	27.9	30.5	22.5	22.3
SIDBI	27.8	28.1	45.0	44.0	51.6	50.7	43.2

* : Net of provisioning and write offs.
@ : Position as at end-June.
Source : Balance sheets of respective FIs.

3. Non-Banking Financial Companies

5.31 Though heterogeneous, NBFCs could be broadly classified into four categories, *viz.*, equipment leasing, hire purchase, loan companies and investment companies. A separate category of NBFCs called the residuary non-banking companies (RNBCs) also exists as they could not be categorised into any one of the four categories. Besides, there are miscellaneous non-banking companies (Chit Fund), mutual benefit financial companies (*Nidhis* and unnotified *Nidhis*) and housing finance companies. It is noteworthy that *Nidhi* companies are not regulated by the Reserve Bank as they come under the regulatory purview of the Ministry of Company Affairs, while the Chit Companies, although governed by the Miscellaneous Non-banking Companies (MNBCs) (Reserve Bank) Directions, 1977, issued by the Reserve Bank with regard to acceptance of deposits, are regulated by the Registrar of Chits of the respective State Governments. Furthermore, MNBCs, not accepting public deposits have been exempted from submitting returns to the Reserve Bank since December 27, 2005.

5.32 This section focuses mainly on the policy developments and operations of NBFCs under the regulatory purview of the Reserve Bank. However, operations of NBFCs and RNBCs are dealt with separately in view of their diverse nature. Besides, operations of NBFCs not accepting public deposits but having asset size of Rs.100 crore and above have also been analysed separately considering the systemic implications of their operations.

Regulatory and Supervisory Initiatives

5.33 The Reserve Bank regulates and supervises NBFCs as defined in Chapter III B of the RBI Act, 1934. Accordingly, the Reserve Bank has issued a set of directions to regulate the activities of NBFCs under its jurisdiction. With a view to ensuring their growth along sound lines, the Reserve Bank initiated several policy measures during 2005-06.

Reporting System for Large NBFCs not Accepting/ Holding Public Deposits

5.34 In order to monitor the activities of non-banking financial companies not accepting/ holding public deposits (NBFCs-ND), a system of quarterly reporting was introduced in respect of companies having asset size of Rs.500 crore and above. The reporting system in the prescribed format for such NBFCs-ND was put in place beginning September 2004. The arrangement was reviewed and it was felt that the intervening period of one quarter was too long to take informed and timely decisions. The periodicity for the submission of the return was, therefore, changed from quarterly to monthly from September 2005. Similarly, with a view to increasing the coverage of NBFCs, the threshold level was raised by making the reporting system applicable to NBFCs with asset size of Rs.100 crore and above, beginning September 2005, instead of Rs.500 crore and above earlier. NBFCs were also required to furnish additional information relating to capital market exposure such as financing of IPOs, gross sales and purchases in respect of shares, debentures and bonds, and guarantees issued on behalf of share brokers. The format was modified again to include parameters such as cumulative balance in profit and loss account, age-wise break-up of NPAs, highest outstanding balance in working capital limits, certain items on capital market exposure of the company and foreign sources of funds, if any. The returns under the revised reporting system were required to be submitted from July 2006.

Know Your Customer (KYC) Guidelines

5.35 NBFCs were advised in February 2005 about the customer acceptance policy and customer identification procedure to be followed by them while opening an account, on the lines of instructions issued to banks. NBFCs were also advised to categorise their customers into low, medium and high risk category according to risk perceived. The KYC guidelines also required the NBFCs to verify the identity and address of the customer through specified documents. Though certain degree of flexibility in the requirements of documents relating to identity and proof of address was provided in the guidelines, there were still some instances where persons belonging to low income group were not able to satisfy the NBFCs about their identity and address. It was, therefore, decided to further simplify the KYC procedure for opening of accounts by such persons who intend to maintain balances not exceeding Rs.50,000 in all the accounts put together and the total credit amount in all these accounts, taken together, does not exceed Rs.1,00,000 in a year. Accordingly, in March, 2006, NBFCs were advised to make the customers aware that if at any point of time, the balance limit is breached, no further transactions would be permitted until the full KYC procedure is completed.

5.36 NBFCs were also advised in February 2005 to monitor transactions of suspicious nature for the purpose of reporting them to the appropriate authority. These KYC norms were revisited in the light of recommendations made by the Financial Action Task Force on Anti-money Laundering Standards and Combating Financing of Terrorism. All deposit-taking NBFCs, excluding RNBCs, were therefore, advised in October 2005 to put in place systems in order to ensure that the agents/brokers authorised by the NBFC to collect deposits are properly identifiable and the books of account maintained by them are made available for audit and inspection, whenever required. All deposit receipts should bear the name and addresses of Registered Offices of NBFCs and must invariably indicate the names of the persons authorised by NBFCs to collect deposits, including brokers/ agents and their addresses. The information on link office (office of persons authorised by NBFCs including brokers/agents) with the telephone number of such officers and/or persons authorised by NBFCs to mobilise deposits was also required to be given so as to facilitate contact with the field persons and address appropriate matters such as unclaimed/lapsed deposits, discontinued deposits, interest payments and other customer grievances. NBFCs were also required to evolve suitable review procedures to identify persons, including brokers/agents, in those cases where the incidence of discontinued deposits was high.

Monitoring of Frauds in NBFCs

5.37 In October 2005, guidelines were 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 than Rs.25 lakh are required to be reported to the respective Regional Offices of the Reserve Bank, in whose jurisdiction the registered office of the company is located. Individual cases of frauds involving an amount of Rs.25 lakh and above are required to be reported to the Central Office of the Reserve Bank at Mumbai.

Fair Practice Code for Credit Card Operations

5.38 In November 2005, NBFCs were advised to have a well documented policy and a Fair Practices Code for credit card operations, as suggested by the IBA in March 2005. Guidelines issued in this context include norms relating to issue of cards, interest rate and other charges, wrongful billing, use of direct sales agents (DSAs)/direct marketing agents (DMAs) and other agents, protection of customer rights, right to privacy, customer confidentiality, fair practices in debt collection, redressal of grievances, internal control and monitoring system, and right to impose penalty.

Amalgamation/Merger of NBFCs with Banks

5.39 It was decided in June 2004 that banks should obtain prior approval of the Reserve Bank before initiating steps for amalgamation/merger with an NBFC. This measure was initiated so that the post-merger bank continues to be in compliance with the relevant provisions of the Banking Regulation Act, 1949, other concerned statutes and also the regulatory prescriptions stipulated by the Reserve Bank.

NBFCs as Business Correspondents

5.40 Pending the exercise of examining the eligibility criteria of NBFCs (not accepting public deposits) who can be assigned the role of business correspondent/s, banks were advised in March 2006 to defer selection/use of NBFCs as business correspondent/s. However, banks can use NBFCs licensed under Section 25 of the Companies Act, 1956 as business correspondents.

Premature Repayment of Public Deposit/s

5.41 It was brought to the notice of the Reserve Bank that certain companies had offered their depositors the right to prematurely terminate their deposits. Such a practice may vitiate the ALM discipline of the companies. In the case of a company whose assets may be insufficient to meet all its outside liabilities, such repayments could tantamount to preferential treatment to those depositors who exit early. In order to safeguard the ALM discipline and to restrict the preferential payment, the provisions relating to premature repayment were reviewed and revised guidelines were issued in October 2005 encompassing areas such as eligibility and minimum lock-in period. With a view to ensuring operational ease, the provisions relating to premature repayment were revisited. Accordingly, it was clarified in December 2005 that the clause relating to clubbing of all deposit accounts for the purpose of premature repayment/grant of loan, as the case may be, up to Rs.10,000 to the depositor is applicable only in case of problem NBFCs/RNBCs/MNBCs. In the case of death of a depositor, even the problem NBFC/RNBC/MNBC is required to repay the deposit/public deposit within the lock-in period without clubbing of deposit/public deposit.

Rotation of Partners of Statutory Auditors of NBFCs

5.42 The need for corporate governance has assumed considerable importance. Companies, the world over have been increasingly adopting best corporate practices to increase the confidence of investors and other stakeholders. In this context, it was felt that rotation of auditors for scrutiny of books of account of the companies would further strengthen the corporate governance in NBFCs. Accordingly, NBFCs/RNBCs with public deposits/deposits of Rs 50 crore and above were advised in December 2005 to stipulate rotation of partners of audit firms appointed for auditing the company after every three years so that the same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC/RNBC after an interval of three years, if the NBFC/RNBC so decides. Companies were advised to incorporate appropriate terms in the letter of appointment to the firm of auditors.

Prior Public Notice About Change in Control/ Management

5.43 In terms of the revised norms prescribed from January 2006, NBFCs were required to inform the Reserve Bank within one month where merger and amalgamation takes place in terms of the High Court order in pursuance of Sections 391 and 394 of the Companies Act, 1956. Also, no public notice is required to be given by the companies in such cases. Prior to these instructions, all NBFCs (deposit taking and non-deposit taking) were required to give prior public notice about the change in the control/ management of the company. However, where merger and amalgamation or change in the management of the company takes place upon sale/ transfer otherwise by way of Court Order, NBFCs (including RNBCs) (deposit taking and non-deposit taking companies) should give prior public notice of 30 days. In case, a new NBFC is formed by the change of management consequent upon merger/ amalgamation/acquisition/sale or transfer of ownership, the Reserve Bank will continue to undertake due diligence on the directors of the new NBFC to ensure compliance with the provisions of Section 45-IA (4)(c) of the Reserve Bank of India Act, 1934.

Maintenance of Directed Investments by RNBCs

5.44 As a measure of protection to depositors' interest, RNBCs are required to invest the amount of deposits accepted by them in the manner prescribed from time to time. On review, the investment pattern as contained in the Residuary Non-Banking (Reserve Bank) Directions was modified on March 31, 2006, and the Aggregate Liabilities to the Depositor (ALD) was bifurcated under two heads, namely, ALD as on December 31, 2005 and incremental ALD thereafter. The RNBCs were advised to invest, with effect from April 1, 2006, not less than 95 per cent of their ALD as on December 31, 2005 and 100 per cent of the incremental deposit in the manner prescribed. It was also advised that on and from April 1, 2007, the entire amount of ALD would be invested in directed investments only and no discretionary investments would be allowed from April 1, 2007 (Box V.I).

Securitisation and Reconstruction Companies

5.45 The Reserve Bank has so far received 18 applications for Certificate of Registration to commence the business of Securitisation Company (SC)/ Reconstruction Company (RCs). The Reserve Bank had issued Certificate of Registration to four companies, *viz.*, Asset Reconstruction Company (India) Limited, Assets Care Enterprise Limited, ASREC (India) Limited and Pegasus Assets Reconstruction Private Limited. Four applications are under various stages of processing, while two applications were

Box V.I: Directed Investments by Residuary Non-Banking Companies

The business of RNBCs is acceptance of public deposits in the form of daily deposits, recurring deposits and fixed deposits. NBFCs, which could not be classified as equipment leasing, hire purchase, loan, investment, *nidhi* or chit fund companies, but which access public savings by operating various deposit schemes akin to recurring deposit schemes of banks, are classified as RNBCs. The total deposits of NBFCs (including RNBCs) aggregated Rs.22,842 crore as on March 31, 2006, of which deposits of RNBCs were placed at Rs.20,175 crore, accounting for 88.3 per cent of total deposits.

At present, there are three RNBCs registered with the Reserve Bank, *viz.*, Sahara India Financial Corporation Limited, Peerless General Finance and Investment Company Limited and Disari India Savings and Credit Corporation Limited. Unlike other NBFCs, which can deploy their assets in any manner, RNBCs are required to invest only in the directed pattern of investments. Prior to June 22, 2004, RNBCs were required to invest 80 per cent of their ALD in the manner prescribed by the Reserve Bank. The pattern of directed investments was reviewed and rationalised with effect from June 22, 2004 to reduce the overall systemic risk and impart greater liquidity and safety to the investments of RNBCs and thereby enhance the protection available to the depositors. Under the revised pattern of investments, the quantum of directed investments was increased from 80 per cent to 90 per cent of ALD with effect from April 1, 2005 and 100 per cent of ALD with effect from April 1, 2006. Further, in order to make the investments more secured and liquid, they were advised to increase their investment in Government securities and invest only in rated and listed securities in respect of other securities and in debt-oriented mutual funds. The exposure to a single scheduled commercial bank or a single specified financial institution was also restricted.

On review, the investment pattern as contained in the RNBC Directions was modified on March 31, 2006, for which purpose the ALD was bifurcated under two heads namely, ALD as on December 31, 2005 and incremental ALD (liabilities to the depositors that have accrued after December 31, 2005). RNBCs were advised to invest, with effect from April 1, 2006 not less than 95 per cent of their ALD as on December 31, 2005 and entire incremental deposits in the manner prescribed. It was also advised that on and from April 1, 2007, the entire amount of ALD would be invested in directed investments only and no discretionary investment would be allowed to be made by RNBCs.

returned as the companies were not incorporated. Eight applications were rejected.

5.46 Effective March 29, 2004 SCs/RCs were required to increase owned funds to an amount not less than 15 per cent of the total financial assets acquired or to be acquired by the SC/RC on an aggregate basis or Rs.100 crore, whichever is lower, irrespective of whether the assets are transferred to a trust set up for the purpose of securitisation or not. The Government, in November 2005, permitted foreign direct investment (FDI) in the equity of SC/RC and investment by Foreign Institutional Investors (FIIs) in the Security Receipts (SRs) issued by the SC/RC. Accordingly, the Foreign Investment Promotion Board (FIPB) would consider applications from eligible persons/entities under the FDI route to invest in the paid-up equity capital of asset reconstruction companies which are registered with the Reserve Bank. The maximum foreign equity is not allowed to exceed 49 per cent of the paid up equity capital of asset reconstruction companies. Where investment by any individual entity exceeds 10 per cent of the paid-up equity capital, the asset reconstruction company is required to comply with the provisions of Section 3(3) (f) of the SARFAESI Act 2002. FIIs registered with the Securities and Exchange Board of India (SEBI) were also granted general permission to invest in SRs issued by asset reconstruction companies registered with the Reserve Bank. FIIs can invest up to 49 per cent of each tranche of scheme of SRs, subject to condition that investment of a single FII in each tranche of scheme of SRs shall not exceed 10 per cent of the issue.

5.47 SCs/RCs can acquire assets from banks and financial institutions in terms of Section 5 of the SARFAESI Act and issue SRs to Qualified Institutional Buyers in terms of Section 7 of the Act. SCs/RCs can resort to the measures for assets reconstruction as provided in Section 9 of the Act, namely: (i) the proper management of the business of the borrower, by change in, or take over of the management of the business of the borrower; (ii) the sale or lease of a part or whole of the business of the borrower; (iii) rescheduling of payment of debts payable by the borrower; (iv) enforcement of security interest in accordance with the provisions of the SARFAESI Act; (v) settlement of dues payable by the borrower; and (vi) taking possession of secured assets in accordance with the provisions of the Act. However, the Reserve Bank has issued instructions to the SCs/RCs not to take the measures specified at (i) and (ii) above until necessary guidelines in this regard have been formulated.

5.48 The Reserve Bank issued guidelines on securitisation of standard assets to NBFCs (including RNBCs) in February 2006. The guidelines mainly include definition and norms relating to true sale, criteria to be met by SPV, special features, including representations and warranties, and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services, prudential norms for investment in the securities issued by SPV and accounting treatment of the securitisation transactions.

Registration of NBFCs

5.49 The Reserve Bank received 38,244 applications for grant of certificate of registration (CoR) as NBFCs till end-March 2006. Of these, the Reserve Bank approved 13,141 applications (net of cancellation), including 423 applications (net of cancellation) of companies authorised to accept/hold public deposits. The total number of NBFCs registered with the Reserve Bank were 13,014 (net of cancellation) at end-June 2006, of which 428 were public deposit accepting companies (Table V.13).

Profile of NBFCs (including RNBCs)

5.50 Total number of reported companies which consisted of NBFCs-D (Deposit taking NBFCs), RNBCs, Mutual Benefit Companies (MBCs),

Table V.13: Number of Non-Banking Financial Companies Registered with the Reserve Bank

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
2006	13,014	428

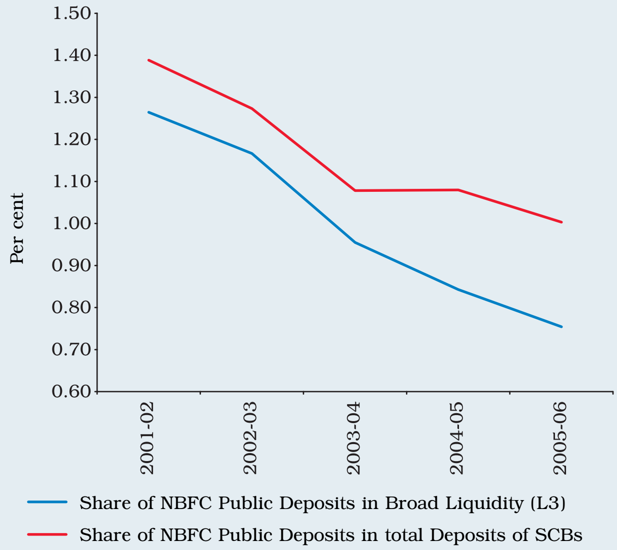
Miscellaneous Non-Banking Companies (MNBCs) and *Nidhi* companies declined from 576 at end-September 2005 to 466 at end-September 2006. Subsequent to the cut-off date of September 30, 2005, 130 more companies reported annual return for the year ended March 2005. The number of reported NBFCs-D declined from 413 at end-September 2005 to 386 at end-September 2006. The number of reported MBCs, MNBCs (mainly chit companies) and *Nidhi* Companies also declined from 157 at end-September 2005 to 77 at end-September 2006. However, these companies are insignificant as compared to the total asset size and public deposits of all NBFCs-D and RNBCs.

5.51 The number of NBFCs-D declined from 474 at end-March 2005 to 426 at end-March 2006. The decline was mainly due to the exit of many NBFCs from deposit taking activity. However, the number of RNBCs remained unchanged at three at end-March 2006.

5.52 Assets and public deposits accepted by reporting NBFCs increased by Rs.2,394 crore and Rs.2,316 crore, respectively, during 2005-06. The net owned funds of NBFCs increased by Rs.562 crore during 2005-06, despite a significant decline in the number of reporting NBFCs (Table V.14). Total assets and public deposits of three RNBCs increased significantly during the year.

5.53 Deposits of reporting NBFCs constituted 1.1 per cent of aggregate deposits of scheduled commercial banks at end-March 2006 as against 1.2 per cent at end-March 2005. Despite a significant increase in public deposits held by NBFCs at end-March 2006, the share of NBFC deposits in broad liquidity (L_3) declined sharply (Chart V.2).

Chart V.2 : Share of Public Deposits of NBFCs in Broad Liquidity (L3) and Total SCB Deposits



Operations of NBFCs (Excluding RNBCs)

5.54 Total assets/liabilities of NBFCs (excluding RNBCs) declined by 1.2 per cent during 2005-06. Borrowings, a major source of funds of NBFCs, increased by 2.6 per cent. Public deposits declined significantly as also the paid-up capital. On the asset side, hire purchase assets increased sharply. However, loans and advances, and equipment leasing assets declined sharply. While SLR investment of NBFCs declined, non-SLR investment increased during 2005-06 (Table V.15).

Table V.14: Profile of Non-Banking Financial Companies*

(Amount in Rs. crore)

Item	As at End-March			
	2005		2006	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5
Number of reported companies	703	3	466	3
Total Assets	55,059	19,056 (34.6)	57,453	21,891 (38.1)
Public Deposits	20,526	16,600 (80.9)	22,842	20,175 (88.3)
Net Owned Funds	6,101	1,065 (17.5)	6,663	1,183 (17.8)

***** : Includes miscellaneous Non-Banking Companies, unregistered and unnotified *nidhis.*
Note: Figures in brackets indicate percentages to respective total of NBFCs.

Table V.15: Consolidated Balance Sheet of NBFCs

(Amount in Rs. crore)

Item	As at end-March		Variation			
	2005	2006	2004-05		2005-06	
			Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7
1. Paid up capital	2,206 (6.1)	1,949 (5.5)	-121	-5.2	-257	-11.7
2. Reserves and Surplus	4,544 (12.6)	4,838 (13.6)	130	2.9	294	6.5
3. Public Deposit	3,926 (10.9)	2,667 (7.5)	-391	-9.1	-1,259	-32.1
4. Borrowings	23,044 (64.0)	23,641 (66.5)	2,192	10.5	597	2.6
5. Other Liabilities	2,283 (6.3)	2,466 (6.9)	1,439	170.5	183	8.0
Total Liabilities/Assets	**36,003**	**35,561**	**3,249**	**9.9**	**-442**	**-1.2**
1. Investments						
i) SLR Investments	2,237 (6.2)	1,314 (3.7)	530	31	-923	-41.3
ii) Non-SLR Investments	1,720 (4.8)	2,275 (6.4)	-390	-18.5	555	32.3
2. Loan and Advances	12,749 (35.4)	9,199 (25.9)	386	3.1	-3,550	-27.8
3. Hire Purchase Assets	14,400 (40.0)	19,893 (55.9)	2,751	23.6	5,493	38.1
4. Equipment Leasing Assets	2,025 (5.6)	1,620 (4.6)	-1,011	-33.3	-405	-20.0
5. Bill business	471 (1.3)	45 (0.1)	34	7.8	-425	-90.4
6. Other Assets	2,401 (6.7)	1,215 (3.4)	948	65.2	-1,186	-49.4

Note: Figures in brackets are percentages to total liabilities/assets.

5.55 Among NBFC groups, assets/liabilities of hire purchase finance companies increased, while those of equipment leasing, investment companies and loan companies declined during 2005-06. This broadly reflected the impact of resources raised in the form of deposits and borrowings. Hire purchase finance companies was the largest NBFC group, constituting 80.7 per cent of total assets/liabilities of all NBFCs at end-March 2006, followed by equipment leasing companies (9.8 per cent), investment companies (4.5 per cent) and loan companies (3.9 per cent) (Table V.16).

Deposits

Profile of Public Deposits of Different Categories of NBFCs

5.56 Public deposits held by all groups of NBFCs declined during 2005-06. The decline, however, was relatively of lower order in the case of hire purchase companies as a result of which the share of public deposit held by hire purchase companies in total public deposits of NBFCs increased from 61.7 per cent in 2004-05 to 76.5 per cent in 2005-06. Other NBFC groups held a small share of public deposits (Table V.17).

Size-wise Classification of NBFC Deposits

5.57 Deposits held by NBFCs range from less than Rs.0.5 crore to above Rs.50 crore. The number of NBFCs and deposits held by NBFCs in all sizes of deposits declined during 2005-06. However, despite the decline in number of NBFCs in the deposit size of 'Rs.50 crore and above', the share of deposits held by NBFCs in this range increased. Seventeen NBFCs with deposit size of 'Rs.20 crore and above' held almost 80 per cent of total deposits,

Table V.16: Major Components of Liabilities of NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March					
	Liabilities		Deposits		Borrowings	
	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7
1. Equipment Leasing	4,727 (13.1)	3,489 (9.8)	343 (8.7)	153 (5.8)	3,112 (13.5)	2,306 (9.8)
2. Hire Purchase	20,500 (56.9)	28,682 (80.7)	2,423 (61.7)	2,039 (76.4)	13,385 (58.1)	19,516 (82.6)
3. Investment	1,890 (5.2)	1,610 (4.5)	94 (2.4)	81 (3.0)	1,092 (4.7)	697 (2.9)
4. Loan	6,964 (19.3)	1,377 (3.9)	205 (5.2)	77 (2.9)	4,656 (20.2)	1,035 (4.4)
5. Others	1,922 (5.3	404 (1.1)	861 (21.9)	317 (11.9)	799 (3.5)	86 (0.4)
Total (1 to 5)	**36,003** **(100.0)**	**35,561** **(100.0)**	**3,926** **(100.0)**	**2,667** **(100.0)**	**23,044** **(100.0)**	**23,641** **(100.0)**

Note : Figures in brackets represent percentages to total.

while the remaining 446 companies held around 20 per cent of total public deposits (Table V.18).

Region-wise Composition of Deposits held by NBFCs

5.58 Deposits held by NBFCs across all the regions declined during 2005-06. The Southern Region accounted for the largest share of deposits (77.2 per cent) at end-March 2006, followed by the Northern Region at 12.0 per cent. The Northern and Eastern Regions together held 17.5 per cent of public deposits, while the North-Eastern Regions did not hold any deposits (Table V.19).

Interest Rate and Maturity Pattern of Public Deposits with NBFCs

5.59 Deposits contracted by NBFCs for all ranges of interest rates declined during 2005-06.

Table V.17: Public Deposits held by NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation	
	Number of NBFCs		Public Deposits			
	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7
1. Equipment Leasing	40	35	343 (8.7)	153 (5.7)	-0.3	-55.4
2. Hire Purchase	336	312	2,423 (61.7)	2,039 (76.5)	-18.2	-15.8
3. Investment	5	5	94 (2.4)	81 (3.0)	-12.3	-12.9
4. Loan	69	34	205 (5.2)	77 (2.9)	15.2	-62.4
5. Others*	250	77	861 (21.9)	317 (11.9)	18.4	-63.2
Total (1 to 5)	**700**	**463**	**3,926** **(100.0)**	**2,667** **(100.0)**	-9.1	-32.1

* : Including Miscellaneous Non-Banking Companies, unregistered and umnnotified *Nidhis*.
Note : Figures in brackets are percentages to total.

Table V.18: 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	
	2005	2006	2005	2006
1	2	3	4	5
1. Less than Rs.0.5 crore	368	264	43 (1.1)	37 (1.4)
2. More than Rs.0.5 crore and up to Rs.2 crore	197	120	195 (5.0)	116 (4.3)
3. More than Rs.2 crore and up to Rs.10 crore	84	48	375 (9.6)	201 (7.5)
4. More than Rs.10 crore and up to Rs.20 crore	18	14	265 (6.7)	196 (7.3)
5. More than Rs.20 crore and up to Rs.50 crore	18	6	601 (15.3)	199 (7.5)
6. Rs.50 crore and above	15	11	2,447 (62.3)	1,917 (71.9)
Total (1 to 6)	**700**	**463**	**3,926 (100.0)**	**2,667 (100.0)**

Note : Figures in brackets are percentages to total deposits.

Deposits contracted up to 10 per cent rate of interest constituted 83.4 per cent of total deposits at end-March 2006 (Table V.20).

The Maturity Pattern of Public Deposits

5.60 Deposits contracted in all maturity ranges declined during the year. The decline was more pronounced in deposits in the maturity bucket of 'more than 2 and up to 3 years'. As a result, their share in total deposits declined sharply, while those of other maturity buckets increased at end-March 2006 (Table V.21).

5.61 The spread between the maximum interest rate on public sector bank deposits of 'one to three year' maturity and the interest rate offered by

Table V.19: Public Deposits held by Reported NBFCs – Region-wise

(Amount in Rs. crore)

Region	2004-05		2005-06	
	Number	Amount	Number	Amount
1	2	3	4	5
1. Northern	200	351 (8.9)	190	321 (12.0)
2. North-Eastern	0	0 (0.0)	1	– (-)
3. Eastern	15	178 (4.5)	11	148 (5.5)
4. Central	72	92 (2.4)	62	34 (1.3)
5. Western	32	280 (7.1)	27	104 (3.9)
6. Southern	381	3,024 (77.0)	172	2,060 (77.2)
Total (1 to 6)	**700**	**3,926**	**463**	**2,667**
Metropolitan cities:				
1. Mumbai	15	268	13	94
2. Chennai	328	2,771	130	1,953
3. Kolkata	11	158	9	134
4. New Delhi	80	265	69	237
Total (1 to 4)	**434**	**3,463**	**221**	**2,418**

– : Nil/Negligible.
Note : Figures in brackets are percentages to total.

Table V.20: Distribution of Public Deposits of NBFCs According to Rate of Interest
(As at end-March)

(Amount in Rs. crore)

Interest Range	2005	2006
1	2	3
1. Up to10 per cent	2,696 (68.7)	2,224 (83.4)
2. More than 10 per cent and up to 12 per cent	853 (21.7)	310 (11.6)
3. More than 12 per cent and up to 14 per cent	196 (5.0)	51 (1.9)
4. More than 14 per cent and up to 16 per cent	125 (3.2)	57 (2.1)
5. 16 per cent and above	56 (1.4)	26 (1.0)
Total (1 to 5)	**3,926 (100.0)**	**2,667 (100.0)**

Note : Figures in brackets are percentages to total.

Table V.21: Maturity Pattern of Public Deposits held by NBFCs

(Amount in Rs. crore)

Maturity Period@	As at end-March	
	2005	2006
1	2	3
1. Less than 1 year	1,208 (30.8)	1,060 (39.8)
2. More than 1 and up to 2 years	940 (24.0)	732 (27.4)
3. More than 2 and up to 3 years	1,357 (34.6)	563 (21.1)
4. More than 3 and up to 5 years	402 (10.2)	306 (11.5)
5. 5 years and above	19 (0.5)	5 (0.2)
Total (1 to 5)	**3,926 (100.0)**	**2,667 (100.0)**

@ : On the basis of residual maturity of outstanding deposits.
Note : Figures in brackets are percentages to total.

NBFCs on deposits with the same maturity widened to 4.75 per cent at end-March 2006 from 4.00 per cent at end-March 2005 (Table V.22).

Table V.22: Maximum/Ceiling Interest Rates on Banks and NBFC Deposits

(Per cent)

Item	As at end-March					
	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7
1. Maximum interest rate on public sector bank deposits of 1-3 year maturity	9.50	8.50	6.75	6.75	7.00	6.25
2. Ceiling interest rate for NBFCs	14.00	12.50	11.00	11.00	11.00	11.00
3. Spread (2-1)	4.50	4.00	4.25	4.25	4.00	4.75

Borrowings

5.62 The outstanding borrowings by NBFCs increased by 2.6 per cent during 2005-06. While borrowings by hire purchase companies increased sharply, those by all other categories of NBFCs declined. As a result, the share of borrowings by hire purchase companies in total borrowings by all NBFCs increased sharply to 82.6 per cent at end-March 2006 from 58.1 per cent at end-March 2005 (Table V.23).

5.63 Borrowings by NBFCs from banks and financial institutions and by way of debentures increased sharply by 26.5 per cent and 17.1 per cent, respectively, during 2005-06. Borrowings from external sources also grew by 21.8 per cent. However, borrowings from the Government and other sources declined sharply during 2005-06. Borrowings from the Government relates mostly to one State-owned NBFC operating in the Southern region. Borrowings by hire purchase companies increased sharply mainly on account of borrowings from banks and FIs and by way of debentures. Borrowings by equipment leasing companies from banks and FIs increased but declined sharply by way of debentures. Borrowings by loans companies from banks/FIs, debentures and others declined sharply during the year (Table V.24).

Table V.23: Borrowings by NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation
	No. of NBFCs		Total Borrowings		
	2005	2006	2005	2006	2005-06
1	2	3	4	5	6
1. Equipment Leasing	40	35	3,112 (13.5)	2,306 (9.8)	-25.9
2. Hire Purchase	336	312	13,385 (58.1)	19,516 (82.6)	45.8
3. Investment	5	5	1,092 (4.7)	697 (2.9)	-36.1
4. Loan	69	34	4,656 (20.2)	1,035 (4.4)	-77.8
5. Others	250	77	799 (3.5)	86 (0.4)	-89.2
Total (1 to 5)	**700**	**463**	**23,044 (100.0)**	**23,641 (100.0)**	**2.6**

Note : Figures in brackets are percentages to total borrowings.

Table V.24: Sources of Borrowing of NBFCs

(Amount in Rs. crore)

NBFC Group	As at end-March											
	Government		External		Banks and Financial Institutions		Debentures		Others		Total	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Equipment Leasing	–	–	190	284 (49.5)	1,252	1,402 (12.0)	1,219	338 (-72.3)	451	282 (-37.4)	3,112	2,306 (-25.9)
2. Hire Purchase	1	–	320	337 (5.4)	4,298	7,322 (70.4)	4,707	6,914 (46.9)	4,059	4,943 (21.8)	13,385	19,516 (45.8)
3. Investment	885	533 (-39.7)	–	–	10	– (-)	12	9 (-25.6)	185	155 (-16.3)	1,092	697 (-36.1)
4. Loan	86	–	–	–	1,377	68 (-95.0)	1,038	910 (-12.4)	2,155	57 (-97.3)	4,656	1,035 (-77.8)
5. Others	–	–	–	–	17	4 (-76.5)	–	– (-)	782	82 (-89.5)	799	86 (-89.2)
Total (1 to 5)	**972**	**533 (-45.2)**	**510**	**621 (21.8)**	**6,954**	**8,796 (26.5)**	**6,976**	**8,171 (17.1)**	**7,632**	**5,519 (-27.7)**	**23,044**	**23,641 (2.6)**

– : Nil/Negligible.
Note: Figures in brackets are percentage variations over the previous year.

Table V.25: Major Components of Assets of NBFCs – Group-wise

(As at end-March)

(Amount in Rs. crore)

NBFC Group	Assets		Advances		Investment	
	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7
1. Equipment Leasing	4,727 (13.1)	3,489 (9.8)	3,877 (13.1)	3,142 (10.2)	333 (8.4)	365 (10.2)
2. Hire Purchase	20,500 (56.9)	28,682 (80.7)	18,670 (63.2)	25,527 (83.0)	1,288 (32.6)	2,014 (56.1)
3. Investment	1,890 (5.2)	1,610 (4.5)	1,061 (3.6)	620 (2.0)	788 (19.9)	968 (27.0)
4. Loan	6,964 (19.3)	1,377 (3.9)	4,785 (16.2)	1,204 (3.9)	1,033 (26.1)	126 (3.5)
5. Others@	1,922 (5.3)	404 (1.1)	1,149 (3.9)	265 (0.9)	515 (13.0)	116 (3.2)
Total (1 to 5)	**36,003 (100.0)**	**35,561 (100.0)**	**29,542 (100.0)**	**30,757 (100.0)**	**3,957 (100.0)**	**3,589 (100.0)**

@ : Includes *Nidhis*, MNBCs and MBCs.
Note : Figures in brackets are percentages to total.
Source : Annual returns of reporting NBFCs.

Assets of NBFCs

5.64 The assets of all groups of NBFCs declined during 2005-06, while those of hire purchase companies increased sharply. Hire purchase companies accounted for the largest share (80.7 per cent) of assets of NBFCs, followed distantly by equipment leasing companies (9.8 per cent), investment companies (4.5 per cent) and loan companies (3.9 per cent). This broadly reflected the pattern of advances, which constituted the largest item of assets of NBFCs. Investments by NBFCs declined during the year ended March 2006. This was mainly due to a sharp fall in investments by loan companies. Investments by equipment companies, hire purchase companies and investment companies increased during the year (Table V.25).

Distribution of NBFCs According to Asset Size

5.65 The asset size of NBFCs varies significantly from less than Rs.25 lakh to above Rs.500 crore. The decline in the number of reporting companies (from 700 at end-March 2005 to 463 at end-March 2006) was on account of a decline in the number of companies in all asset ranges. The asset holding pattern continued to remain skewed. Twenty four NBFCs with asset size of 'Rs.100 crore and above' held 92.7 per cent of total assets of all NBFCs, while the remaining 439 NBFCs held less than 8 per cent of total assets at end-March 2006 (Table V.26).

Table V.26: Non-Banking Financial Companies According to Asset Size

(Amount in Rs. crore)

Asset size	As at end-March			
	No. of reporting companies		Assets	
	2005	2006	2005	2006
1	2	3	4	5
1. Less than 0.25	63	29	7 (-)	3 (-)
2. More than 0.25 and up to 0.50	66	34	24 (0.1)	12 (-)
3. More than 0.50 and up to 2	258	187	284 (0.8)	219 (0.6)
4. More than 2 and up to 10	185	132	816 (2.3)	597 (1.7)
5. More than 10 and up to 50	77	49	1,865 (5.2)	1,185 (3.3)
6. More than 50 and up to 100	18	8	1,216 (3.4)	584 (1.6)
7. More than 100 and up to 500	16	11	3,119 (8.7)	1,920 (5.4)
8. Above 500	17	13	28,672 (79.6)	31,042 (87.3)
Total (1 to 8)	**700**	**463**	**36,003 (100.0)**	**35,561 (100.0)**

– : Nil/Negligible.
Note : Figures in brackets are percentages to total.

Distribution of Assets of NBFCs – Type of Activity

5.66 Assets held in the form of hire purchase increased sharply by 38.1 per cent, while those held in other business activities declined. Assets held in the hire purchase activity accounted for the largest share (55.9 per cent), followed by loans and inter-corporate deposits (25.9 per cent), investments (10.1 per cent) and equipment leasing (1.7 per cent) (Table V.27).

NBFCs and Micro-Finance

5.67 As on March 31, 2006, ten non-deposit taking NBFCs were undertaking micro-finance activity, *viz.*, financing self-help-groups (SHGs). These micro-finance institutions (MFIs) financed 2,49,042 SHGs with outstandings aggregating Rs.459 crore as on March 31, 2006 as against 1,39,292 SHGs involving Rs.178 crore as on March 31, 2005. During 2005-06, the MFIs assisted 1,37,082 SHGs (43,606 in 2004-05) with disbursements aggregating Rs.1,084 crore (Rs.571 crore in 2004-05), registering a growth of 89.8 per cent.

Financial Performance of NBFCs

5.68 Financial performance of NBFCs suffered a set back during 2005-06. While income earned by NBFCs declined marginally, expenditure increased sharply. As a result, operating profit and net profit declined sharply. This also reflected to a large extent, the sharp deterioration in the cost to income ratio (90.3 per cent in 2005-06 from 79.8 per cent in 2004-05) (Table V.28).

5.69 During 2002-03 and 2003-04, while income as percentage of assets generally remained unchanged, expenditure (including provisions) declined, resulting in a rise in net profits to asset ratio. This trend, however, was arrested in 2004-05 and reversed in 2005-06 (Chart V.3).

Table V.27: Distribution of Assets of NBFCs – Activity-wise

(Amount in Rs. crore)

Activity	As at end-March		Percentage Variation	
	2005	2006	2004-05	2005-06
1	2	3	4	5
1. Loans and Inter-corporate deposits	12,749 (35.4)	9,199 (25.9)	3.1	-27.8
2. Investments	3,957 (11.0)	3,589 (10.1)	3.6	-9.3
3. Hire Purchase	14,400 (40.0)	19,893 (55.9)	23.6	38.1
4. Equipment and Leasing	790 (2.2)	622 (1.7)	-29.2	-21.3
5. Bills	471 (1.3)	45 (0.1)	8.0	-90.5
6. Other assets	3,636 (10.1)	2,214 (6.2)	7.7	-39.1
Total (1 to 6)	**36,003 (100.0)**	**35,561 (100.0)**	**9.9**	**-1.2**

Note: Figures in brackets are percentages to total.

Table V.28: Financial Performance of NBFCs

(Amount in Rs. crore)

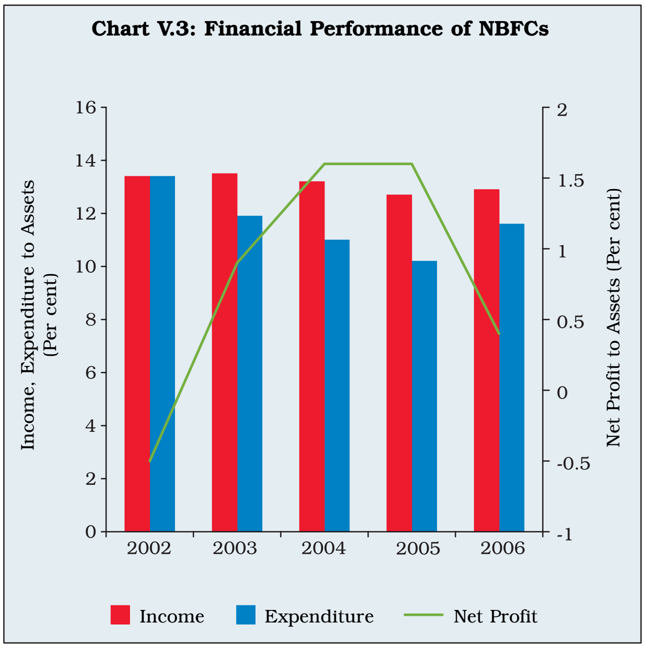
Item	2004-05	2005-06	Percentage Variation 2004-05	Percentage Variation 2005-06
1	2	3	4	5
A. Income (i+ii)	**4,582 (100.0)**	**4,578 (100.0)**	**5.8**	**-0.1**
i) Fund based	4,208 (91.8)	4,433 (96.8)	5.1	5.3
ii) Fee-based	374 (8.2)	145 (3.2)	14.4	-61.2
B. Expenditure (i+ii)	**3,657 (100.0)**	**4,134 (100.0)**	**1.0**	**13.0**
i) Financial	2,168 (59.3)	2,174 (52.6)	3.3	0.3
of which:				
Interest Payments	783 (21.4)	– (-)	-11.8	–
ii) Operating	1,489 (40.7)	1,960 (47.4)	-31.4	31.6
C. Tax Provisions	**353**	**291**	**96.1**	**-17.6**
D. Operating Profit (PBT)	**924**	**443**	**30.0**	**-52.1**
E. Net Profit (PAT)	**572**	**152**	**7.7**	**-73.4**
F. Total Assets	**36,003**	**35,561**	**9.9**	**-1.2**
G. Financial Ratios*				
i) Income	12.7	12.9		
ii) Fund Income	11.7	12.5		
iii) Fee Income	1.0	0.4		
iv) Expenditure	10.2	11.6		
v) Financial Expenditure	6.0	6.1		
vi) Operating Expenditure	4.1	5.5		
vii) Tax Provision	1.0	0.8		
viii) Net Profit	1.6	0.4		
H. Cost to Income Ratio	**79.8**	**90.3**		

* : As percentage to total assets.
– : Nil / Negligible.
Note: Figures in brackets are percentages to the respective total.

Soundness Indicators

Asset Quality of NBFCs

5.70 Gross NPAs (as percentage of gross advances) as well as net NPAs (as percentage of



net advances) of reporting NBFCs registered a sharp decline during the year ended March 2006 (Table V.29).

5.71 Gross and net NPAs of equipment leasing and hire purchase companies declined during 2005-06, while those of loan companies increased sharply (Table V.30).

Table V.29: Non-Performing Assets of NBFCs*

(per cent)

End-March	Gross NPAs to Gross Advances	Net NPAs to Net Advances
1	2	3
2001	11.5	5.6
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	2.4	0.4

* : Excluding MBFCs, MBCs and MNBCs.

5.72 NPAs in 'sub-standard' and 'doubtful' category, both in absolute and percentage terms, in respect of equipment leasing companies and hire purchase declined, while those of loan companies increased sharply (Table V.31).

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

Table V.30: 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 Risk Weighted Assets		Amount	Per cent to Net Advances	Per cent to Risk Weighted Assets
1	2	3	4	5	6	7	8	9
Equipment Leasing								
2004	3,306	582	17.6	13.3	3,067	344	11.2	7.8
2005	4,187	514	12.3	11.0	4,018	345	8.6	7.4
2006	2,846	64	2.2	2.1	2,767	-16	-0.6	-0.5
Hire Purchase								
2004	10,437	942	9.0	7.3	9,748	253	2.6	2.0
2005	15,900	610	3.8	3.6	15,544	253	1.6	1.5
2006	21,984	421	1.9	1.8	21,628	64	0.3	0.3
Investment								
2004	63	15	23.8	2.6	55	7	12.7	1.2
2005	58	10	17.2	1.8	58	10	17.2	1.8
2006	59	–	–	–	59	–	–	–
Loan								
2004	2,038	142	7.0	4.1	1,833	-63	-3.4	-1.8
2005	1,955	117	6.0	5.1	1,772	-65	-3.7	-2.8
2006	549	135	24.6	11.0	474	60	12.6	4.9

– : Nil/Negligible.

Source : Half-yearly returns of reporting NBFCs.

Table V.31: Classification of Assets of NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group/ End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Gross NPAs		Gross Advances
	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											
2004	2,724	82.4	396	12.0	84	2.5	102	3.1	582	17.6	3,306
2005	3,673	87.7	383	9.2	91	2.2	39	0.9	514	12.3	4,187
2006	2,782	97.8	10	0.4	20	0.7	33	1.2	64	2.2	2,845
Hire Purchase											
2004	9,495	91.0	613	5.9	103	1.0	226	2.2	942	9.0	10,437
2005	15,290	96.2	386	2.4	130	0.8	94	0.6	610	3.8	15,900
2006	21,564	98.1	307	1.4	29	0.1	84	0.4	421	1.9	21,984
Investment											
2004	48	75.8	–	–	10	15.3	6	8.9	15	23.8	63
2005	48	82.0	1	1.1	10	16.7	–	–	10	17.2	58
2006	59	100.0	–	–	–	–	–	–	–	–	59
Loan											
2004	1,896	93.0	40	2.0	20	1.0	82	4.0	142	7.0	2,038
2005	1,837	94.0	14	0.7	42	2.2	61	3.1	117	6.0	1,955
2006	414	75.4	18	3.3	80	14.6	37	6.7	135	24.6	549

– : Nil/Negligible.

Source : Half-yearly returns of reporting NBFCs.

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, cannot exceed 100 per cent of Tier I capital. The number of NBFCs with less than the minimum regulatory CRAR of 12 per cent declined to 19 at end-March 2006 from 64 at end-March 2005 (Table V.32). At end-March 2006, 303 out of 322 NBFCs had CRAR of 12 per cent or more as against 349 out of 413 NBFCs at end-March 2005. Number of NBFCs

Table V.32: Capital Adequacy Ratio of NBFCs*

(Amount in Rs. crore)

Range	As at end-March							
	2005				2006			
	EL	HP	LC/IC	Total	EL	HP	LC/IC	Total
1	2	3	4	5	6	7	8	9
1. Less than 9 per cent	4	53	6	63	6	10	3	19
2. More than 9 per cent but less than 12 per cent	0	1	0	1	–	–	–	–
3. Less than 12 per cent (1+2)	4	54	6	64	6	10	3	19
4. 12 per cent but less than 15 per cent	0	1	1	2	–	3	–	3
5. 15 per cent but less than 20 per cent	3	19	4	26	–	10	–	10
6. 20 per cent but less than 30 per cent	6	32	3	41	5	30	3	38
7. 30 per cent and above	28	219	33	280	22	211	19	252
Total (3 to 7)	**41**	**325**	**47**	**413**	**33**	**264**	**25**	**322**

– : Nil/Negligible. * : Excluding RNBCs, MBCs and MNBCs.

Note : 1. EL - Equipment Leasing.
2. HP - Hire Purchase.
3. LC/IC - Loan Companies/Investment Companies.

Table V.33: Net Owned Fund *vis-à-vis* Public deposits of NBFCs* – Group-wise

(Amount in Rs. crore)

NBFC Group	Net Owned Funds		Public Deposits		Ratio of Public Deposits to Net Owned Funds	
	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7
1. Equipment Leasing	430	553	343	153	0.8	0.3
2. Hire Purchase	2,521	3,896	2,423	2,039	1.0	0.5
3. Investment	662	766	94	81	0.1	0.1
4. Loan	1,052	128	205	77	0.2	0.6
5. Others	371	138	861	317	2.3	2.3
Total (1 to 5)	**5,036**	**5,481**	**3,926**	**2,667**	**0.8**	**0.5**

* : Including MBFCs, MBCs and MNBCs.

with CRAR more than 30 also declined to 252 at end-March 2006 from 280 at end-March 2005.

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 losses, (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 about NOFs can complement the information on CRAR. The ratio of public deposits to NOF in respect of equipment leasing and hire purchase companies declined during the year ended March 2006, while that of loan companies increased. The ratio of public deposit to NOF for all NBFCs was 0.5 per cent at end-March 2006 as compared with 0.8 per cent at end-March 2005 (Table V.33).

5.75 Net owned fund of NBFCs range from less than Rs.25 lakh to above Rs.500 crore. Public deposits, as multiple of NOF, increased for 'more than Rs.10 crore and up to Rs.50 crore', but declined in other ranges. Public deposits as multiple of NOF was lowest in the case NBFCs with NOF range of 'above Rs.500 crore' (Table V.34).

Residuary Non-Banking Companies (RNBCs)

5.76 Assets of three RNBCs increased by 14.9 per cent during the year ended March 2006. Their assets in the form of fixed deposits with banks

Table V.34: Range of Net Owned Fund *vis-à-vis* Public Deposits of NBFCs*

(Amount in Rs. crore)

Range of NOF	As at end-March							
	2005				2006			
	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
1. Up to 0.25	154	-714	587	–	54	-512	128	–
2. More than 0.25 and up to 2	396	252	472	1.9	295	210	221	1.1
3. More than 2 and up to 10	99	425	394	0.9	76	333	263	0.8
4. More than10 and up to 50	32	716	490	0.7	23	535	519	1.0
5. More than 50 and up to 100	5	381	158	0.4	3	224	5	–
6. More than 100 and up to 500	12	2595	1067	0.4	8	1,981	875	0.4
7. Above 500	2	1381	758	0.5	4	2,709	658	0.2
Total (1 to 7)	**700**	**5,036**	**3,926**	**0.8**	**463**	**5,481**	**2,667**	**0.5**

– : Nil/Negligible.
* : Including MBFCs, MBCs and MNBCs.

and unencumbered approved securities increased sharply, while those in bonds/debentures and other investments increased by 3.8 per cent and 1.2 per cent, respectively. Net owned funds of RNBCs increased by 11.1 per cent during 2005-06 (Table V.35).

5.77 The increase in income of RNBCs during 2005-06 was more than the increase in expenditure, as a result of which the operating profit of RNBCs increased. This combined with the sharp decline in tax provisions resulted in a sharp increase in net profit.

Regional Pattern of Deposits of RNBCs

5.78 Of the three RNBCs, two are based in the Eastern region (Kolkata) and one in the Central region. While public deposits held by RNBCs in the Eastern region declined during the year ended March 2006, those held in the Central region increased significantly. Of the four metropolitan cities, RNBCs held public deposits from only one metropolitan city, *i.e.*, Kolkata (Table V.36).

Investment Pattern of RNBCs

5.79 The investment pattern of RNBCs as prescribed in the Residuary Non-Banking (Reserve Bank) Directions, 1987 was reviewed and modified on March 31, 2006. The aggregate liabilities to depositors (ALD) was bifurcated under two heads, *viz.*, aggregate liability to depositor (ALD) as on December 31, 2005 and incremental ALD. Incremental ALDs are the liabilities to the depositors exceeding the aggregate amount of the liabilities to the depositors as on December 31, 2005. RNBCs were advised to invest, with effect from April 1, 2006 not less than 95 per cent of the ALD as on December 31, 2005 and entire incremental ALD in the prescribed manner. It was also advised that on and from April 1, 2007, the

Table V.35: Profile of Residuary Non-Banking Companies (RNBCs)

(Amount in Rs. crore)

Item	As at end-March		Variation – 2005-06	
	2005	2006	Absolute	Per cent
1	2	3	4	5
A. Assets (i to v)	**19,057**	**21,891**	**2,834**	**14.9**
(i) Unencumbered approved securities	2,037	2,346	309	15.2
(ii) Fixed deposits with banks	4,859	6,070	1,211	24.9
(iii) Bonds or debentures or commercial papers of a Government companies/ public sector bank/ public financial institution/ corporations	9,225	9,577	352	3.8
(iv) Other investments	1,639	1,658	19	1.2
(v) Other assets	1,297	2,240	943	72.7
B. Net Owned Funds	**1,065**	**1,183**	**118**	**11.1**
C. Total Income (i to ii)	**1,532**	**1,620**	**88**	**5.7**
(i) Fund Income	1,530	1,616	86	5.6
(ii) Fee Income	2	3	1	50.0
D. Total Expenses (i to iii)	**1,396**	**1,439**	**43**	**3.1**
(i) Financial Cost	1,176	1,165	-11	-0.9
(ii) Operating Cost	146	159	13	8.9
(iii) Other cost	74	115	41	55.4
E. Provision for Taxation	**48**	**22**	**-26**	**-54.2**
F. Operating Profit (PBT)	**136**	**180**	**44**	**32.4**
G. Net profit (PAT)	**88**	**158**	**70**	**79.5**

Note : 1. PBT - Profit before tax.
2. PAT - Profit after tax.

Table V.36: Public Deposits held by RNBCs – Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2005		2006	
	No.	Amount	No.	Amount
1	2	3	4	5
1. Northern	–	–	–	–
2. North-Eastern	–	–	–	–
3. Eastern	2	5,070 (30.5)	2	4,614 (22.9)
4. Central	1	11,530 (69.5)	1	15,561 (77.1)
5. Western	–	–	–	–
6. Southern	–	–	–	–
Total (1 to 6)	**3**	**16,600 (100.0)**	**3**	**20,175 (100.0)**
Metropolitan cities				
1. Mumbai	–	–	–	–
2. Chennai	–	–	–	–
3. Kolkata	2	5,070	2	4,614
4. New Delhi	–	–	–	–
Total (1 to 4)	**2**	**5,070**	**2**	**4,614**

– : Nil/Neglible.
Note : Figures in brackets are percentages to total.

entire amount of ALD would be invested in directed investments only and no discretionary investment would be allowed to be made by RNBCs.

5.80 ALDs increased by 21.5 per cent during 2005-06. The pattern of deployment of ALDs remained broadly unchanged during 2005-06 (Table V.37).

NBFCs not Accepting Public Deposits and with Assets Size of Rs.100 crore and Above

5.81 As alluded to in the introductory part of this Chapter, NBFCs with an asset size of Rs.100 crore and above are required to submit a monthly return from September 2005. Information based on the returns received from 149 NBFCs with asset size of Rs.100 crore and above for the quarter ended June 2006 showed an increase of 8.9 per cent in their liabilities/assets. Unsecured loans constituted the single largest source of funds for large sized NBFCs, followed by secured loans (Table V.38).

Borrowings

5.82 Borrowings constitute the single most important source of funds for large sized NBFCs. Total borrowing (secured and unsecured) by NBFCs increased by 5.4 per cent to Rs.1,83,956 crore during the quarter ended June 2006, constituting 67.4 per cent of their total liabilities (Table V.39).

Table V.37: Investment Pattern of Residuary Non-Banking Companies

(Amount in Rs. crore)

Item	End-March		Per cent to ALDs	
	2005	2006	2005	2006
1	2	3	4	5
A. Aggregate Liabilities to the Depositors (ALD)	**16,600**	**20,175**	**100.0**	**100.0**
B. Investments (i to iv)	**17,759**	**19,651**	**107.0**	**97.4**
of which:				
i) Unencumbered approved securities	2,036	2,346	12.3	11.6
ii) Fixed Deposits with banks	4,859	6,070	29.3	30.1
iii) Bonds or debentures or commercial papers of Government companies/ public sector banks/public financial institutions/ corporations including additional investment in Government securities	9,225	9,577	55.6	47.5
iv) Other investments	1,639	1,658	9.9	8.2

Table V.38: Liabilities of Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2006		June 2006	
	Amount	Per cent to total Assets	Amount	Per cent to total Assets
1	2	3	4	5
Total Liabilities	**2,50,765**	**100.0**	**2,73,149**	**100.0**
of which:				
i) Paid up Capital	17,548	7.0	17,340	6.3
ii) Preference Shares	1,633	0.7	1,682	0.6
iii) Reserve and Surplus	39,100	15.6	42,903	15.7
iv) Secured Loans	71,509	28.5	71,769	26.3
v) Unsecured Loans	1,03,086	41.1	1,12,187	41.1

* : NBFCs not accepting public deposits with asset size of Rs.100 crore and above.

Table V.39: Borrowings by Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2006		June 2006	
	Amount	Per cent to total Borrowings	Amount	Per cent to total Borrowings
1	2	3	4	5
A) Secured borrowings (i to vi)	**71,509**		**71,769**	
i) Debentures	39,179	22.4	24,405	13.3
ii) Deferred Credit	–	–	–	–
iii) Term Loan from Banks	16,116	9.2	15,875	8.6
iv) Term Loan from FIs	6,997	4.0	6,568	3.6
v) Others	8,612	4.9	24,434	13.3
vi) Interest accrued	604	0.3	487	0.3
B) Unsecured borrowings (i to viii)	**1,03,086**		**1,12,187**	
i) Loans from Relatives	1,639	0.9	3,129	1.7
ii) ICDs	19,459	11.1	21,225	11.5
iii) Loans from Banks	28,276	16.2	27,392	14.9
iv) Loans from FIs	3,703	2.1	3,677	2.0
v) Commercial Paper	13,123	7.5	15,409	8.4
vi) Debentures	20,788	11.9	20,763	11.3
vii) Others	15,402	8.8	19,961	10.9
viii) Loans Interest accrued	697	0.4	630	0.3
Total Borrowings (A+B)	**1,74,595**	**100.0**	**1,83,956**	**100.0**
Memo:				
Total Liabilities	**2,50,765**	**69.6**	**2,73,149**	**67.4**

– : Nil /Negligible.

* : NBFCs not accepting public deposits with asset size of Rs.100 crore and above.

Application of Funds

5.83 Application of funds by large sized NBFCs underwent a significant change during the quarter ended June 2006. While the share of secured loans increased significantly, that of unsecured loans declined (Table V.40).

Table V.40: Select Indicators on Application of Funds by NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2006		June 2006	
	Amount	Per cent to total application of funds	Amount	Per cent to total application of funds
1	2	3	4	5
1. Secured Loans	63,120	29.2	89,441	37.0
2. Unsecured Loans	82,996	38.4	70,809	29.3
3. Hire Purchase	22,613	10.5	23,202	9.6
4. Long-term Investment	30,817	14.3	32,763	13.5
5. Current Investment	16,665	7.7	25,627	10.6
Total (1 to 5)	**2,16,211**	**100.0**	**2,41,842**	**100.0**
Memo Items:				
Capital Market Exposure	59,583	27.6	68,053	28.1
of which:				
Equity Market	27,467	12.7	29,321	12.1

* : NBFCs not accepting public deposits with assets size of Rs.100 crore and above.

Financial Performance

5.84 Large NBFCs earned a sizeable profit of Rs.2,682 crore during the quarter ended June 2006, which was 62.4 per cent of the profit earned during the whole of 2005-06 (Table V.41).

Table V.41: Financial Performance of Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2006		June 2006	
	Amount	Per cent to total Assets	Amount	Per cent to total Assets
1	2	3	4	5
Total Assets	2,50,765	100.0	2,73,149	100.0
Total Income	18,342	7.3	7,640	2.8
Total Expenses	11,874	4.7	3,900	1.4
Net Profit	4,301	1.7	2,682	1.0

* : NBFCs not accepting public deposits with asset size of Rs.100 crore and above.

5.85 Gross and net NPAs of large sized NBFCs constituted 2.5 per cent and 1.3 per cent of total assets, respectively, at end-June 2006 (Table V.42).

4. Primary Dealers

5.86 Primary Dealers (PDs) have been operating in India since 1996. PDs mainly deal in Government securities and support the borrowing programme of the Central Government and the State Governments. PDs are an important constituent of the financial system in view of their key role in Government securities market, especially the primary market and participation in the money market. As at end-March 2006, 17 PDs were operating in India. Five banks, *viz*., Citibank N.A., Standard Chartered Bank, HSBC Bank, Bank of America and J.P. Morgan Chase Bank have been permitted to take over the primary dealership business of their group entities.

Table V.42: Gross and Net NPAs of Large Sized NBFCs*

(Per cent)

Item	End-March 2006	End-June 2006
1	2	3
1. Gross NPAs to Total Assets	4.3	2.5
2. Net NPAs to Total Assets	1.5	1.3
3. Gross NPAs to Total Credit Exposure	7.0	5.0
4. Net NPAs to Total Credit Exposure	3.2	1.9

* : NBFCs not accepting public deposits with assets size of Rs.100 crore and above.

Policy Developments

5.87 Several policy initiatives were undertaken by the Reserve Bank to strengthen and diversify the PD system. Banks, both Indian and foreign, which fulfill certain eligibility criteria, were permitted to undertake PD business departmentally. With the Reserve Bank precluded from participating in primary auctions in Government of India securities from April 1, 2006, the system of bidding commitment was revamped with a system of underwriting commitment for PDs (Box V.2).

Box V.2: Revised Scheme of Underwriting Commitment for PDs

In terms of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank of India's participation in the primary issues of Government securities stands withdrawn with effect from April 1, 2006, except under exceptional circumstances. To address the emerging needs, an internal Technical Group on Central Government Securities Market was constituted in December 2004, which submitted its report in July 2005. The Group recommended restructuring of the current institutional process of bidding commitments by introducing a revised methodology for PDs' obligations in the primary issuance process. In line with the recommendations of the Group and keeping in view the discussions with the market participants, a revised scheme of underwriting was formulated in April 2006. PDs are required to meet underwriting commitment under the revised scheme instead of the earlier requirements of bidding commitment and voluntary underwriting. The underwriting commitment is divided into two parts, *viz;* i) minimum underwriting commitment (MUC), and ii) additional competitive underwriting (ACU). The MUC of each PD is computed to ensure that at least 50 per cent of each issue is mandatorily covered by the aggregate amount of MUC of PDs. The MUC is uniform for all PDs, irrespective of their capital or balance sheet size. Given that there are 17 PDs at present, each PD will be deemed to underwrite about 3 per cent of the notified amount of each auction as MUC. The remaining portion of the notified amount is open to competitive underwriting through underwriting auctions. Each PD is required to bid in the ACU for a minimum of 3.0 per cent and not more than 30 per cent of the notified amount. All successful bidders in the ACU auction get commission as per the auction rules. Those PDs, who succeed in the ACU for 4.0 per cent and above of the notified amount of the issue, get commission on their MUC (about 3.0 per cent) at the weighted average of all the accepted bids in the ACU. Others get commission at the weighted average rate of the three lowest bids in the ACU on 3.0 per cent in MUC.

Box V.3: Diversification of Activities by Stand Alone Primary Dealers – Operational Guidelines

PDs were permitted to diversify their activities, as considered appropriate, in addition to their existing business of Government securities from July 4, 2006, subject to specific conditions. The salient features of the guidelines are: (i) PDs desirous of diversifying their activities should have a minimum net owned funds (NOF) of Rs.100 crore as against Rs.50 crore for a PD, which does not propose to diversify its activities; (ii) The eligible PDs may bifurcate their operations into core activities and non-core activities. The core activities should involve dealing in Government securities and other fixed income securities and the non-core activities of PDs may include investment/ trading in equity/units of equity oriented mutual funds/ advisory services/merchant banking and other specified activities. However, all PDs are required to ensure predominance of investment in Government securities business by maintaining at least 50 per cent of their total financial investments (both long-term and short-term) in Government securities at any point of time; (iii) The exposure to non-core activities shall be subject to risk capital allocation. PDs may calculate the capital charge for market risk on the stock positions/underlying stock positions/units of equity oriented mutual funds using Internal Models (VaR based) based on the prescribed Reserve Bank guidelines. The capital charge for market risk so calculated should not be more than 20 per cent of the NOF as per the last audited balance sheet; and (iv) PDs are not permitted to set up step-down subsidiaries. PDs that already have step-down subsidiaries (in India and abroad) may restructure the ownership pattern of such subsidiaries. If the PD is a subsidiary of a holding company, the step-down subsidiary of the PD may become another direct subsidiary of the holding company. In case the PD itself is a holding company, then the step-down subsidiary may take up the PD activity and the holding entity may take up activities other than those permitted for PDs. The restructuring, as above, should be completed within a period of six months.

5.88 With a view to allowing stand alone PDs to generate alternate streams of income, they were allowed to diversify their activities (Box V.3).

Operations and Performance of PDs

5.89 The aggregate bidding commitments of PDs for Treasury bill auctions during 2005-06 were fixed at 125.0 per cent of the total issuances of Rs.80,044 crore. Against their aggregate commitment, PDs bid for Rs.1,81,499 crore, *i.e.*, 226.7 per cent of the issues. Of these, Rs.60,115 crore bids were accepted. In the case of dated Government securities, PDs made a bid for Rs.1,46,885 crore, including non-competitive bids of Rs.621 crore, against bidding commitment of Rs.99,100 crore. The success ratio achieved by PDs during the year was 42.1 per cent. As underwriters, PDs offered to underwrite Rs.1,43,536 crore of the primary issues during the year, out of which bids for Rs.90,590 crore were accepted. No amount devolved on PDs during the year.

5.90 The share of total primary market purchases by PDs in Treasury Bills auctions (including MSS) was lower during 2005-06 at 34.0 per cent as against 63.0 per cent during 2004-05. For dated securities, the PDs' share in primary market purchase was marginally higher at 48.0 per cent during the year as compared with 47.0 per cent in the previous year.

5.91 The secondary market turnover of Treasury Bills and Government dated securities (both outright and repo) traded by PDs amounted to Rs.4,45,961 crore and Rs.15,28,148 crore, respectively, constituting 29.4 per cent and 22.4 per cent, respectively, of the market turnover.

Sources and Application of Funds

5.92 The financial position of PDs increased significantly (17.1 per cent) during the year ended March 2006 in contrast to the sharp decline (30.5 per cent) in the previous year. Net owned funds of PDs increased by 7.8 per cent despite a decline in capital. Loans, as a source of funds, increased sharply. On the deployment side, while investments in Government securities registered a moderate decline, that in commercial paper registered a significant increase (Table V.43). The share of Government securities and Treasury Bills in total assets of PDs declined to 60.9 per cent at end-March 2006 from 71.5 per cent at end-March 2005 (Table V.44 and Appendix Table V.5).

5.93 PDs continued to remain adequately capitalised. The CRAR of PDs at 53.9 per cent at end-March 2006 was much in excess of the stipulated minimum of 15 per cent of aggregate risk-weighted assets (Table V.44).

Financial Performance of PDs

5.94 Income earned by PDs increased sharply during 2005-06 on account of an increase in interest and discount, significant reduction in trading losses and sharp growth in other income. PDs, which had reported a loss of Rs.700 crore

Table V.43: Sources and Application of Funds of Primary Dealers
(As at end-March)

(Amount in Rs. crore)

Item	2005	2006	Percentage Variation	
			2004-05	2005-06
1	2	3	4	5
Sources of Funds	**11,911**	**13,953**	**-30.5**	**17.1**
1. Capital	2,332	2,263	-0.9	-3.0
2. Reserves and surplus	3,334	3,843	-9.3	15.3
3. Loans (i+ii)	6,245	7,847	-43.8	25.7
i) Secured	2,445	3,480	47.8	42.3
ii) Unsecured	3,800	4,367	-59.8	14.9
Application of Funds	**11,911**	**13,953**	**-30.5**	**17.1**
1. Fixed assets	75	71	5.1	-5.3
2. Investments (i to iii)	10,140	10,425	-37.8	2.8
i) Government securities and Treasury Bills	8,521	8,495	-41.4	-0.3
ii) Commercial paper	443	846	260.2	91.0
iii) Corporate bonds	1,176	1,084	-42.8	-7.8
3. Loans and advances	2,322	2,398	-9.5	3.3
4. Non-current assets	–	–	–	–
5. Others*	-626	1,059	-63.4	269.2

– : Nil/Negligible.
* : Including cash and bank balance, accrued interest, deferred tax less current liabilities and provisions.
Source : Respective PDs.

in trading in securities during the previous year, reduced such losses to Rs.47 crore during 2005-06 (Table V.45). As a result of sharp increase in income, PDs were able to earn sizeable net profits, despite a significant increase in expenditure. The number of PDs posting net profit rose to 14 during 2005-06 from 10 in the previous year (Appendix Table V.6).

Table V.44: Select Indicators of Primary Dealers

(Amount in Rs. crore)

Item	End-March	
	2005	2006
1	2	3
Total Assets*	11,911	13,953
of which :		
Government securities and Treasury Bills	8,521	8,495
Total Capital Funds	5,603	5,992
CRAR (in per cent)	54.3	53.9
Liquidity Support Limit	3,000 (normal)	3,000 (normal)

* : Net of current liabilities and provisions.

Table V.45: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Item	2004-05	2005-06	Percentage Variation	
			2004-05	2005-06
1	2	3	4	5
A. Income (i to iii)	**574**	**2,153**	**-79.8**	**275.1**
i) Interest and discount	821	1,151	-37.1	40.2
ii) Trading Profit	-700	-47	-161.9	93.3
iii) Other income	453	1,049	11.0	131.6
B. Expenses (i+ii)	**769**	**1,150**	**-21.3**	**49.7**
i) Interest	459	670	-29.9	46.0
ii) Administrative Costs	310	481	-3.7	55.2
C. Profit Before Tax	**-195**	**1,003**	**-110.4**	**614.4**
D. Profit After Tax	**-250**	**749**	**-120.3**	**399.6**

5.95 The turnaround in financial performance of PDs was reflected in return on average asset (RoA), which improved from -1.7 per cent to 5.2 per cent and return on net worth, which also turned around from -4.5 per cent to 12.9 per cent during the year (Table V.46 and Appendix Table V.6).

Table V.46: Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Indicator	2004-05	2005-06
1	2	3
1. Net profit	-250	749
2. Average Asset	15,133	14,534
3. Return on average assets (per cent)	-1.7	5.2
4. Net Owned Funds	5,666	6,106

Note : Average assets are average of the month-end balances.

Chapter VI

Financial Stability

6.1 Globalisation, advances in information technology and deregulation of the financial sector in emerging market economies have brought the issue of financial stability to the forefront of public policy. Several episodes of financial fragility that have occurred in the latter half of the 1990s across the globe, which entailed enormous costs for the financial system of several countries, have further underlined the need for a safe and sound financial sector. Traditionally, it is believed that monetary stability leads to financial stability. While there are complementarities between these two objectives in the long run, the relationship can be very different in the short-run. In this regard, a stable macroeconomic environment can often downplay the risks posed to the financial system. Accordingly, episodes of financial instability often follow periods of protracted macroeconomic booms.

6.2 Financial stability refers to the smooth functioning of financial markets and institutions without experiencing any serious disruption. The relevant legal, institutional and policy frameworks are varied and policy instruments at the disposal of the authorities are wide ranging. In a way, the financial stability objective is shared with a set of public policy bodies and professional bodies. However, the primary responsibility for overall financial sector efficiency and stability generally rests with the monetary authority ñ the central bank. The reasons for such a responsibility are the major functions that a modern central bank perform, besides maintaining monetary stability, *viz*., issuer of currency and lender of the last resort. Some central banks are also responsible for the oversight of the financial infrastructure, particularly the payment systems, and crisis management. Historically, central banks have been concerned with both price stability and financial stability. However, in view of the recent episodes of turmoil and the realisation that financial stability and macroeconomic stability are mutually reinforcing in the process of economic development, central banks have begun to bestow a more focussed attention to the objective of maintaining financial stability. This is in recognition of the weakness in the financial system that triggered recent episodes of economic crises (Frenkel, 2005)[1]. As a result, central banks have included financial stability as one of their core functions, although differences persist at a more fundamental level on the degree of activism that central banks should adopt in pursuing this objective.

6.3 The basic factors affecting financial stability are the rapid pace of technological innovation across the globe, increasing diversity of financial instruments and the emergence of a large number of financial conglomerates, cutting across not only various financial sectors, but also across countries. The role of financial intermediaries is also getting redefined with their ability to effectively compete by appropriate transformation of risk. Further, the source of financial disturbances has become more unpredictable mainly due to integration of financial markets across national boundaries, thereby exacerbating the possibility of contagion. The progressive dismantling of capital controls since the 1990s has led to substantial cross-border capital flows and volatile exchange rates. Sharp movements in exchange rates can have an adverse impact, particularly in emerging market economies, and can be a potential source of instability.

6.4 Globalisation entails several challenges for financial stability. First, although globalisation has led to productivity gains for the world economy, it has also been a source of some episodes of financial instability. These crises indicated that rapid movements of capital could be detrimental to economies with weak institutional frameworks. Second, the institutional backdrop has become more complex over the past twenty years as the hedge fund industry, which is relatively opaque in operation, has significantly grown in size. Such a large industry carries the risk of ëherd behaviourí and with high concentration of assets, this could

1 Frenkel, J.A., (2006): Concluding remarks on the Symposium ëProductivity, Competitiveness and Globalisationí Financial Stability Review No.8, Banque de France, May.

clearly pose a threat to financial stability. Third, risk bearers are of two categories: (i) institutional, in the form of insurers or re-insurers; and (ii) the household sector. The re-insurers are a bit opaque with regard to the composition of their balance sheets and their risk exposures, while there are some concerns about the leverage that exists on householdsí balance sheets.

6.5 Going by the experience of Latin American countries, the trigger points of financial instability were: (i) a boom in credit to the private sector (Mexico, 1994; and Colombia, 1999); (ii) wholesale liberalisation in the absence of an appropriate and effective prudential regulatory framework (Mexico, 1994; Chile, 1984); (iii) direct effects of fiscal pressures on the domestic banking system (Argentina, 2001); (iv) contagion and spillovers where a crisis in one country impacts other countries (Argentina, 1995, Uruguay, 2001); (v) terms of trade shocks and movements in real exchange rates (Venezuela, 1994; Ecuador, 1998); and (vi) political instability, unrest, and in some cases, civil conflict. In this regard, deficiencies in key economic and social infrastructure are some of the factors that increased financial vulnerability in these countries. These include: (a) inappropriate and ineffective prudential regulation and supervision; (b) inefficacy of bank intervention and resolution; (c) policy-induced distortions such as administered interest rates and weak government finances; (e) inadequate accounting practices, property rights and corporate governance; and (f) lack of institutional framework and adequate provisions, especially in the legal system.

6.6 The importance of financial stability emanates from four major trends in the financial systems, which have become evident in recent years. These are: (i) an imbalance of growth between the financial sector and the real economy; (ii) a change in the mode of financial operations due to financial deepening (credit/debit cards, *etc*.); (iii) emergence of a globally integrated financial system; and (iv) an evolution of sophisticated financial instruments and attendant risks. Consequently, the sources of crises have multiplied, necessitating the coordination of a number of authorities, both within and outside the country (Box VI.1).

6.7 Central banks pursue a multifaceted approach for ensuring financial stability. This includes: (i) payments system oversight;

Box VI.1: International Co-operation in Financial Stability among Regulators

In order to preserve domestic financial stability, central banks co-operate with other government agencies, *viz*., banking and securities regulators, treasury department and other agencies, within a complex array of regulatory and supervisory arrangements. International attempts of ensuring financial stability may also be viewed as such. However, the role of other factors, especially that of private sector in providing impetus for international co-operation is of critical importance. In this regard, banks compliant with higher capital adequacy norms may seek to enforce international standards for capital adequacy to reduce competitive advantage gained out of regulatory arbitrage. International co-operation in such a context can be conceptualised as the product of power and purpose of bank supervisors to provide their home markets with greater financial stability while also addressing the competitive concerns of their domestic firms (Kapstein, 2006).

It needs to be recognised, however, that the power of any single country or authority is limited in ensuring co-operation across countries. Such co-operation is attributed to two factors: (i) the desire of supervisors to provide public goods such as financial stability; and (ii) that financial supervisors act mainly at the behest of private interest. This model of co-operation can be viewed from two standpoints. First, regulators attempt to resolve conflicting public and private sector interests. Second, international co-operation among regulators can be seen as an attempt to chart the future course of international financial architecture.

In the current context, some trends on international co-operation in financial stability are clearly discernible. Currently, the concerns of central bankers arise out of what has been described as stable disequilibrium where the perceived risks arise mainly out of global imbalances and outlook for oil prices, particularly in view of the current geo-political situation. The macro policies in emerging markets in particular have to factor in these risks while continuously balancing the objectives of reforms and financial stability. More importantly, monitoring the sources of risk by the regulators has become very difficult due to emergence of large financial conglomerates, sophisticated market instruments such as derivatives and presence of international players like hedge funds. There has, however, emerged greater international co-operation among central bankers to mitigate the impact of such risks with full involvement of national treasuries in the Financial Stability Forum of the BIS.

References :

Kapstein, E.V (2006): ëArchitects of Stability? International Co-operation among Financial Supervisorsí BIS Working Paper No. 199, February.

Reddy, Y.V (2006): ëFinancial Sector Reforms and Financial Stabilityí, Reserve Bank of India Bulletin, April.

(ii) contingency planning against market disruption; (iii) lender of last resort (LOLR); (iv) financial regulation; and (v) transparent analysis and communication policy aimed at minimising information asymmetry. In this context, Financial Stability Reports/Reviews (FSR) being prepared by central banks/supervisory authorities in several countries generate public awareness on various aspects of financial stability such as macroeconomic situation, the health of the financial system and the risks and vulnerabilities faced by the financial sector. The purpose of FSRs, in general, is to identify at an early stage any trends of vulnerability that could lead to a crisis in the financial system. While the Bank of England and the *Sveriges Riksbank* of Sweden started publishing FSR in 1997, many central banks, at present, regularly publish FSR with the European Central Bank being a recent addition. At the global level, IMF also publishes a bi-annual report on global financial stability and conducts the Financial Sector Assessment Programme (FSAP), which is jointly undertaken with the World Bank.

6.8 In emerging market economies such as India, while financial stability is crucial for achieving sustained economic growth, it cannot be achieved without reforming the financial system (Box VI.2).

6.9 In India too, financial stability has emerged as a key consideration in the conduct of monetary and financial policy in recent years. In the Indian context, financial stability implies (a) ensuring uninterrupted settlements of financial transactions (both internal and external); (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. The Reserve Bank has taken a three-pronged approach to maintain financial stability, *viz.*, maintenance of overall macroeconomic balance; improvement in the macro-prudential functioning of institutions

Box VI.2: Financial Sector Reform and Financial Stability

Central banks have tailored the design of financial sector reforms to country-specific situations, taking cognisance of the threats to financial stability. The relevant considerations are: (i) the recognition that there exist strong complementarities between financial stability and macroeconomic stability; (ii) the pace of reforms to be adopted, *i.e.*, whether a shock therapy approach or a more cautious and gradualist strategy; (iii) deciding the optimal sequencing of reforms in case the gradualist approach is adopted; and (iv) the credibility of reforms. In this regard, the issue of credibility is inter-related with the choice of the pace of reform. A graduated pace wins credibility since it avoids disruptions and roll-backs in the short-run, while building a consensus in favour of continuing reforms in the medium to long-run.

In the pursuit of financial stability, effective regulatory and supervisory initiatives along with a calibrated approach to financial sector liberalisation are critical. Surveillance of the institutions in the financial sector and their interactions, both amongst themselves and with lenders and borrowers outside the financial sector, strengthening of the financial infrastructure and crisis management are also crucial. Financial crises, however, do not necessarily involve just banks and other deposit-taking financial institutions. There is an increasing overlap and interaction between banks and other segments of the economy. Some segments may not have the same rigorous risk management systems or regulatory oversight as banks. There are also market segments, particularly over the counter, which are not tightly supervised but could be of systemic importance such as hedge funds. In this scenario, the financial risks have a tendency to be shifted from well regulated to weakly or less regulated segments.

In emerging market economies, financial sector reforms have greatly helped in strengthening and reinforcing financial stability. It needs to be emphasised, however, that the existing international financial architecture is not adequate to prevent or mitigate the domestic and external effects of a financial crisis in large economies. The impact of instability in times of crisis appears largely to be borne by the domestic public sector rather than the global private sector. The issue of setting the pace of financial liberalisation is important in order to minimise the risks of instability. International experience shows that a faster pace of financial liberalisation was often followed by financial instability and crises. Therefore, in framing public policies, the approach to managing the financial sector, the choice of instruments and the timing and sequencing of policies are issues of crucial importance.

The financial sector reforms in India were initiated early in the reform cycle. In this regard, while prudential regulation of banks was introduced in the early phase of reforms, independent regulatory framework for other entities has been a recent phenomenon where new regulatory bodies for securities markets and insurance sector have been set up.

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Reddy, Y.V., (2006): ëFinancial Sector Reforms and Financial Stabilityí, Reserve Bank of India Bulletin, April.

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Mohan, R., (2005): ëFinancial Sector Reforms in India: Policies and Performance Analysisí in Economic and Political Weekly, March 19.

and markets; and strengthening of micro-prudential institutional soundness through regulation and supervision.

6.10 Given the above backdrop, this Chapter reviews the stability of the financial system in India in terms of financial institutions, financial markets and financial infrastructure. Section 2 reviews key policy measures initiated with a view to strengthening the financial institutions (commercial and co-operative banks), financial institutions (FIs) and non-banking financial companies (NBFCs). Section 3 analyses the key developments in financial markets in recent years with a special focus on 2005-06 and 2006-07 (up to mid-October) 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 4. Section 5 assesses the risks posed by global and domestic factors to financial stability in India. The last section presents an overall assessment of the Indian financial system over the short to medium-term from the point of view of financial stability.

2. Strengthening of Financial Institutions

6.11 The Indian financial system is a complex network of institutions having a variety of functions and governed by different regulations. Besides commercial banks, which are the predominant intermediaries of the financial system, there are co-operative banks, development finance institutions, non-banking financial companies, insurance companies, provident funds and mutual funds. The Reserve Bank exercises its supervisory role over the banking system encompassing commercial and co-operative banks (UCBs) by virtue of powers provided under the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. The Reserve Bank also regulates select all-India financial institutions under the Reserve Bank of India Act, 1934. Consequent upon amendments to the RBI Act in 1997, a comprehensive regulatory framework in respect of NBFCs was also introduced. In respect of State and district central co-operative banks, and regional rural banks, while the Reserve Bank is the regulator, the supervision is vested with the National Bank for Agriculture and Rural Development (NABARD). Insurance companies and mutual funds are regulated by the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI), respectively.

6.12 With a view to promoting a safe and sound financial sector from financial stability perspective, the Reserve Bank has taken several initiatives to strengthen financial institutions under its purview.

Scheduled Commercial Banks

Macro-level Measures

6.13 The statutory pre-emptions on resources of banks in the form of cash reserve ratio (CRR) and the statutory liquidity ratio (SLR) have been substantially reduced. The SLR was reduced to its statutory minimum level of 25.0 per cent in 1997 from the peak of 38.5 per cent in 1992. The CRR was also reduced to 4.5 per cent by 2004 from 15.0 per cent in 1992. Although the medium-term objective is to bring down the CRR, in view of rising inflation, the CRR was increased by 0.5 percentage point to 5.0 per cent of the net demand and time liabilities (NDTL) during September-October 2004. The CRR has remained unchanged since then.

6.14 The amendments to Section 42 of the Reserve Bank of India Act, 1934 in June 2006, vests the Reserve Bank with the powers to prescribe CRR for scheduled banks without any floor rate or ceiling rate. Under the earlier provisions, the Reserve Bank could prescribe CRR for scheduled banks between 3.0 per cent and 20.0 per cent of their NDTL. The amendments remove the statutory minimum CRR of 3.0 per cent. In terms of the amended Act, the Reserve Bank also cannot pay interest on any portion of CRR balances of banks once the Act comes into force. Prior to the amendment of the Act, the Reserve Bank had been paying interest on scheduled banksí eligible cash balances, *i.e.*, above the statutory minimum of 3.0 per cent and up to the prescribed level of 5.0 per cent at an interest rate determined by the Reserve Bank, which was set at 3.5 per cent with effect from September 18, 2004.

6.15 Before initiation of financial sector reforms in the early 1990s, the Indian financial system was characterised by financial repression as reflected in the administered interest rate structure, which thwarted the price discovery process in the absence of a well functioning market mechanism. After the initiation of reforms, both the lending and deposit rates were gradually deregulated. In order to foster greater transparency in lending rate determination, the benchmark prime lending rate (BPLR) was prescribed for scheduled commercial banks, which provided them the flexibility to offer floating rate products by using market benchmarks in a transparent manner. Since deregulation of interest rates exposed market participants to interest rate risk, instruments such as forward rate agreements (FRAs) and interest rate swaps (IRS) were introduced in 1999 to facilitate the hedging of interest rate risk in the balance sheet of banks.

6.16 In a globalised world, smaller entities find it extremely difficult to compete with large banks, which enjoy enormous economies of scale and scope. The Reserve Bank, therefore, has been encouraging the consolidation process, wherever possible. The consolidation of the domestic banking system in both public and private sectors has been combined with measures to increase the level of competition in the banking system by increasing the presence of foreign banks in a calibrated manner consistent with India's commitment to the WTO.

6.17 Mergers and amalgamations are a common strategy adopted to restructure/strengthen banks internationally. Although the consolidation process through mergers and acquisitions of banks in India has been going on for several years, it gained momentum towards the late 1990s. Since 1999, there have been, in all, 12 mergers/amalgamations. Of these, one bank was amalgamated in 2005-06 and two banks in 2006-07 (up to mid-October, 2006). The Bank of Punjab Ltd. was amalgamated with Centurion Bank Ltd. on October 01, 2005. The Centurion Bank Ltd. subsequently changed its name to Centurion Bank of Punjab Ltd. with effect from October 17, 2005. The Ganesh Bank of Kurundwad Ltd. was amalgamated with the Federal Bank Ltd. on September 2, 2006. On October 3, 2006, the United Western Bank Ltd. was amalgamated with Industrial Development Bank of India Ltd.. With increased liberalisation, globalisation and technological improvements, the consolidation process in the Indian banking sector is likely to intensify in the future, thereby imparting greater resilience to the financial system.

6.18 The primary objective of the policy of the Reserve Bank/Government is to ensure that merger is not detrimental to the public interest, banks concerned, their depositors or their controlling companies. The Reserve Bank and the Government have to keep in view that such mergers do not impinge on the stability of the financial system as a whole. The guidelines issued by the Reserve Bank on May 11, 2005, *inter alia*, laid down the process of merger and determination of the swap ratio.

6.19 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. In consultation with the Government of India, the Reserve Bank released the roadmap on February 28, 2005, detailing the norms for the presence of foreign banks in India. At the same time, the Reserve Bank laid down a comprehensive policy framework on governance and ownership of private sector banks. These measures were intended to further enhance the efficiency of the banking system by increasing competition.

6.20 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.

Prudential Measures

6.21 In order to facilitate raising of capital for smooth transition to Basel II, banks were allowed to augment their capital funds by issue of innovative and hybrid instruments in January 2006. These were: (i) innovative perpetual debt instruments (IPDI) eligible for inclusion as Tier 1 capital; (ii) debt capital instruments eligible for inclusion as Upper Tier II capital; (iii) perpetual non-cumulative preference shares eligible for inclusion as Tier 1 capital; and (iv) redeemable cumulative preference shares eligible for inclusion as Tier II capital.

6.22 The Basel Committee on Banking Supervision (BCBS) had issued the 'Amendment to the Capital Accord to Incorporate Market Risks' containing comprehensive guidelines to provide explicit capital charge for market risks in 1998. As an initial step towards prescribing capital charge for market risk, banks were advised in January 2002 to build up investment fluctuation reserve (IFR) up to a minimum of 5 per cent of investment in 'HFT' and 'AFS' categories in the investment portfolio. Subsequently, banks were advised in 2004 to maintain capital charge for market risk in a phased manner over a two year period ended March 31, 2006. Banks were allowed to treat the entire balance held in investment fluctuation reserve (IFR) as Tier I capital, provided they have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and capital charge for market risk as prescribed above.

6.23 The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham, 1998) had recommended that, as a prudential measure, a general provision of one per cent of standard assets would be appropriate and this should be implemented in a phased manner. During high credit growth, there is a tendency on the part of financial institutions to lower the appraisal standards, thereby exposing themselves to increased credit risk. Therefore, to maintain asset quality in the light of high credit growth during 2005-06, provisioning requirements were tightened in two stages. In November 2005, the provisioning requirement on standard assets, with the exception of direct advances to agricultural and SME sectors, was raised from 0.25 per cent to 0.40 per cent of the funded outstanding on a global loan portfolio basis. In May 2006, the provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans was raised from 0.40 per cent to 1.0 per cent. These provisions are eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent. The increase in provisioning requirements for specific sectors was to enable banks to build up cushion against unexpected loan losses should they arise in the wake of high credit growth.

6.24 Further, risk weights were increased during the year for some sensitive sectors with a view to ensuring that banks maintain capital commensurate with the underlying risk. In view of the sharp growth in bank credit to commercial real estate, the risk weight on banks' exposure to the commercial real estate was increased from 100 per cent to 125 per cent in July 2005 and further to 150 per cent in April 2006. Furthermore, banks were advised that while appraising loan proposals involving real estate, they should ensure that the borrowers have obtained prior permission from government/local governments/other statutory authorities for the project, wherever required. In order to ensure that the loan approval process is not hampered on account of this, it was advised that while the proposals could be sanctioned in the normal course, the disbursements should be made only after the borrower has obtained the requisite clearances from the Government authorities.

6.25 The risk weight for credit risk on certain capital market exposures was also increased from 100 per cent to 125 per cent with effect from July 26, 2005. Capital market exposures subject to higher risk weights include: (i) direct investment by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; (ii) advances against shares to individuals for investment in equity shares (including initial public offerings (IPOs)/employee stock option plans (ESOPs), bonds and debentures and units of equity oriented mutual funds; and (iii) secured and unsecured advances to stock brokers and guarantees issued on behalf of stock brokers and market makers.

6.26 The market for securitisation of standard assets has grown significantly in recent years. In order to ensure orderly development of the market, the Reserve Bank issued draft guidelines on securitisation of standard assets in April 2005. The final guidelines applicable from February 1, 2006 include, *inter alia*, the criteria for ëtrue saleí, the criteria that should be met by the special purpose vehicle (SPV) to enable the originator to avail off-balance sheet treatment for the assets securitised, policies on provision of credit enhancement/liquidity/underwriting facilities and services, prudential norms for investment in securities issued by SPV, and accounting treatment of the securitised transactions and disclosures.

6.27 Venture capital funds (VCFs) play an important role in encouraging entrepreneurship. While banksí involvement in financing venture capital funds is necessary, there is also a need to recognise the relatively higher risks inherent in such exposures. In the absence of adequate public disclosures with regard to performance/ asset quality of VCFs, prudence demands that the exposures to VCFs be treated as 'high risk'. Accordingly, in April 2006, it was decided that a bank's total exposure to venture capital funds will form a part of its capital market exposure. Accordingly, banks were required to assign a higher risk weight of 150 per cent to such exposures.

6.28 The Financial Intelligence Unit-India (FIU-IND) set up by the Government of India in November 2004 is the central, national agency responsible for disseminating information relating to suspect financial transactions to enforcement agencies in India and abroad. It is responsible for strengthening efforts of national and international agencies against money laundering and related crimes. It was set up to collect, compile, collate and analyse the cash and suspicious transactions reported by banks and financial institutions. In this context, the Reserve Bank advised banks that while Cash Transaction Report (CTR) for each month should be submitted to FIU-IND by the first fortnight of the succeeding month, the Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, is of suspicious nature. Cash transactions of Rs.10 lakh and above or a series of integrally connected transactions aggregate of which, in a month, exceed Rs.10 lakh are required to be reported in CTR. Individual cash transactions below Rs.50,000 have been excluded from the purview of reporting to FIU-IND. Banks have been advised to report all other cash transactions where forged or counterfeit bank notes have been used and any forgery of a valuable security has taken place. These measures would ensure the sanctity of banking transactions and make the banking system less vulnerable to frauds and money laundering.

6.29 In order to increase the options available to banks for resolving their non-performing assets and to develop a healthy secondary market for non-performing assets, where securitisation companies and reconstruction companies are not involved, the guidelines on sale/purchase of non-performing assets were issued to banks/FIs/ NBFCs in July 2005.

6.30 A Special Group (Chairperson: Smt. S. Gopinath) was constituted in 2004 to undertake a review of the scheme on corporate debt restructuring (CDR). Based on the recommendations of the Group, guidelines were issued to all commercial banks/FIs (excluding RRBs) in November 2005. The salient features of the revised guidelines are: (i) the scheme has been extended to entities with outstanding exposure of Rs.10 crore or more; (ii) it is now required to have the 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 more equitable; and (iii) the restoration of asset classification has been linked to the implementation of the CDR package. In order to improve flow of credit to small and medium enterprises, detailed guidelines were issued to banks to ensure restructuring of debt of all eligible small and medium enterprises at terms, which were, at least, as favourable as the existing corporate debt restructuring mechanism. These guidelines would further strengthen the process of credit delivery.

6.31 The guidelines relating to one-time settlement scheme for recovery of NPAs below Rs.10 crore for small and medium enterprises (SME) accounts issued to public sector banks were extended to FIs in November 2005. The Reserve Bank is also encouraging banks to set up an advisory mechanism for individuals in the form of credit counselling (Box VI.3).

6.32 Deposit insurance provides safety to small depositors and reduces the probability of bank runs and bank failures. Countries have several objectives in establishing the deposit insurance system, the principal reason being to protect small depositors and avoid systemic crises. However, full deposit insurance often conflicts with the need to develop a sound banking system in the long run. Therefore, it is essential to design an incentive compatible system that discourages moral hazard, adverse selection and agency problem. Several countries in recent years have switched to the differential premium system (Box VI.4).

6.33 The Reserve Bank of India (Amendment) Bill, 2006 was enacted to provide greater operational flexibility to the Reserve Bank in the conduct of monetary policy. The Act provides the Reserve Bank with greater autonomy in the use of policy instruments. Consequent upon the

Box VI.3: Credit Counselling

The need for financial education is felt both in the developed and the developing countries. In the developed countries, the increasing number and complexity of financial products, the continuing shift in responsibility for providing social security from the Governments and financial institutions to individuals, and the growing importance of retirement planning by the individuals, make it imperative that financial education be provided to all. Similarly, in emerging economies, the increasing participation of a growing number of consumers in developing financial markets necessitates the promotion of financial education. With changing growth dynamics, certain segments of the population could become susceptible to excessive borrower optimism or even to vicissitudes in the economic environment. In such a scenario, it is necessary to establish credit counselling institutions for educating individuals to assess their credit demand and debt management in order to mitigate bankruptcy risk. Furthermore, credit counselling institutions can also remove asymmetric information in rural credit and can help individuals by guiding them to access credit from various available sources. From the perspective of a regulator, financial education delivered through credit counselling can empower the common person and, thus, reduce market failure attributable to information asymmetries.

The first well known credit counselling agency was created in 1951 in the United States when credit agencies created the National Foundation for Credit Counselling (NFCC). Their stated objective was to promote financial literacy and help consumers to avoid bankruptcy. In 1993, the Association of Independent Consumer Credit Counselling Agencies (AICCCA) was founded in the United States, considering the need for industry-wide standards of excellence and ethical conduct. The concept caught the attention of other countries and over the last several years, a number of countries have undertaken significant initiatives towards credit counselling. The Consumer Credit Counselling Service (CCCS) in the UK, established in 1993, helps consumers with budgeting and better money management as also their debt repayment plans. In fact, the Banking Code in the UK provides that member banks shall discuss financial problems with customers and together evolve a plan for resolving these problems. Canada established a non-profit counselling organisation in 2000 called Credit Counselling Canada (CCC), which seeks to enhance the quality and availability of not-for-profit credit counselling for all its citizens. The Bank Negara Malaysia has established a Credit Counselling and Debt Management (CCDM) agency to provide advice to individuals on credit counselling and loan restructuring. The arrangement is expected to be a prompt and cost-effective means of debt settlement based on the repayment plan between creditors and the debtor without intervention of courts. In view of rising personal bankruptcies, primarily on unsecured debt, Credit Counselling of Singapore (CCS), established in 2003, is meant to assist financially distressed consumers.

In India, Corporate Debt Restructuring (CDR) mechanism exists whereby large corporates in genuine cases of difficulty are provided the facility of restructuring the debt extended by banking and development finance institutions. A framework, for small and medium enterprises has also been evolved recently. In the case of agriculture loans and small borrowers, however, only broad guidelines have been issued to banks from time to time on parameters for restructuring. In this context, there are a number of issues that need to be recognised to initiate and popularise credit counselling for individual borrowers. These are: (i) combining credit counselling with some elements of financial literacy; (ii) credit counselling to be *ex ante* or only *ex post* or some combination of both; (iii) devising differential mechanisms to take into account different credit segments as well as different categories of individual borrowers; (iv) accrediting credit counsellors through industry associations; (v) providing a training and institutional framework to develop credit counsellors to make them effective; and (vi) examining the viability of non-governmental organisations and consumer organisations in order to expand the outreach of counselling practices.

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Y.V. Reddy (2006), ëCredit Counselling: An Indian Perspectiveí Reserve Bank of India Bulletin, October.

ó ó (2006), ëThe Role of Financial Education: The Indian Caseí Reserve Bank of India Bulletin, October.

amendment, the Reserve Bank, with a view to securing monetary stability, can prescribe the cash reserve ratio (CRR) without any floor rate or ceiling rate. Further, the Reserve Bank cannot pay interest on CRR balances once the Act comes into force. The amendments also give legal sanctity to over-the-counter (OTC) derivatives, if at least one of the parties to the transaction is the Reserve Bank or any agency falling under its regulatory purview. Prior to the amendment, only exchange traded derivatives were deemed to be valid.

Risk Containment Measures

6.34 Although derivative instruments are used for hedging risks by banks and financial institutions, overexposure in derivatives and other off-balance sheet instruments could itself aggravate the risks posed to the balance sheet of banks (Box VI.5). Considering the inherent risks in the derivatives segment, the Reserve Bank advised market participants in 2005 to carry out due diligence regarding customer appropriateness and suitability of products, including verification

Box VI.4: Differential Premium System ñ The International Scenario

Policy makers have a choice between adopting a flat-rate premium system or a premium system that is differentiated on the basis of risk profiles of individual banks. The primary advantage of a flat rate premium system is the relative ease with which assessments can be calculated and administered. As flat-rate premiums do not reflect the level of risk that a bank poses to the deposit insurance system, it may be perceived as encouraging excessive risk taking by some banks. Risk-adjusted differential premium systems can mitigate such risks and develop more prudent risk-management practices by member banks. Many countries are considering modifications in their existing deposit insurance systems and have expressed interest in eventually transiting to differential premium systems.

One of the greatest challenges to developing a differential premium system is finding appropriate methods for differentiating the risk profiles of banks. As per the guidelines of International Association of Deposit Insurers, a number of approaches are available for moving towards differential premium system, which combines both quantitative and qualitative factors. Most countries employing differential premium system use such an approach. Quantitative criteria approaches generally try to use measures that are factual or data based to categorise banks for premium assessment purposes. For example, Argentina, Canada, France, Taiwan and the United States utilise this approach in their differential premium system methodologies (Table 1).

An important consideration in systems, which combine both quantitative and qualitative factors, is the relative weights assigned to these factors. In some systems [(for instance, the Federal Deposit Insurance Corporation (FDIC)], quantitative criteria receive an equal weight to a more subjective criteria such as examination ratings. In other countries such as Canada, qualitative criteria have lower weights than quantitative criteria. In general, there is a tendency to assign higher weights to quantitative elements than qualitative factors.

Most newly established systems initially adopt a flat-rate system given the difficulties associated with designing and implementing a risk-adjusted differential premium system. It is difficult to (i) find appropriate and acceptable methods of differentiating risk; (ii) obtain reliable resources to administer the system; (iii) ensure consistent and timely flow of information; and (iv) ensure that the rating criteria are transparent. Therefore, before establishing a differential premium system, it is important to review the state of the economy, structure of the banking system, public attitudes and expectations, the strength of prudential regulation and supervision, the legal framework and the soundness of accounting and disclosure regimes.

Table 1: Differential Premium System Adopted by Select Countries

Country	Methodology
US	3x3 matrix based on capital adequacy and supervisory ratings with equal weightage.
Canada	A score card incorporating 14 individual quantitative and qualitative measures with 60 per cent weightage to quantitative indicators and slotting banks into 4 premium categories.
Argentina	All institutions contribute a basic premium to the deposit insurer with additional premium determined by a combined qualitative/quantitative differential premium system.
France	A combination of prudential and financial risk analysis ratios which are applied to the amount of deposits held by each member bank.
Taiwan	3x3 matrix based on capital adequacy and an examination data rating composite score which incorporates the CAMEL(S) framework.
Turkey	Based on various measures of capital adequacy, foreign exchange positions, asset quality and provisioning.

A well-managed transition process should, *inter alia*, include (i) a clear plan setting out the transitioning objectives, responsibilities, resource requirements, time table and deliverables; and (ii) communication of the transition plan to all interested parties and provision for a consultative process to accompany changes to the policy or legislative framework affecting the scheme. Canada introduced a transitional mechanism for the first two years of the scheme.

References :

Financial Stability Forum, (2001) ëGuidance for Developing Effective Deposit Insurance Systemsí, Final Report of the Working Group on Deposit Insurance, Bank for International Settlements, Basel.

Garcia, G. (1999), ëDeposit Insurance: A Survey of Actual and Best Practicesí, IMF Working Paper, April.

International Association of Deposit Insurers (IADI) (2005), General Guidance for Developing Differential Premium Systems, Basel, Switzerland, February.

of genuineness of underlying exposure. Market participants have been advised to have a proper risk management policy with regard to counterparty credit risks. As Indian derivatives market is predominantly over the counter (OTC), the use of risk mitigation techniques such as collaterals and netting is desirable for the purpose of not only reducing the counterparty credit risks but also for the purpose of reducing systemic risks. However, the use of collateral in Indian markets is not very common. As regards setting limits on market risks, participants were advised

Box VI.5: Trends in Off-Balance Sheet Exposures of Banks

Off-balance sheet (OBS) exposures of the financial system across the globe have recorded a significant increase in recent years. Global over-the-counter derivative products doubled from a notional outstanding of US$ 142 trillion in December 2002 to US$ 285 trillion in December 2005 (BIS, 2006). Similarly, total notional principal amount of OBS exposures in India increased from Rs.8,41,884 crore at end-March 2002 to Rs.43,99,908 crore at end-March 2006. As a percentage of total on-balance sheet assets, total OBS exposure, which accounted for 57 per cent at end-March-2002, shot up to 163 per cent at end-March 2006. Greater need for risk management, deregulation of interest rates, squeeze on margin on conventional balance sheet items, greater competition, and new opportunities arising out of technological advancements have contributed towards the phenomenal growth in OBS exposures, especially derivatives.

OBS exposures essentially take the form of contingent liabilities and derivatives. Contingent liabilities are the more traditional off-balance-sheet exposures, while derivatives, except for traditional forward exchange contracts, have come into prominence recently. The growth in OBS exposures in India has been fuelled by the phenomenal increase in the derivative segment. Between end-March 2002 and end-March 2006, contingent liabilities of the banking system recorded an annual compound growth rate of 23.6 per cent, while contracts and derivatives increased at an annual compound growth rate of 55.5 per cent. Consequently, the share of contracts and derivatives (notional principal) in total OBS exposures of the banking system increased from 82.5 per cent to 92.7 per cent during the same period. While the notional amount of OBS exposures, including derivatives has grown exponentially, the number of banks which are actively involved in these activities in India are only 15, most of which are foreign banks. The combined share of these 15 banks in total off-balance sheet exposures steadily increased from 73.8 per cent in March 2002 to 82.3 per cent in March 2006.

While the notional amount is a proxy for the amount of derivatives activity, it does not measure the riskiness of the activity. A measure of assessing the risk is the credit equivalent, which is the monetary value of the credit risk exposure. Credit equivalent is the potential cost replacing the contractís expected net cash flows in the event of default by the counterparty. At the systemís level, total credit equivalent of outstanding derivatives constituted 1.9 per cent of notional principal at end-March 2006.

The proliferation of derivatives exposures inevitably poses a challenge to financial stability on account of the immense downside risks associated with them. While derivative activities facilitate risk hedging and risk transfer, some other inherent risks are also involved. One important source of vulnerability in the Indian derivatives market relates to high concentration risk since the number of counterparties (both banks and corporates) are limited. The concentration of activity and knowledge among a small number of players raises the potential risk of systemic market crisis due to default by a few counterparties. Thus, both market participants and policymakers need to be aware of the risk management challenges associated with the use of derivatives to transfer risk, both within and outside the banking system.

Reference:

Bank for International Settlements, (2006), BIS 76th Annual Report, Basel, June.

to use only domestic rupee benchmarks for rupee interest rate derivatives. Subsequently, market participants were advised in December 2005 that the gross present value of all non-option rupee derivative contracts should be within 0.25 per cent of the net worth of the bank as on the last day of the balance sheet from March 2006.

Supervisory Measures

6.35 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.

6.36 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. On-site pilot study (third in series) was taken up in four banks in 2005-06 under the revised RBS framework. On the basis of three rounds of pilot run of RBS covering public sector, private sector and foreign banks, the templates have been revised to assess for five business risks and two control risks. The new methodology for risk assessment being formulated would enable the supervisors to separately assess the risk for inherent/control risk areas and domestic/overseas operations in respect of all the business risk areas. This would facilitate area-specific supervisory action. The revised risk-rating framework is number driven. It provides granularity to the supervisory risk-rating process (*i.e.*, assessing degrees of risk and whether the risk is in the upper band or lower band), enabling preparation of specific supervisory programme/action for individual banks which strengthens the supervisory system.

6.37 The Reserve Bank had instituted a 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 ongoing changes in regulatory and supervisory requirements as also various facets of efficiency and risk management of banks. The Reserve Bank remains continuously in touch with the banks with a view to enhancing data quality.

6.38 With the increase in the complexities of banking business and consequent exposure of their balance sheets to the various risks, particularly market risks, it has become imperative for banks to rely on various techniques to manage these risks. While the principal technique used by most of the banks for quantification of market risk is Value at Risk (VaR), there are certain inherent weaknesses/ deficiencies of this technique. Therefore, stress testing has emerged as an important complementary technique to VaR. Stress testing not only helps in understanding the impact of extreme events on the performance of a portfolio, but it also helps in identifying key areas where the vulnerability of the portfolio is higher. Establishing risk limits relating to the capital resources of the firm may also be possible through stress testing results. In effect, the capital buffer (solvency capital) that is required to ensure that the firm survives an extremely adverse set of market conditions can also be defined through this test. The Reserve Bank also conducts periodic sensitivity analysis of banksí balance sheets in view of their significant exposure to market risk.

6.39 The Annual Policy Statement for 2006-07 had noted that in the present liberalised environment, banks need to have a robust and sound stress testing process for assessment of capital adequacy. Stress tests enable banks to assess the risk more accurately, thereby facilitating their planning for appropriate capital requirements (Box VI.6). It would also form a part of preparedness for Pillar 2 of the Basel II framework. In this context, the draft guidelines for

Box VI.6: Financial Stability and Stress Testing

Stress testing to adverse macroeconomic shocks is an important tool in assessing financial stability. A stress test is performed to measure the sensitivity of the portfolio of assets and liabilities of an individual institution or a financial system to changes in one of the risk factors such as interest rate or exchange rate. It provides an estimate of the change in the value of the portfolio due to a sudden change in the risk factors.

The stability of a financial system depends on a large number of factors. The first step in a stress testing process is to identify the important risk factors and understand what is a ìnormalî state for the financial system. After identifying the potential shocks to the financial system, the next step is to develop a macro econometric model that can be used to understand the behaviour of the system with respect to the main vulnerabilities. Once the model is developed, the idea is to decide upon the time horizon for measuring the shock, the variables subjected to the shock and the size of the shock. Finally, the shocks need to be mapped into their impact on the balance sheet of financial institutions.

The key indicator used for measuring the interest rate risk is duration. Duration is a measure of the percentage change in the value of the portfolio for a unit change in the interest rate and is a good measure only for small changes in the interest rate. Stress testing normally involves large changes in interest rates. Therefore, in addition to duration, convexity should also be included in the calculations. In practice, often ìmaturity gap analysisî, which is a simplified measure of interest rate sensitivity, is used by banks in place of duration analysis.

Exchange rate risk is the impact of changes in exchange rate on the value of assets and liabilities of financial institutions. The change in net open position due to a change in exchange rate can help determine the sensitivity of the position to exchange rate risk. The net open foreign exchange position is relatively easy to measure and, therefore, banks may be in a position to manage the exchange rate risk to a great extent.

Credit risk is the risk that counterparties will default on their contractual obligations. The data that are required for credit risk stress testing relate to different categories of performing loans and non-performing loans (sub-standard, doubtful and loss). A set of different types of variables can be used for stress testing of credit risk like changes in the price of collateral, increase in non-performing loans (NPLs) and increase in provisioning ratio.

Stress tests can be performed for other types of risks (liquidity risk, commodity risk, equity price risk) in a similar manner. Stress tests can also be performed for the second-round effects by using contagion models. These models estimate the impact of failure of one institution on the other institutions in the system. These types of models have already been applied to inter-bank markets but can also be adopted for other types of markets.

References :

Basel Committee on Banking Supervision, (2004) ëPrinciples for the Management and Supervision of Interest Rate Riskí, BIS, July.

International Monetary Fund, ëGlobal Financial Stability Reportí, various issues.

The World Bank and International Monetary Fund, (2005) ëFinancial Sector Assessment: A Handbookí, September.

implementation by banks were placed in the public domain by the Reserve Bank on July 3, 2006, soliciting feedback and comments from the banks.

6.40 With a view to maintaining the integrity of the financial sector and enhancing public confidence in the financial system, the Reserve Bank prepared a draft scheme called ëProtected Disclosures Scheme for Private Sector and Foreign Banksí on the lines of Government of India resolution in January 2006. The public sector banks are already covered under a similar scheme. The scheme provides a mechanism for lodging complaints against corruption, misuse of offices and suspected/actual frauds in private sector and foreign banks.

6.41 It is imperative for banks to prepare for business disruptions and system failures and ensure continuity of operations. Such plans would provide resilience to banks to tide over natural calamitites. The unprecedented floods in recent times in a few cities and the resultant reports of electronic delivery channels of some of the banks being affected has further reinforced the need for robust business continuity plan (BCP) in banks. In recognition of such eventualities, detailed guidelines were issued by the Reserve Bank in April 2005 requiring commercial banks to put in place business continuity measures within a fixed time frame.

6.42 In view of increasing globalisation and integration of global markets, conflict of interest within the financial sector can have a negative impact on investor confidence, efficacy of the regulatory framework and, above all, the credibility of the financial service providers. The Reserve Bank had constituted a Working Group on Conflicts of Interest in the Indian Financial Services Sector (Chairman: Shri D. M. Satwalekar) in September 2004 to identify the sources and nature of potential conflicts of interest in the financial sector and possible measures/actions to be taken in this regard for mitigating them (Box VI.7). The Report submitted by the Group examined the various situations of conflicts of interest, both nationally and internationally, and attempted to provide an integrated framework of forward-looking measures to mitigate/prevent such situations.

6.43 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 implement best prudential risk management practices comparable to global standards through a transparent and consultative process.

Box VI.7: Conflicts of Interest in the Financial Sector

The Working Group (Chairman: Shri D. M. Satwalekar) suggested that in the case of Public Sector Enterprises (PSEs), improvement in governance mechanism could be brought about by transferring the actual governance functions from the concerned administrative ministries to the boards, specialised agencies (trusts, SPVs, *etc.*) formed for the purpose, professionalising and streamlining the appointment process of directors, besides suitably revamping the compensation and remuneration structures. In the case of private sector, control structures and disclosure practices should be so devised as to be consistent with the interests of all stakeholders, keeping in view the fact that control is often exercised through a complex pattern of cross holdings involving subsidiaries.

It also suggested that a Conflict Management Policy (CMP) for managing conflicts should be developed by each institution/profession, by which a commensurate premium/ discount is placed on the ethical/unethical behaviour of individuals or the institutions. The Group observed that the Government has an important role in ensuring that the politico-judicial reforms are calibrated to meet the enhanced needs of an increasingly complex financial sector. Stating that defining financial crime and crafting technology neutral laws are the imperatives, the Group, pointed out that financial services is too crucial an industry in a countryís economy to be left solely in the hands of the institutions and the regulators. In the Groupís view, an enlightened public, who are aware of their rights and obligations, are the best safeguard for ensuring non-exploitation of conflicts of interest by the financial intermediaries. In the Indian conditions, the Government and the regulators have an important role in enlightening the public of their rights and obligations. The society at large should send a strong message through all possible means available that pro-consumer behaviour would be rewarded, while anti-consumer behaviour would be appropriately punished.

While pointing out that it is tempting to prescribe more detailed ëRules of the Roadí to mitigate the myriad varieties of conflicts of interest, the Group opined that the principles/ rules enunciated are by no means substitutes for the overriding importance of the time-honoured basics of managerial competence, sound judgement, common sense and presence of a highly disciplined system of corporate governance, of which mitigation of conflicts of interests is an integral part. Regulatory environment should be based on principles rather than rules and should actively promote transparency, market discipline, public awareness and education.

Other Financial Institutions

6.44 Several measures were initiated by the Reserve Bank during 2005-06 to strengthen other financial institutions such as regional rural banks (RRBs), co-operative banks, financial institutions (FIs) and non-banking financial companies (NBFCs).

Regional Rural Banks and Rural Co-operative Banks

6.45 The regional rural banks (RRBs) have been playing an important role in purveying rural credit. With a view to strengthening them, banks were encouraged to amalgamate State-wise, the RRBs sponsored by them. In this context, the Government of India, after consultation with NABARD, the concerned State Governments and sponsor banks initiated the process of amalgamation of RRBs in September 2005. As a result of this initiative, 137 RRBs were amalgamated till October 31, 2006 to form 43 new RRBs (sponsored by 18 banks in 15 States). This has brought down the total number of RRBs from 196 to 102. Some more amalgamation proposals are under consideration of the Government of India. This process would result in further consolidation of RRBs, thereby strengthening the rural credit sector.

6.46 In order to reposition RRBs as an effective instrument of credit delivery, the Reserve Bank has allowed RRBs to enhance their resource base, issue credit/debit cards and set up ATMs. They were also allowed to open (on a case by case basis) currency chests and handle pension and other government businesses as sub-agents of banks, thereby expanding their sphere of operations.

6.47 The rural co-operative banks have served an important vehicle for extending credit to the rural and agricultural sector. In this regard, the separation between short and long-term institutions has enabled specialisation in credit delivery. In view of the increasing need to strengthen credit delivery in rural areas, two separate reports of the Task Force (Chairman: Prof. A. Vaidyanathan) set up to suggest measures to revive short-term and long-term rural cooperative banking institutions are under implementation/active consideration of the Government of India. The implementation of the recommendations of the Task Force would make the co-operative banks truly democratic, autonomous, vibrant, member-driven, professionally managed, technologically sound and financially strong.

Urban Co-operative Banks

6.48 It has been the endeavour of the Reserve Bank that the urban co-operative banks (UCBs) emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions, so that they can provide need-based quality banking services, essentially to the middle and lower middle classes and marginalised sections of the society. During 2005-06, the Reserve Bank undertook several initiatives to strengthen the urban co-operative banking sector.

6.49 As UCBs are subject to dual control by the Reserve Bank and the State Governments, continuous efforts are being made to harmonise the regulation and supervision over UCBs to facilitate their orderly development. In order to address issues/difficulties relating to dual control within the existing legal framework, a working arrangement in the form of Memorandum of Understanding (MoU) has been evolved. Accordingly, the Reserve Bank has so far signed MoUs with eight State Governments, *viz*., Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Uttaranchal, Rajasthan, Chhattisgarh and Goa. Other States with a sizeable presence of UCBs have also been approached for entering into a MoU.

6.50 In order to facilitate emergence of strong entities and also provide an avenue for non-disruptive exit of unviable entities, the Reserve Bank issued guidelines on merger/amalgamation of UCBs in February 2005. General permission was given to the acquirer UCB to amortise the losses taken over from the acquired UCB over a period of not more than five years, including the year of merger. The Reserve Bank has since indicated its concurrence to 17 merger proposals of which, 14 mergers have already taken effect. This would result in further consolidation of the UCBs.

6.51 In order to revitalise and rehabilitate the scheduled UCBs with negative net worth, the Reserve Bank began a consultative process with the concerned State Governments and banks. The emphasis is on a time bound programme for restructuring of such UCBs by demarcating the contours of their rehabilitation plan and setting up monitorable milestones. During the year, 10 scheduled UCBs were placed under the restructuring plan. The Reserve Bank has been closely monitoring their progress with a view to protecting depositorsí interest and avoiding systemic problems.

6.52 In the case of urban co-operative banks, share capital can be withdrawn. Therefore, the share capital of UCBs does not have all the characteristics of equity. Co-operative banks are also not permitted to issue shares at a premium. In order to explore various options for raising capital, a Working Group (Chairman: Shri N.S. Vishwanathan) was constituted in September 2005 comprising representatives of the Reserve Bank, the State Governments and the UCBs to examine the issue of share capital of UCBs and identify alternate instruments/avenues for augmenting the capital funds of UCBs. The Working Group is expected to submit its Report in November 2006.

6.53 The Reserve Bank, in April 2006, permitted UCBs in States where MoU have been signed and those registered under the Multi-State Co-operative Societies Act to offer mutual fund products, as agents to their customers, subject to certain conditions. The Reserve Bank also allowed well-managed UCBs ñ both scheduled and non-scheduled - to open select off-site/on-site ATMs, thereby facilitating banking transactions.

6.54 The Vision Document for UCBs highlighted the heterogeneity of the UCB sector in terms of their geographical spread, size, strength, levels of professionalism and performance. Application of uniform regulatory standards affected the performance of several UCBs, especially the smaller ones which operated more closely on co-operative principles. Steps have been†initiated to†rationalise†the†íone size fits allî †approach to regulation and supervision of UCBs keeping in view the heterogeneous character of the group.

6.55 As a part of the announcement made by the Union Finance Minister for improving the flow of credit to small and medium enterprises, certain guidelines were issued for restructuring of debt of SMEs. UCBs were advised to formulate the debt restructuring scheme with the approval of concerned State/Central Registrar of Co-operative Societies and give adequate publicity to the scheme among the customers for greater customer awareness.

6.56 On-site inspection†has been strengthened through integration with off-site surveillance. The database contains all regulatory and supervisory returns submitted by banks, including the off-site surveillance returns as also the on-site inspection data submitted by inspecting officers. This integration of data from different sources†supports the concept of central point of supervision (CPOS). It has helped in strengthing the Reserve Bankís supervision over UCBs.

Financial Institutions

6.57 Financial Institutions (FIs) in India have traditionally been the major source of medium and long-term funds. In recent years, however, the role of FIs has diminished with the conversion of two major FIs into banks. In this regard, an Internal Working Group on Future Role of Financial Institutions (Chairman: Shri P. Vijay Bhaskar) was constituted in the Reserve Bank. The report of the Group is being finalised and is expected to be submitted in October 2006.

6.58 To ensure convergence of the norms applicable to banks and FIs as also to move closer towards international best practices, several prudential and regulatory measures have been initiated in recent years. A minimum framework for disclosures on risk exposures in derivatives of FIs, including both qualitative and quantitative aspects, was prescribed with a view to providing a clear picture of the exposure to risks in derivatives, risk management systems, objectives and policies. FIs are required to make these disclosures as a part of the ëNotes on Accountsí to the balance sheet with effect from March 31, 2005 (June 30, 2005 in the case of National Housing Bank). General provisioning requirement for ëstandard advancesí other than direct advances by FIs to the agriculture and the SME sectors was increased from 0.25 per cent to 0.40 per cent.

Non-Banking Financial Companies

6.59 The Reserve Bank continued its efforts to strengthen the non-banking financial companies. The periodicity of returns on important financial parameters of NBFCs not accepting/holding public deposits and having an asset size of Rs.500 crore or above was changed in September 2005 from quarterly to monthly to facilitate a macro level assessment of large non-deposit taking companies at more frequent intervals. The threshold asset size of such companies was also reduced from ëRs.500 crore and aboveí to ëRs.100 crore and aboveí to widen the coverage. Further, the reporting format was amended to incorporate additional information relating to capital market exposure covering financing of IPOs, gross sales and purchases in various segments and guarantees issued on behalf of share brokers.

6.60 In order to protect the depositorsí interest and to enhance transparency in their operations, all deposit-taking NBFCs were advised in October 2005 to put in place a system to ensure that agents/brokers authorised by them to collect deposits are properly identifiable and their books of accounts are available for audit and inspection. Earlier in December 2004, the residuary non-banking companies (RNBCs) were advised to put in place such system in respect of their agents/brokers.

6.61 All deposit taking NBFCs/RNBCs were advised in October 2005 that all individual cases of frauds involving Rs.1 lakh and above have to be reported to the Reserve Bank.

6.62 In order to protect depositorsí interest, RNBCs were advised in June 2004 that from April 2006, no discretionary investments would be permitted. However, on a review, the Reserve Bank subsequently decided to modify the pattern of their investments. Accordingly, RNBCs were advised that effective April 1, 2006 they should invest not less than 95 per cent of their aggregate liabilities to the depositor (ALD) as on December 31, 2005 and 100 per cent of the incremental deposits (accrued after December 31, 2005) in the prescribed manner. It was also advised that on and from April 1, 2007, the entire amount of ALD would be invested in directed investments only and no discretionary investments would be allowed to be made by RNBCs.

3. Financial Markets

6.63 A stable financial system requires sound financial institutions, well-functioning financial markets and robust financial infrastructure. Operations and performance of commercial banks, co-operative banks and non-banking financial institutions during 2005-06 have been detailed in Chapter 3, 4 and 5, respectively. This and the following section analyse the developments in the financial markets and the payment and settlement systems in India during 2005-06 from the point of view of financial stability.

6.64 Financial markets play an important role in allocating resources in an efficient manner. They also facilitate the price discovery process in financial instruments and are the conduit of transmitting policy signals to the real economy. Financial markets offer a mechanism of diversifying risk within the financial system. Volatile movements in financial markets have serious implications for macroeconomic performance. Hence, stability in the financial markets is an important pre-requisite for the stability of the financial system.

6.65 As wide fluctuations in financial markets could have adverse effects on market sentiments and pose a major threat to financial stability, developments in financial markets need to be continuously monitored in order to identify potential risks. Financial market data also indicate expectations about future developments, which contain information about potential risks to the financial system. Market indicators, therefore, could be used to complement traditional analysis of fundamentals based on balance sheets of financial entities.

6.66 The Reserve Bank closely monitors financial market developments, while simultaneously taking measures that further develop various segments of the financial market under its purview, *viz.*, the money, the Government securities and the foreign exchange market. The SEBI regulates the capital market. Various reforms initiated in the financial markets since the early 1990s have focussed on (i) removing the restrictions on pricing of assets; (ii) building of institutional and technological infrastructure; (iii) strengthening the risk management practices; (iv) fine-tuning of the market microstructure; (v) changes in the legal framework to remove structural rigidities; and (vi) widening and deepening of the market with new participants and instruments.

6.67 The Reserve Bank, in July 2005, set up a separate Financial Markets Department (FMD) for exclusively monitoring developments in the financial markets. The Department integrates the Reserve Bankís operations in the money, the Government securities and the foreign exchange markets with a view to moving towards functional separation of debt management and monetary operations of the Reserve Bank.

6.68 Since the early 1990s, various reform measures have imparted greater depth and liquidity to various segments, which is important from the perspective of financial stability. The key developments in financial markets in India during 2005-06 are analysed in this section.

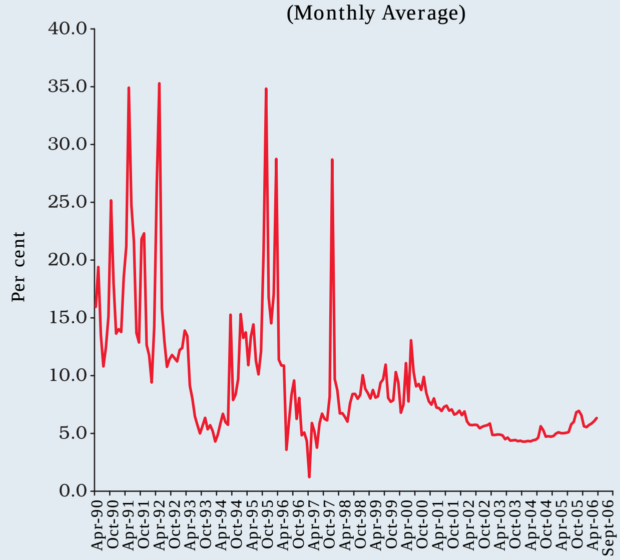
Money Market

6.69 The money market provides a focal point for the central bankís operations in influencing liquidity and thereby transmitting monetary policy impulses. The broad policy objectives being pursued for the development of the money market are ensuring stability/avoiding volatility, minimising default risk and achieving a balanced development of various segments. The Reserve Bank has been playing a proactive role in developing the money market through introduction of new instruments, broadening of participantsí base and strengthening of institutional infrastructure. In recent years, the focus of the Reserve Bankís efforts has been on implementation of many of the recommendations of the Technical Group on Money Market (May 2005). Non-banks have been phased out of the uncollateralised call money market. The policy thrust given to the growth of the collateralised segment has improved options for liquidity management while reducing risks. Associated developments in institutional and technological infrastructure have also helped in improving transparency, facilitating price discovery process and providing avenues for better liquidity and risk management.

6.70 Following the Annual Policy Statement for 2005-06, a screen-based negotiated quote-driven system for dealings in the call/notice and the term money markets (NDS-CALL) has been developed by the Clearing Corporation of India Ltd. (CCIL). The introduction of NDS-CALL will make the deals transparent, enable better price discovery and improve the market microstructure. The system was launched in September 2006 with participation by market constituents on a voluntary basis.

6.71 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 market remained orderly during the 1990s, barring a few episodes of volatility (May 1992, November 1995 and January 1998). The decline in volatility was particularly noticeable from May 2001 following the introduction of the second stage of the Liquidity Adjustment Facility (Chart VI.1).

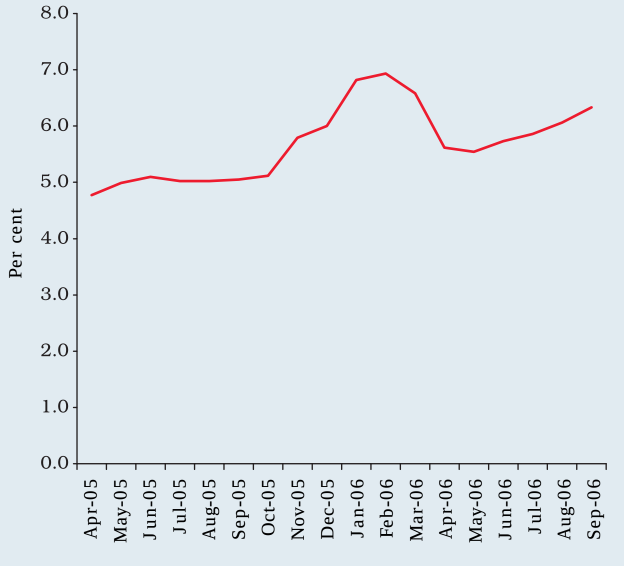
Chart VI.1: Behaviour of Call Rates
(Monthly Average)



6.72 Money market conditions remained largely comfortable during 2005-06, except the period from mid-December 2005 to end-February 2006. Monthly average call rates, which were at 4.77 per cent in April 2005, inched upwards thereafter steadily to reach 5.79 per cent in November 2005. In December 2005, the call rate increased further to 6.00 per cent on account of India Millennium Deposits (IMD) redemption. It reached a peak of 6.93 per cent in February 2006, before softening to 6.58 per cent in March 2006. Between April and July 2006, call rates hovered below 6.00 per cent but subsequently firmed up to above 6.00 per cent during August and September 2006 (Chart VI.2).

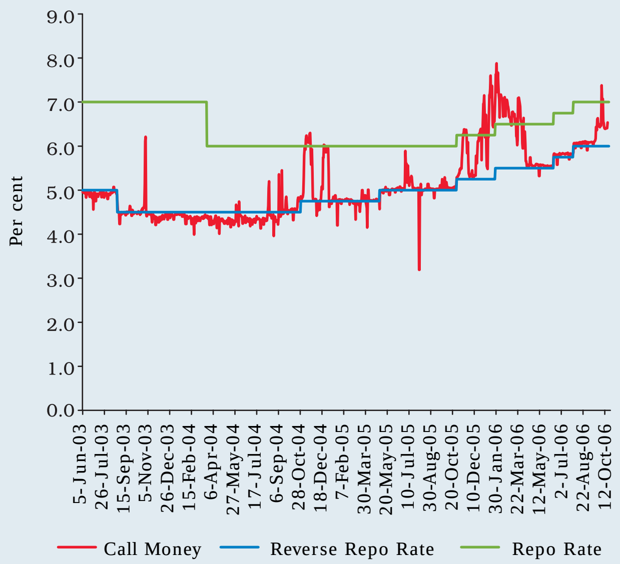
6.73 During the first half of 2005-06, call money rates were closer to the reverse repo rate, the lower bound of the liquidity adjustment facility (LAF) corridor, reflecting comfortable liquidity conditions. Average daily call money borrowing rates hovered around the reverse repo rate for a major part of the period. With the increase in the fixed reverse repo rate by 25 basis points on April 29, 2005, call rates also edged up by a similar magnitude. Towards the end of June 2005, call rates rose above the reverse repo rate under liquidity pressures on account of advance tax payments and scheduled Treasury Bills auctions. Call rates, however, edged lower towards the reverse repo rate by mid-July 2005 as liquidity conditions improved due to cancellation of some scheduled Treasury Bills auctions, return of advance tax payments to the banking system and

Chart VI.2: Behaviour of Call Rates 2005-06
(Monthly Average)



large foreign currency purchases from the authorised dealers during July-August 2005. Call rates remained broadly stable between August 2005 and October 2005, except for transitory mild pressure during the second half of September 2005. During November 2005, call money rate remained generally above the reverse repo rate. On a few occasions, call rate exceeded the repo rate, reflecting liquidity pressures emanating from sustained credit demand, festival demand for currency and scheduled auctions (Chart VI.3). The

Chart VI.3: Call Rate, Repo Rate and Reverse Repo Rate



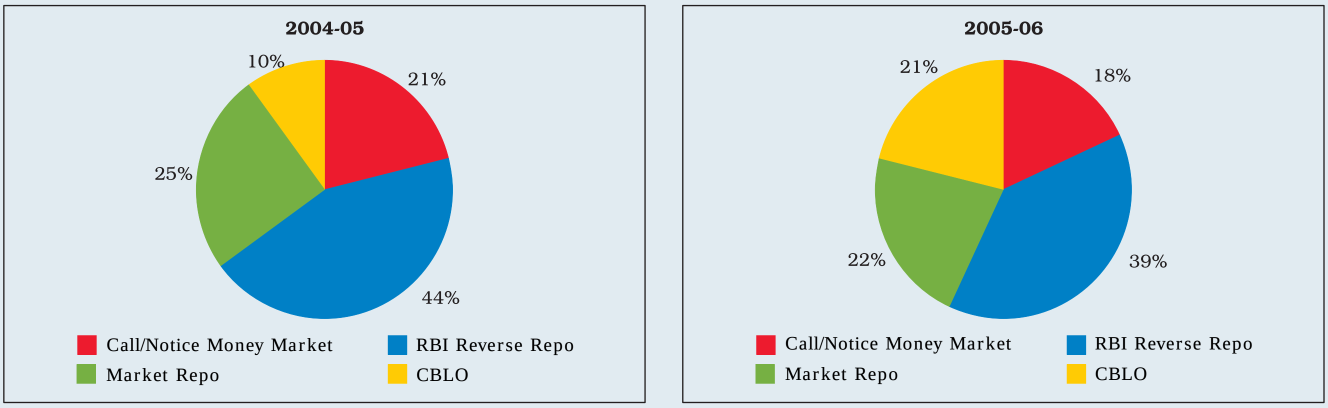
Reserve Bank, therefore, injected liquidity into the system through LAF repos on seven occasions during the month. The notified amount of Treasury Bills auctions under the MSS was also cancelled from November 9, 2005. To fine-tune the management of liquidity and in response to suggestions from the market participants, the Reserve Bank introduced a Second Liquidity Adjustment Facility (SLAF), with effect from November 28, 2005. Beginning with the second half of December 2005, call money rates again edged up and remained generally above the repo rate, reflecting frictional liquidity pressures emanating from IMD redemptions amidst sustained large credit offtake and quarter-end advance tax payments. The Reserve Bank, accordingly, injected liquidity through LAF operations, unwinding of MSS, purchase of foreign currency and daily refinance window. Call rates eased during the second half of March 2006, reflecting improvement in liquidity conditions.

6.74 During 2006-07, call rates initially eased up from the rate prevailing at end-March 2006 and remained close to the reverse repo rate, reflecting comfortable liquidity conditions. The call money rate, however, hardened during August-September 2006 on account of transient liquidity pressures emanating from advance tax outflow amidst sustained credit demand and festival season currency demand. Call rates remained within the informal corridor in the second week of October 2006.

6.75 In pursuance of the recommendations of the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) (1998), the process of transforming the call/notice money market into a pure inter-bank market was completed in August 2005. Scheduled commercial banks, co-operative banks and primary dealers (PDs) now participate in the uncollateralised call/ notice money market in accordance with prudential limits placed on their borrowings and lendings. In the collateralised segment of the overnight market, eligible non-bank entities also participate. With the imposition of prudential limits on the borrowings and lending of banks and PDs in the uncollateralised segment, the risks in the money market have been mitigated to a large extent.

6.76 A noteworthy development during the year from the financial stability perspective was the substantial migration of money market activity

Chart VI.4: Turnover in the Money Market



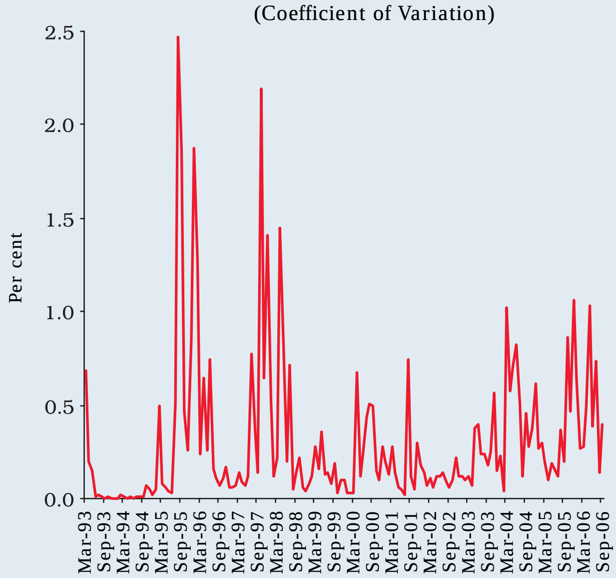
from the uncollateralised call money segment to the collateralised market repo and CBLO (Chart VI.4). This migration of activity has been largely the result of the policy of phasing out non-bank participants from the call money market. Volumes in the market repo (outside the Reserve Bank LAF) more than doubled from Rs.12,174 crore in April 2005 to Rs.31,964 crore in March 2006, while those in the CBLO market more than trebled from Rs.10,370 crore to Rs.35,775 crore, resulting in a decline in the share of the uncollateralised call market to the total overnight market transactions in March 2006. The increase in volumes in the collateralised segment is important from the point of view of financial stability as it reduces the risk exposure of market participants. The CBLO market has been gradually becoming more significant. By March 2006, 152 members with 79 active members had registered in the CBLO segment. Initially, only one insurance company and a few co-operative banks supplied funds in this segment, but now mutual funds have emerged as the largest suppliers of funds. For the borrowing banks, the CBLO is attractive since it offers anonymity and provides funds at lower costs. However, the structure of the segment is undergoing a change with corporates becoming more significant borrowers in the CBLO segment.

6.77 A sharp increase was also observed in volumes in the FRAs/IRS market. The notional principal amount under FRA/IRS contracts moved up to Rs.21,94,637 crore in March 2006 from Rs.13,58,487 crore in April 2005.

Foreign Exchange Market

6.78 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 inflows, followed by episodes of drying up of capital flows. On the whole, the foreign exchange market witnessed fairly stable conditions during the 1990s, especially from 2000-01 onwards, 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.5).

Chart VI.5: Volatility in the Foreign Exchange Market
(Coefficient of Variation)



6.79 The Indian rupee exhibited a two-way movement *vis-‡-vis* the US dollar in a range of Rs.43.30ñ46.33 per US dollar during 2005-06 (Chart VI.6). The rupee, which remained range-bound during the first quarter of 2005-06, appreciated somewhat following the revaluation of the Chinese renminbi on July 21, 2005 and moved up to Rs.43.56 per US dollar on August 18, 2005. The rupee, however, came under pressure from end-August 2005 under the impact of rise in oil prices, sharp increase in the current account deficit and strong US dollar. As a result, the exchange rate depreciated to Rs.46.33 per US dollar on December 8, 2005. With the revival of FII inflows and weakening of the US dollar in the international markets, the rupee strengthened from the second half of December 2005, despite IMD redemptions.

6.80 The exchange rate was Rs.44.61 per US dollar as on March 31, 2006 at which level it was lower by 1.9 per cent over the level as on March 31, 2005. On an annual average basis, the rupee, however, appreciated by 1.5 per cent against the US dollar. Based on daily data, the standard deviation of rupee-dollar exchange rate declined from 1.03 during 2004-05 to 0.79 during 2005-06, reflecting relatively stable conditions in the forex market from financial stability perspective. In this regard, the Reserve Bankís exchange rate policy continues to be guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene, if and when necessary. Reflecting cross-currency movements, the rupee appreciated by 4.4 per cent against the Euro, 5.5 per cent against the Pound sterling and 7.3 per cent against the Japanese yen between end-March 2005 and end-March 2006. On an annual average basis, the rupee appreciated by 5.0 per cent each against the Pound sterling and the euro and by 6.8 per cent against the Japanese yen.

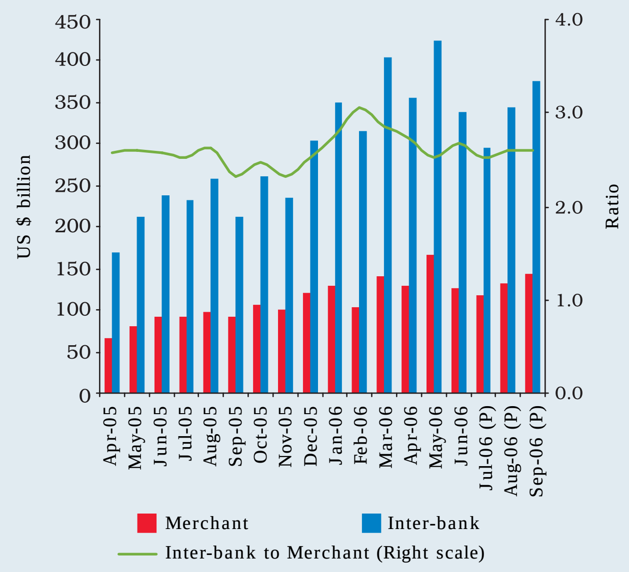
6.81 The turnover in the inter-bank as well as merchant segments of the foreign exchange market increased sharply during 2005-06, reflecting strong growth in underlying transactions relating to current and capital account of balance of payments. The turnover in both the segments nearly doubled. While inter-bank turnover increased from US $ 237 billion during March 2005 to US $ 405 billion in March 2006, the merchant turnover increased from US $ 89 billion to US $ 141 billion. The ratio of inter-bank to merchant turnover ranged between 2.3-3.1 during 2005-06 (Chart VI.7). The ratio suggests low speculative activity in the foreign exchange market.

Government Securities Market

6.82 Various reform measures initiated by the Reserve Bank have imparted liquidity and depth to the Government securities market. With the aligning of coupons with market interest rate, the

Chart VI.6: Exchange Rate ñ Rupee *vis-a-vis* US Dollar

Chart VI.7 : Inter-bank and Merchant Turnover



gilt-edged market has gradually widened with the participation of several non-bank players. Presently, apart from banks and insurance companies, investor base includes the private corporate sector, mutual funds, finance companies as also individuals. Introduction of Order Matching segment on NDS (NDS-OM) gave a further impetus to the development of the government securities market. Currently, 134 members operate on NDS-OM. In order to increase the number of participants in NDS-OM, access has been allowed to insurance companies, mutual funds and pension and provident funds. Further, extending indirect access to all ìgilt accountî holders to NDS-OM through constituent subsidiary general ledger (CSGL) option is under active consideration.

6.83 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 and 91-day Treasury Bills through auctions. In the long-term segment, the *vanilla* or the fixed coupon bonds are the most commonly used instruments, although floating rate bonds (FRBs) were introduced in September 1995 but not followed up until 2002 due to lack of interest from market participants. 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 finalisation of regulations relating to the Government Securities Act, 2006 and STRIPS can then be introduced once the appropriate system development is complete.

6.84 The FRBM Act prohibits the Reserve Bank from participating in the primary auctions of Government securities from April 1, 2006. Although this is a positive development, it could have some adverse impact on the market in the short run. The Reserve Bank, therefore, took several structural and developmental measures for the Government securities market. These included: (i) phased introduction of short sale to increase turnover and improve liquidity in the secondary market; (ii) phased introduction of trading in ëWhen Issuedí market in respect of Central Government dated securities for better price discovery in the primary market; (iii) revised scheme for underwriting of Central Government securities auctions requiring 100 per cent underwriting by PDs accompanied by performance based liquidity support to PDs; (iv) allowing stand alone PDs to diversify their business to mitigate risk arising from concentration of business in one activity; and (v) allowing banks to conduct PD business departmentally by merging their respective PD subsidiaries that would serve to mitigate the business risks of stand alone PDs. These measures would make the Government securities market more vibrant and thereby help in strengthening financial stability.

6.85 The Reserve Bankís absorption of primary issues declined sharply in 2005-06 as compared with the previous year. The increased depth and liquidity of the Government securities market has enabled the Reserve Bank to pursue its monetary policy through market-based instruments. During 2005-06, outright transactions in the Government securities market declined sharply in an environment of rising interest rates (Table VI.1). Total turnover (outright and repo), which increased marginally during 2004-05, declined during 2005-06. The decline in turnover could adversely affect liquidity in certain segments of the yield curve and impact the process of efficient price discovery. Average daily turnover declined from Rs.4,826 crore during 2004-05 to Rs.3,643 crore during 2005-06. The ratio of turnover to outstanding stock of Government securities also declined from 2.0 to 1.5. It is observed that the markets remain active and liquid when the rates are falling, but turn lacklustre and illiquid when the rates rise as market players, governed by strong risk averse behaviour, prefer not to take a view on interest rates. As low volumes render markets shallow and prone to price manipulations, a number of measures, such as permitting short selling, have been taken to enable participants to

Table VI.1: Secondary Market Transactions in Central Government Securities

(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	†8,81,632	†16,98,770	†25,80,401
2006-07(Apr-Sept)	4,74,694	†13,70,349	†18,45,043

Chart VI.8: Yield curves for Goverment Securities

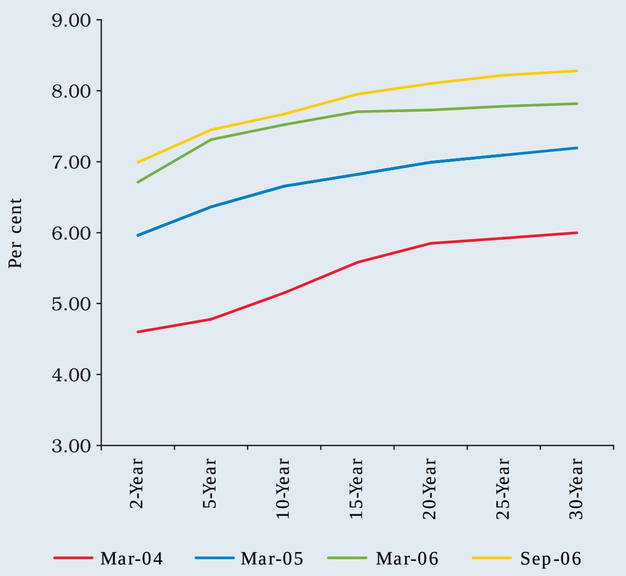
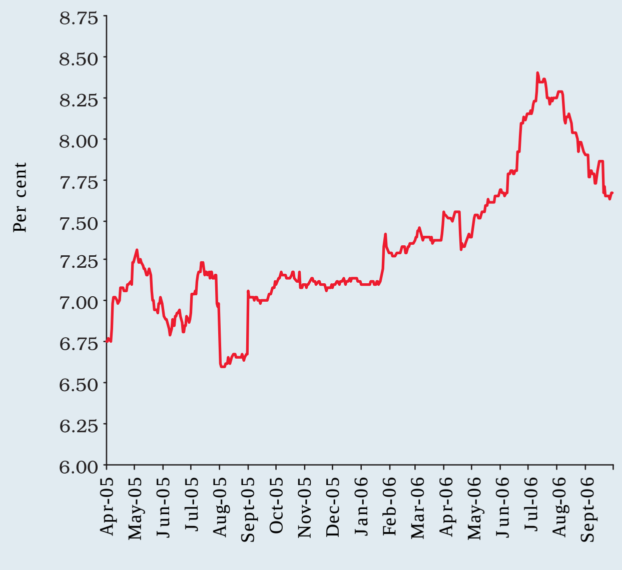


Chart VI.9: 10-year Government Security Yield



manage their interest rate risk more efficiently and also to impart liquidity to the markets, even in a rising interest rate scenario.

6.86 The yield curve has also evolved over the years. Till 1997-98, the curve was limited up to 10 years. Gradually, with the elongation of maturity of Government bond issuance, the yield curve got extended up to 30 years (Chart VI.8). Government securities are now emerging as a benchmark for pricing private debt instruments.

6.87 Yields in the Government securities market hardened during 2005-06 (Chart VI.9). The increase in yield was higher at the short-end of the maturities than at the long-end, reflecting relatively stable inflation expectations. Intra-year movements in yields were influenced by domestic liquidity conditions, inflationary expectations, volatility in crude oil prices and movements in the US yields. On April 30, 2005, yield on 10-year paper firmed up sharply by 70 basis points to 7.35 per cent over end-March 2005 on fears of higher inflation in the backdrop of rising global crude oil prices and announcement of hike in the reverse repo rate by 25 basis points in the Annual Policy Statement released on April 28, 2005. Yields, however, softened during May and June 2005 to reach 6.89 per cent on June 30, 2005 amidst comfortable liquidity position, benign inflation and fall in the US treasury yields. The markets rallied briefly in July 2005 and yields softened as the reverse repo rate was left unchanged in the First Quarter Review of the Annual Policy Statement on July 26, 2005. Yields, which remained broadly stable between August and December 2005, edged up in the last week of January 2006 following the increase of 25 basis points in both the reverse repo and repo rates in the Third Quarter Review of the Annual Policy Statement on January 24, 2006. The 10-year yield hardened to 7.41 per cent on January 27, 2006 before declining to 7.28 per cent on January 31, 2006. For most part of February-March 2006, yields were range-bound. However, towards end-March, rise in US yields had an impact on the domestic market, with the 10-year yield reaching 7.52 per cent on March 31, 2006.

6.88 The spread between 1-year and 10-year yields narrowed to 98 basis points at end-March 2006 (from 114 basis points at end-March 2005), mirroring tight liquidity conditions in the money market. The spread between 10-year and 30-year yields narrowed to 30 basis points (from 54 basis points at end-March 2005), reflecting increased appetite for long-term securities by non-bank participants such as insurance companies and pension funds. Yields further hardened during April-July 2006, reflecting further monetary policy tightening in the US and in other economies, high and volatile crude oil prices, hike in domestic policy rates, expected issuance of oil bonds and higher Government expenditure in the first quarter of 2006-07. The 10-year yield peaked to

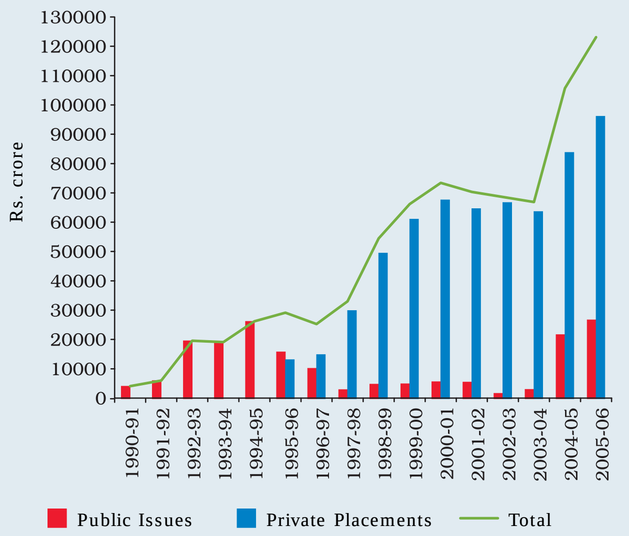
8.40 per cent on July 11, 2006 on account of rising inflation and expectation of rate hike. Thereafter, the yields eased on account of rally in US Treasury bonds following a pause in the US Federal Funds Rate hikes and decline in global crude oil prices beginning August 2006. The announcement of the issuance calendar for the second half of the fiscal, which was as per market expectations, also helped in further easing of yields. The 10-year yield was placed at 7.67 per cent by end-September 2006.

Capital Market

6.89 The capital market in India, which remained on the periphery of the financial system despite a long history, witnessed a structural transformation beginning early 1990s as a result of a series of reforms. The market witnessed increased activity in the initial phase of reforms. However, it turned lacklustre until 2004-05, when the activity picked up again with the corporates raising sizeable resources from the market (Chart VI.10).

6.90 The financing conditions in the capital market remained conducive during 2005-06. Resource mobilisation from the primary market through public issues (excluding offers for sale) increased by 23.1 per cent to Rs.26,940 crore during 2005-06. The increase was entirely on account of private sector companies as resources raised by public sector companies were lower as compared with the previous year. Banks and financial institutions, in both public and private sectors, mobilised 48.8 per cent of total resources by public issues in 2005-06.

Chart VI.10: Resource Mobilisation from the Primary Capital Market



6.91 The Indian corporate sector continued to rely heavily on domestic private placement market during 2005-06 (Table VI.2). However, mobilisation of resources through the private placements grew at a lower rate of 15.5 per cent during 2005-06 as compared with 30.5 per cent during 2004-05. This is significant as the private placement segment lacks the transparency of the public issues segment.

6.92 Mutual funds have played an important role in the development of the capital market. Growing investor interest in the equity market over the years could also be gauged from the resource mobilisation by mutual funds. Net funds mobilised by mutual funds (net of redemptions) increased sharply to Rs.52,538 crore during 2005-06 as against Rs.2,260 crore during 2004-05 mainly due to resources mobilised under equity-oriented schemes, which is an indicator of growing investor confidence. Net resources mobilised under the equity-oriented schemes increased by about five times during 2005-06 to Rs.35,231 crore from Rs.7,100 crore in the previous year, driven by attractive returns from these schemes in view of buoyant secondary market conditions. Gross mobilisation of funds by mutual funds also grew by 30.6 per cent during 2005-06. Net assets under management of the mutual fund industry increased by 54.7 per cent during 2005-06 (Table VI.3).

6.93 In line with the general hardening of yield on Government securities and firming up of other interest rates, corporate yields firmed up. The yield on 5-year triple ëAí corporate bond hardened from 7.14 per cent at the beginning of April 2005 to 8.36 per cent by end-March 2006 and further

Table VI.2: Mobilisation of Resources from the Primary Capital Market

(Rs. crore)

Item	2004-05	2005-06
1	2	3
Prospectus and Rights Issues*	21,892	26,940
Private Placements	83,405	96,368
Total	**1,05,297**	**1,23,308**

* : Excluding offers for sale.

Table VI.3: Funds Mobilised by Mutual Funds - Type of Scheme

(Amount in Rs. crore)

Scheme	2004-05				2005-06			
	No. of Schemes	Gross Mobilisation	Net Mobilisation@	Net Assets*	No. of Schemes	Gross Mobilisation	Net Mobilisation@	Net Assets*
1	2	3	4	5	6	7	8	9
A. Income/Debt Oriented Schemes	**227**	**7,98,674**	**-5,244**	**1,06,250**	**325**	**10,08,130**	**16,621**	**1,24,913**
Liquid/ Money Market	39	6,38,594	10,348	54,068	45	8,36,859	4205	61,500
(i) Gilt	30	4,361	-1,345	4,576	29	2,479	-1,560	3,135
(ii) Debt (other than assured return)	158	1,55,719	-14,247	47,605	251	1,68,791	13,977	60,278
B. Growth/Equity Oriented Schemes	**188**	**37,280**	**7,100**	**38,484**	**231**	**86,014**	**35,231**	**99,456**
(i) ELSS	37	155	-194	1,727	37	3,935	3,592	6,589
(ii) Others	151	37,126	7,294	36,757	194	82,079	31,639	92,867
C. Balanced Schemes	35	3,755	345	4,867	36	4,006	927	7,493
D. Fund of Funds Scheme	12	1,827	59	980	13	845	-241	1,012
Total	**462**	**8,41,535**	**2,260**	**1,50,581**	**605**	**10,98,995**	**52,538**	**2,32,874**

@ : Net of redemptions. * : As at the end of March.

Source : Securities and Exchange Board of India.

to 8.54 per cent by end-September 2006. The yield spread between 5-year triple-A rated corporate bond and 5-year Government security also widened significantly between December 2005 and March 2006 (Chart VI.11).

6.94 A similar trend was also observed between the spread of 10-year triple-A rated corporate bond and 10-year Government security (Chart VI.12). The widening of spread suggests some uncertainty at the short-end. However, in the long run, expectations continued to be stable as reflected in the marginal increase in long-term yields.

6.95 Conditions in the secondary market remained extremely buoyant during 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 have any impact on the equity valuations as investors focussed on improved growth prospects and expected increase in corporate

Chart VI.11: 5-year Government Security and Corporate Bond Yields

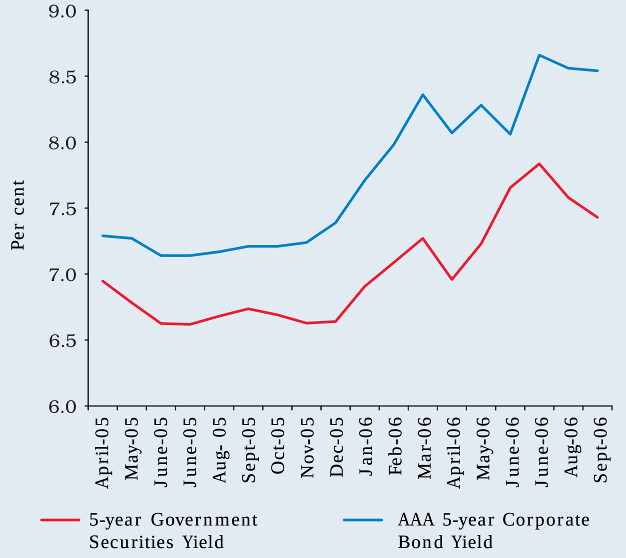
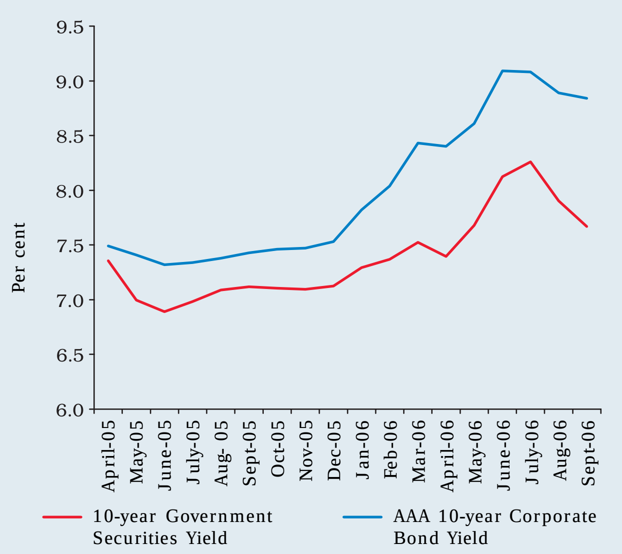


Chart VI.12: 10-year Government Security and Corporate Bond Yields



earnings. FIIs and domestic institutional investors invested large funds encouraged by strong macroeconomic fundamentals, encouraging business outlook and robust corporate earnings. Positive measures such as increase in financial institutional investment (FII) investment limit in Government securities and corporate debt, treating open-ended and close-ended equity-oriented schemes at par for dividend distribution tax, rationalisation of excise duties and relaxation in fringe benefit tax (FBT) also aided the market sentiment. During 2005-06, the BSE Sensex rose by 73.7 per cent over end-March 2005 level, while the S&P CNX Nifty increased by 67.1 per cent (Chart VI.13).

6.96 The domestic stock markets remained firm till May 10, 2006 when both the BSE Sensex and the S&P CNX Nifty closed at a high level of 12612 and 3754, respectively. However, the market witnessed a sharp correction beginning from May 11, 2006 mainly due to net heavy sales by FIIs caused by a fear of rise in global interest rates, sharp fall in base metal prices at London Metal Exchange, rise in global crude oil prices, weakness in rupee *vis-‡-vis* the US dollar and fear of higher domestic inflation. The weak trend continued till June 14, 2006 when the BSE Sensex touched 8,929. Sharp volatility in the stock prices did not spill over to other segments of the financial market. The payment and settlement system also continued to function smoothly during times of stress. The stock markets started recovering again

Chart VI.13: Movements in Stock Market Indices

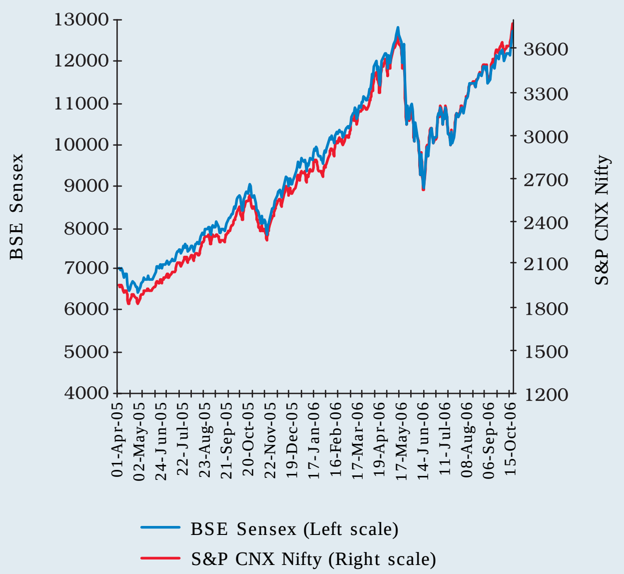
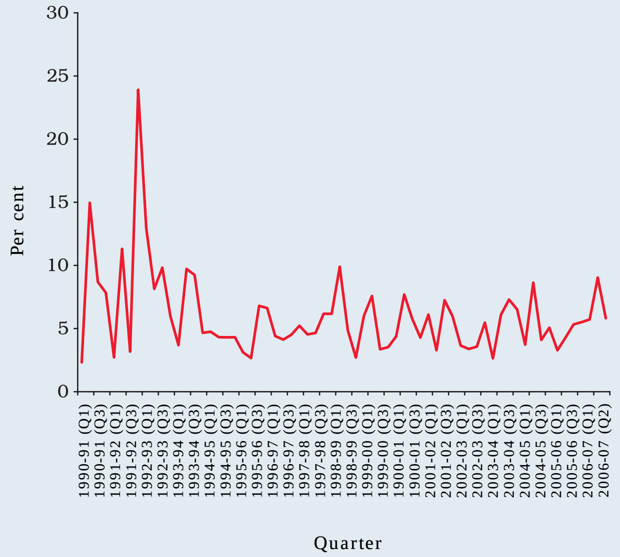


Chart VI.14: Quarterly Coefficient of Variation of BSE Sensex



from mid-June 2006 and the BSE Sensex touched an all-time high level of 13,131 on November 3, 2006. This reflected fresh buying by FIIs on expectation of better growth prospects and recovery in major international equity markets.

6.97 The volatility in the Indian stock markets has declined after 1992-93. Increase in volatility in the stock markets during 2006-07 (Q1) was mainly due to a sharp decline in share prices during May-June 2006. However, volatility has come down subsequently in the second quarter (Q2) (Chart VI.14).

6.98 The Reserve Bank closely monitored the developments when the stock markets declined sharply. The Reserve Bank got in touch with major settlement banks and stock exchanges and intervened in the forex market to assuage market sentiments. It also announced its readiness to provide sufficient liquidity to banks to enable them to meet their payment obligations and intra-day requirements so that the payment transactions were carried out smoothly.

4. Payment and Settlement Systems

6.99 The smooth functioning of the payment and settlement system is a pre-requisite for financial stability. Any assessment of financial stability, therefore, needs to be examined from the perspective of the functioning of the payment and settlement systems. In this context, large-value payments, which involve systemic risk, are particularly important as they link various financial institutions through intra-locking of claims. Any glut arising out of transaction failure in one leg of the financial system could trigger off a chain of successive failures, which could pose a serious systemic risk to the stability of the financial system.

6.100 It has been the endeavour of the Reserve Bank to reduce the risks associated with payment and settlement systems. The Reserve Bank, therefore, has taken several measures from time to time to develop the payment and settlement system along sound lines. The initiatives taken during 2005-06 relate to: (i) enhancing usage of the real time gross settlement system (RTGS) system; (ii) providing incentives and guidelines for reducing transaction costs associated with payment system dependent on technology: (iii) improving legal infrastructure for the payment system; (iv) introducing nationwide payment system for retail payment; (v) improving international remittance services; and (vi) facilitating newer channels of payment and settlement.

6.101 The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), set up in March 2005, as a committee of the Central Board of the Reserve Bank, is the apex body for giving policy direction in the area of payment and settlement systems. The BPSS gave important policy directions/decisions including: (i) setting target for usage of the RTGS system; (ii) publishing a list of frequently asked questions (FAQ) on payment systems; (iii) publishing the charges levied by banks for electronic payment systems; (iv) setting up of an umbrella organisation for all retail payment systems in the country; (v) finalising the Payment and Settlement Systems Bill; and (vi) preparing the Electronic Funds Transfer Regulations under the Reserve Bank of India Act.

6.102 With introduction of RTGS, whereby a final settlement of individual inter-bank fund 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.4).

6.103 The use of Electronic Clearing Service (ECS), both debit and credit, has been on the increase. The reach of ECS has increased, which is now available at 52 centres. In November 2005, banks were advised to develop appropriate delivery channels of electronic payment services using the payment systems developed by the Reserve Bank such as RTGS, ECS, Electronic Fund Transfer (EFT), and National Electronic Fund Transfer (NEFT) with no further delay. In order to start a robust state-of-the-art nationwide ECS covering more branches and locations with centralised data submission system, banks (including co-operative banks) were advised to furnish certain information indicating their level of preparedness for the project as on June 27, 2006. To take the effort further, all banks were directed on July 4, 2006 to initiate steps for incorporating an appropriate mandate management routine for handling ECS (Debit) transactions.

Table VI.4: Paper-based *versus* RTGS Transactions

(Value in Rs. crore)

Quarter Ended	Instrument-based Inter-bank transactions		RTGS Inter-bank transactions		RTGS Customer transactions		Total RTGS transactions	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
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*	ñ	ñ	2,04,290	18,39,311	67,504	2,06,796	2,71,794	20,46,107
September 2005	ñ	ñ	2,54,498	21,18,816	1,29,678	5,46,397	3,84,176	26,65,213
December 2005	ñ	ñ	2,89,314	26,11,144	1,97,719	7,71,219	4,87,033	33,82,363
March 2006	**ñ**	**ñ**	**3,05,838**	**24,01,353**	**3,18,157**	**10,45,801**	**6,23,995**	**34,47,153**
June 2006	ñ	ñ	3,14,472	27,30,945	4,89,106	14,27,971	8,03,578	41,58,916

* : Instrument-based inter-bank clearing was discontinued at all the centres by June 30, 2005.

6.104 The operationalisation of the NEFT in November 2005 was a major step in the direction of operating/achieving payment systems at the national level. The NEFT is a secured network, which uses the SFMS messaging format with public key infrastructure (PKI) enabled digital signatures having a nation-wide network. All the SEFT clearing banks were advised to migrate to NEFT system by December 15, 2005. With the implementation of NEFT, the SEFT system was discontinued from February 2006**.** The Reserve Bank has also advised banks to adopt the centralised funds management system (CFMS), which enables banks to transfer funds across its accounts with various offices of the Reserve Bank. At present, the system is available at six centres with two more centres likely to be included in the near future.

6.105 For further improving the efficiency of the paper-based system, a plan has been drawn up for computerisation of clearing operations at centres where there are more than 30 banks. A few centres have already computerised the clearing house operations using the magnetic media based clearing system (MMBCS). Under this system, the member banks present their claims in the form of an electronic file, which gets processed on the computer. This enables arriving of settlement figures within 15 minutes as compared with three or four hours under the manual system.

6.106 A set of Minimum Standards of Operational Efficiency for MICR cheque processing centres was framed in order to ensure smooth operations at cheque processing centres. The standards mainly relate to encoding of instruments, time schedule, operational procedures, speed and accuracy of on-line reject repair (OLRR), checking of settlement reports for supervisory signals, enabling banks to download reports/data on-line, reconciliation and business continuity plans.

6.107 The implementation of Cheque Truncation System (CTS) is another effort for bringing in efficiency of paper-based system. To be introduced on a pilot project basis in the national capital region of Delhi, the CTS would be rolled out across the country in phases. Apart from reduction in transaction costs for banks as well as customers, it has the additional advantage of much reduced reconciliation problems and incidents of clearing frauds.

6.108 The Clearing Corporation of India Limited (CCIL) set up by banks is the central counter party (CCP) for the clearing of transactions in Government securities and foreign exchange. The CCIL operates the G-Sec clearing, while the settlement for both the securities and funds takes place in the Reserve Bank. The CCIL acts as the CCP for all the transactions and guarantees both the securities and funds legs of the transaction. Another large value segment operated by the CCIL is the forex clearing. The settlement through CCIL has reduced the gross US dollar requirement by more than 90 per cent.

5. Risks to Financial Stability

6.109 The Annual Policy Statement of the Reserve Bank in April 2006 warned of three key risks from global developments for India and other emerging market economies. These are: (a) potential escalation and volatility in international crude oil prices; (b) hardening of international interest rates along with uncertainty about the future course of monetary policy; and (c) disorderly unwinding of the global imbalances. Since then, however, the outbreak of the *Avian Flu* has become a major issue of concern. In addition, the turnaround in the credit cycle brought about by rising international interest rates in advanced economies could also pose a risk to financial stability.

6.110 If any of the above risks materialise, global financial market conditions could react in a way that could increase the risks to financial stability. In particular, concerns have been raised about the potential for illiquidity to emerge in credit markets in emerging market economies such as India. The volatility in international financial markets would also spill over to the domestic financial markets.

6.111 This section examines the main sources of risks that could affect financial stability in India in the near future. It needs to be noted that drawing attention to sources of risk for financial stability differs from seeking to identify the most probable outcome. It vividly outlines potential and plausible sources of downside risk, even if chances of their occurring are relatively remote.

(i) *Risks from Rising Oil Prices and Increasing Inflationary Pressures*

6.112 Inflation entails high cost for society as a high inflation environment often leads to rapid investment in the financial sector which can be the genesis of an asset bubble (Mishkin, 2006)[2]. At this juncture, the major risk to inflation is from high and volatile crude oil prices. International crude prices firmed up to more than US $ 78 per barrel in July-August 2006 on account of seasonal demand for heating fuel and disturbances in key producing countries. Oil markets are currently characterised by high inventories co-existing with high prices and other uncertainties about future supply. Global oil demand is expected to accelerate from the levels of 2005 while global spare oil production capacity is projected to increase only modestly during 2006 and 2007. On the whole, the outlook for the oil economy in the near term appears to be tilting in favour of greater volatility.

6.113 Consumer price inflation in the advanced economies accelerated in the second quarter of 2006, mainly on account of oil price increases. In addition, risks loom large in the form of lagged second order effects of oil price increases in view of the geo-political tensions. Inflation expectations have also been reflected in the increasing gap between nominal and inflation-indexed bonds in the global financial markets. The pre-emptive monetary tightening by major central banks during the earlier part of 2006 helped abate the second round effects of soaring oil prices. Accordingly, although headline inflation remained at elevated levels, inflationary expectations continued to be modest in most economies. Consequently, there has been a pause in monetary tightening by many central banks during August-October 2006 such as the Federal Reserve in the US, the Bank of Japan and the Bank of Canada.

6.114 In the Indian context, the renewed hardening of international crude prices from an average level of US $ 57 per barrel at end-2005 to above US $ 78 per barrel by July 2006 resulted in an increase of 6-9 per cent in domestic administered prices of petrol and diesel. The changes in administered prices of petrol and diesel in India in June 2006 imparted a direct effect of 45 basis points on headline inflation. Given that pass-through from international oil prices to domestic POL product prices remains incomplete, there remains an upside risk to inflation. However, the recent decline in oil prices has somewhat eased the pressure. Besides inflation, the rise in oil prices threatens to widen the current account deficit of the country through higher import bill. Furthermore, the rise in domestic cost of production would also have an adverse impact on the domestic terms of trade, thereby affecting export performance. The increase in domestic food prices, occurring in an environment in which international food prices were also hardening, was another significant factor.

6.115 Average international crude oil prices increased from US $ 38.9 per barrel in 2004-05 to US $ 55.3 per barrel in 2005-06. As a result, while total imports increased from US $ 118.9 billion in 2004-05 to US $ 156.3 billion in 2005-06 (increase of 31.5 per cent), oil imports increased from US $ 29.8 billion in 2004-05 to US $ 44 billion (increase of 47.3 per cent). Consequently, the trade deficit widened during 2005-06, reflecting the cumulative impact of high level of international crude oil prices and growth in imports emanating from strong industrial activity. The sustained rise in invisibles surplus from buoyant software exports, workers' remittances and various professional and business services, however, moderated the impact of increase in trade deficit on the current account. In addition, net capital inflows continued to remain large supported mainly by non-debt inflows. Thus, on the whole, balance of payments position remained comfortable with foreign exchange reserves increasing by US $ 10.1 billion during 2005-06, despite an outgo of US $ 7.1 billion on account of IMD redemption.

6.116 In the absence of any further increase in domestic oil prices since July 2006, headline inflation in India was contained (5.4 per cent as on October 21, 2006), despite pressures from primary food articles. Against the backdrop of limited pass-through, pre-emptive monetary and fiscal measures have helped in containing inflation expectations in India. However, the risks to inflation have somewhat receded with decline in international oil prices, reflecting lower global demand and easing of geo-political tensions. Furthermore, if the current level of international oil prices is sustained, then it may not call for further pass-through to domestic prices.

(ii) *Rising International Interest Rates and Global Turnaround in the Credit Cycle*

6.117 As a result of risks to inflation emanating partly from higher international oil prices, a large number of central banks had raised their official

[2] Mishkin, F. S., 2006: ëMonetary Policy Strategy: How Did We Get Here?í NBER Working Paper No.12515, NBER, September.

interest rates during 2005-06 and 2006-07 (up to October 2006). These include the US Federal Reserve, the European Central Bank (ECB), the Bank of England, the Bank of Japan, the Bank of Canada, and the Reserve Bank of Australia.

6.118 From the point of view of financial stability, the main cause for concern for rapid increase in interest rates is that it renders a large number of markets more vulnerable to risk reappraisal and abrupt asset price adjustments. Mature markets have so far proved resilient. However, in the period ahead, asset valuations could be vulnerable to drying up of global liquidity conditions. It could bring about significant portfolio losses for banks and non-bank financial firms. For financial markets, large and potentially correlated asset price adjustments could cause liquidity to dry up and undermine the hedging of financial risks.

6.119 The tightening of interest rates could have significant implications for credit markets the world over, which are currently witnessing an unprecedented boom. One of the issues that has drawn considerable attention is the surge in credit offtake, both in developed and emerging market economies. There were a number of episodes in the last century when many developed countries had also experienced rapid growth in credit (and booming asset prices) resulting in a surge in aggregate demand as in the last two years. Such credit and asset market booms then were a precursor to financial instability (Box VI.8). These conditions were

Box VI.8: Are Bank Credit Booms Indicators of Financial Instability?

In bank-based financial systems such as India, bank credit plays a critical role in facilitating the growth process; hence credit booms are often positively correlated with a high-growth phase of the economy. Credit booms are often followed by dilution of risk assessment criteria by banks and financial institutions, which may trigger episodes of financial instability. In this regard, financial instability that might result from credit booms, can, in fact, threaten price stability (White, 2006). Therefore, credit booms need to be carefully monitored by the policy makers.

The 1990s was a decade of generally low and stable interest rates in many countries. Accommodating credit and accelerating productivity growth fuelled increases in property prices and encouraged rapid increase in securities prices. It is, now, conventional wisdom that the East Asian crisis was due to an inefficient banking system that failed to set adequate risk management standards during the credit boom, which was directed for speculative investments in real estate ventures. These factors heighten the vulnerability of financial systems and economies to a sudden reversal of sentiment and engender financial instability. Empirical evidence suggests that credit booms turn out to be the best predictor of future banking crises, a key indicator of financial instability. While banking crises *vis-‡-vis* currency crises are more difficult to forecast, the adverse impact of banking crises on economic activity is more enduring (Goldstein, Kaminsky and Reinhart, 2000).

Among the consequences of credit booms resulting in financial instability, there has been a renewed interest in the role of credit dynamics in post-World War I cyclical developments. The consequences then, as in the 1990s, included property booms, increasing consumer debt, surging investment and rising securities prices. They fuelled concern about the stability of financial institutions and markets and culminated in the global financial meltdown during the Great Depression. This characterisation of the Great Depression as a credit boom having gone wrong has many lessons for policy makers, particularly in the context of large and rapid capital flows. The failure of domestic monetary authorities to quickly install stable policy rules is an important reason for explaining the fragilities that set the stage for the Great Depression (Eichengreen and Mitchener, 2003). The credit boom view suggests that the inter-war gold standard also played a role in the expansion phase, when credit was allowed to expand more rapidly. In addition, focusing on the role of credit conditions in the expansion of the 1920s and slump of the 1930s directs attention to two factors: the structure of domestic financial systems and the interplay of finance and innovation. It was precisely the experience of the 1920s and the 1930s that provided the backdrop for Schumpeterís characterisation of the cyclical aspect of capitalism as ìinnovation financed by credit.î The present surge in global credit is reminiscent of the development and effects of credit conditions in the 1920s and the fact that the interaction of credit with innovation may generate business cycles (Eichengreen and Mitchener, 2003).

One possible implication is that policy makers should act pre-emptively to prevent the growth of unsustainable credit booms that might have adverse macroeconomic and financial consequences later. It is, however, felt that monetary policy measures are inadequate in containing credit booms and may actually trigger a recession in the economy. The growing consensus seems to be that financial market regulators should resort to increases in capital requirements to prevent the credit boom from being unsustainable.

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Mohan, Rakesh (2006), ëFinancial Sector Reforms and Monetary Policy: The Indian Experienceí, Reserve Bank of India Bulletin, July.

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Reserve Bank of India (2006), Annual Policy Statement for 2006-07; April.

sharply reversed later as the growth in credit decelerated causing meltdown of asset prices and low economic activity.

6.120 The rising interest rates could bring about a downturn in the corporate credit cycle. The credit cycle refers to fluctuations in the financial health or the balance sheet quality of the corporate sector that affects firmsí access to and cost of credit. In this regard, the turning of the credit cycle brings about an increase in non-systematic risk reflected in the widening of credit spreads. The use of credit derivatives has facilitated the distribution of credit risk across a broader group of investors, which is believed to enhance financial stability (Box VI.9).

6.121 From a financial stability viewpoint, a deterioration in corporate sector credit quality would not only lead to greater loan losses for banks, but also an asset price readjustment in the credit markets, especially if the frequency of unexpected corporate defaults were to rise. Although still low, this risk appears to have increased somewhat over the past six months, given higher short-term interest rates and oil prices.

6.122 Like many other economies, credit extended by banks in India has increased sharply in recent times. Credit growth, though more pronounced in the housing and retail sectors, is now more broad-based with increased demand from both agriculture and industry. This has been facilitated by large capital inflows through operations of FIIs and Indian corporates raising funds abroad. Tightening of liquidity in the global market has not had any significant impact so far and capital flows continue, although there has been some slowdown. There has already been a pause in the further tightening of liquidity by the US. With oil prices easing significantly and

Box VI.9: The Use of Credit Derivatives ñ International Experience

Credit derivatives are instruments that transfer a part or all of the credit risk of an obligation (or a pool of obligations), without transferring the ownership of the underlying asset(s). The credit derivative and structured credit markets have grown rapidly in the past few years during a relatively benign environment and in the absence of a severe or prolonged credit downturn. Credit derivative markets are most active where credit quality measurement and rating systems are transparent and have widespread adoption as in†North America and Europe. Outstanding credit derivative contracts rose from about $4 trillion at the end of 2003 to over $17 trillion in end 2005, at which level, they now exceed the stock of corporate bonds and loans (IMF, 2006). In addition, there appears to be growing demand for structured credit products in Asia and the Middle East, and foreign banks often meet this demand with repackaged European and US credits. While banks continue to represent most credit derivative market activity, insurance companies, pension funds, and other asset managers are becoming increasingly active in structured credit markets, including newer credit derivative products. The growth of hedge funds, particularly credit-oriented hedge funds, has accelerated market development and credit risk dispersion.

While credit derivative markets increasingly facilitate the primary transfer of credit risk, secondary market liquidity is still lacking within some segments, creating the potential for market disruptions. As such, these markets are subject to increased attention from supervisors and policymakers. While the credit derivative markets raise some supervisory concerns, the information they provide is very useful for supervision and market surveillance. First, by enhancing the transparency of the marketís collective view of credit risk, credit derivatives provide valuable information about broad credit conditions. Therefore, such activity improves market discipline. Second, supervisors and other public authorities also may be able to use such market-based information to detect deteriorating credit quality, and to better monitor regulated institutions and other market participants. Finally, with the broadening of the product base (for instance, the development of mortgage and other asset-backed derivative instruments), these markets may also provide an early warning mechanism about economic stress in sectors beyond banking (for instance, the household sector).

In the Indian context, although derivative instruments were introduced in July 1999 in the money/foreign exchange market in the form of forward rate agreements (FRAs) and interest rate swaps (IRS), credit derivatives are yet to be introduced. This is partly because the credit market, which is mainly used to finance working capital, has lagged in development *vis-‡-vis* other financial markets in terms of sophistication and innovative financial engineering. Although currently non-existent, the credit derivatives market holds immense potential, apparent from its growth in world markets. Factors such as improving the depth of the bond market, introduction of new regulations seeking risk weightage commensurate with credit ratings and further consolidation of the banking industry could provide the necessary impetus for development of the credit derivatives market in India.

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International Monetary Fund, (2006), Global Financial Stability Report, World Economic and Financial Surveys, Washington, April.

Fitch Ratings (2005), ëGlobal Credit Derivatives Survey: Risk Dispersion Acceleratesí, Fitch Ratings Special Report, November.

inflationary pressures receding, the chances of significant further tightening of global liquidity in normal circumstances have receded. However, should there be a sharp tightening of liquidity for unforeseen reasons, such as an abrupt unwinding of global financial imbalances, it would have certain implications for the Indian financial system as detailed subsequently.

(iii) *Risks from Global Financial Imbalances*

6.123 Large and growing global financial imbalances have generally been perceived as constituting a significant threat to global financial system stability. The most fundamental imbalance in the world economy relates to the saving propensities among the major countries. On the one extreme, the United States has a very low savings rate, which is about 10 per cent of GDP in 2005, on the other extreme stands China with a very high savings rate reaching about 50 per cent of its GDP. Hence, with such diversity among national savings rates, the current accounts of the various countries reveal a high degree of imbalance. The financing of the US current account deficit of around 6.5-7.0 per cent has been facilitated by large surplus savings in many Asian countries. In this regard, the significant capital inflows needed to finance US current account deficits have emanated from such surplus economies, especially China and Japan, and, more recently, by several oil-exporting countries, which have benefited from revenue windfalls due to a surge in international oil prices.

6.124 Globally integrated financial markets are becoming increasingly apprehensive about the risks of a disorderly adjustment of the widening global imbalances. Adverse expectations of markets were evident during mid-2006 when equity indices declined sharply across the globe. The main source of vulnerability from a financial stability perspective continues to be the possibility of an abrupt asset portfolio adjustment, or of a sudden deterioration in the risk appetite of global investors for accumulating US securities. While the likelihood of an abrupt unwinding of these imbalances appears to be low, such an event could nevertheless entail sudden and destabilising changes in global capital flow patterns. This could bring with it the possibility of a considerable downward pressure on the US dollar, which could then exert significant upward pressure on US long-term interest rates. In addition, given the increasing integration of world markets, this would directly impact other financial assets across the financial markets of most economies. Highly correlated asset price movements could, together with spikes in market volatility, impair market liquidity and undermine the hedging of financial risks (ECB, 2006)[3].

6.125 India, like many other emerging market economies, could be adversely affected by the sudden unwinding of global financial imbalances. However, the impact could be different on different sectors such as the government, the corporate sector and the banking system.

6.126 First, the Government of India does not raise resources from the international capital markets to finance its fiscal deficit. The Government could, however, be affected indirectly through the spill-over impact of external developments on domestic interest rates. To the extent there is a rise in domestic interest rates, there could be an increase in the cost of borrowings undertaken by the Government. However, since most of the outstanding debt is at fixed rates and not on floating rates, the rise in the borrowing cost of the Government will be incremental and, therefore, will not have a significant impact on the interest burden.

6.127 Second, as a result of deterioration in global financial market conditions, spreads on corporate debt might widen suddenly due to a shift in investor confidence in the global financial markets. Indian corporates also raise resources from the international capital markets. Corporates would, therefore, be affected to the extent interest rates firm up in the domestic market, depending on their exposure to debt relative to other liabilities.

6.128 Third, the unwinding of global imbalances may impact banksí balance sheet, through their investment portfolio. Banks in India hold substantial investments in Government and other fixed income securities. To the extent a rise in international interest rates impacts the domestic interest rates, it would entail marked-to-market losses on the investment portfolio of banks. The banking sector in India, however, has acquired some added strength to absorb such probable shocks, largely aided by regulatory actions. The banking sector, on the whole, is comfortably placed with CRAR of 12 per cent. 78 out of 84 banks

[3] European Central Bank, (2006), Financial Stability Review, Frankfurt, June.

have CRAR above 10 per cent. Thus, banks in India, in general, have the resilience to withstand some rise in interest rates.

6.129 Fourth, banks in India have also been extending credit for investment in the asset market. Like many other economies, asset prices in India have also risen sharply in recent years. The possibility of a sharp decline in asset price exposes banksí balance sheets to credit risk. There is a risk that increase in interest rates in general could impact housing prices and expose the balance sheet of the households to interest rate risk, leading to some loan losses for banks. The overall banking sectorís exposure to housing loans, at present, is relatively small and may not have serious systemic implications. As a result, the impact on banksí balance sheets might be muted, given their relatively moderate exposure to the asset market.

6.130 Banks are also allowed to lend to resident exporters in foreign currency at internationally competitive rates of interest from their foreign currency lines of credit as well as out of funds available in exchange earnersí foreign currency accounts, resident foreign currency accounts and foreign currency non-resident (banks) accounts. These loans are intended to finance domestic and imported inputs for export production. Funds in foreign currency deposits can also be utilised for lending to domestic corporates for working capital requirements in India, import financing, purchase of indigenous machinery, repayment of rupee term loans and external commercial borrowings. To the extent tightening of global liquidity impacts banksí ability to raise foreign currency resources, it could affect on-lending of foreign currency loans by banks. However, as of now, banksí exposure in foreign currency loans is limited.

6.131 Finally, the unwinding of global financial imbalances may lead to readjustment of currencies, which would also have implications for the real sector. Significant readjustment of the currencies and rise in interest rates could deflate spending in advanced economies, which, in turn, could slow down global growth. This would entail a reduction in export opportunities and reduction in investment demand for India. While readjustment of the currencies may have some impact, the Indian economy is largely domestic demand driven. Also, Indiaís export basket is fairly well diversified. As such, the overall impact on the Indian economy may not be significant.

(iv) *Risks from Avian Flu*

6.132 The economic impact of the epidemic Severe Acute Respiratory Syndrome (SARS) during 2002-03 in East Asia was estimated at around US$ 18 billion or around 0.6 per cent of their total GDP. The later outbreak of the *Avian Influenza* (H5N1), popularly known as *Avian Flu*, which started in late 2003, has raised concerns about a new global pandemic as the H5N1 virus strain will mutate just enough to allow it to pass easily from person to person, potentially causing a catastrophic pandemic as humans lack immunity to it. According to experts, the *Avian Flu* is more lethal than SARS. While SARS had a mortality rate of around 15 per cent, *Avian Flu*, which has now spread from Asia to Europe, can kill up to a third of the infected people.

6.133 There is a substantial uncertainty about the potential economic impact of *Avian Flu*. It is estimated that a modest pandemic lasting over one year might cause a loss as high as 3 per cent of Asian GDP and 0.5 per cent of world GDP, equivalent to about US$ 150-200 billion (WHO, 2006)[4]. The financial impact may cost the global economy about 3.1 per cent of world gross domestic product (World Bank, 2006)[5].

6.134 Though the possible impact of *Avian Flu* is yet to be fully comprehended and assessed, there are certain apparent risks and challenges which a severe pandemic could pose to domestic as well as the global financial system. International attention has focused on the need for all countries to be better prepared, in order to reduce the potential death, illness, social and economic consequences of a pandemic. An important implication of the *Avian Flu* pandemic could be for the insurance sector. As emphasised by the Financial Stability Forum, a flood of claims might strain the capacity of the global insurance and reinsurance sectors. A mild pandemic could lead to a loss of US $15-20 billion, while a more severe

4 World Health Organisation (2006), ëRegional Influenza Pandemic Preparedness Plan (2006-2008)í, Regional Office for South-East Asia, New Delhi.

5 World Bank (2006), ëAvian Flu: The Economic Costí, June (available at www.worldbank.org).

event might total up to US $200 billion (Standard and Poor, 2005)[6].

6.135 A pandemic like the *Avian Flu* would pose important risks to the global financial system, particularly the economies of Asia in which the outbreak of the pandemic was first detected. The IMF is encouraging countries to prepare for a possible pandemic and is facilitating cooperation across countries in preparing contingency plans, particularly in the financial sector (IMF, 2006)[7]. In order to restore macroeconomic stability and fiscal sustainability, central banks in many countries may have to adjust monetary policy to prevent a sustained increase in inflation. If required, central banks may have to prepare themselves to act as lenders of last resort. A financial institutionís risk assessment and management plans may have to be expanded to cover the possibility of widespread economic disruptions and their impact on loan performance and other assets.

6.136 From the Indian perspective, the first case of bird flu was announced on February 18, 2006 in Maharashtra. Initially, the virus infected 52 poultry farms in northern part of Maharashtra and such reports put authorities in other States on high alert as such a contagious disease could be a source of concern for the Indian economy in general and poultry industry in particular. India is the fifth largest producer of eggs and the livestock and poultry sector is one of the fastest growing sectors in India. It may be noted that outbreak of *Avian Flu* in Maharashtra was a localised one, which has been contained effectively. The major poultry exporting States are located at a considerable distance from Maharashtra. According to the Ministry of Agriculture, Government of India, the export of poultry/poultry products from these States is absolutely safe as the samples tested are negative.

6.137 No case of *Avian Flu* has been reported since April 18, 2006. Prudence, however, demands that all possible precautions are taken in this regard to face any eventuality of any nature. To avoid any large scale *Avian Flu* pandemic, the authorities have already announced various protective measures. Recently, the Indian Council of Agricultural Research (ICAR) has developed an indigenous vaccine for poultry against the deadly disease. Since the disease has got recurring possibility, the development of the indigenous vaccine and its availability can go a long way in tackling bird flu effectively.

6.138 The impact of *Avian Flu* in India was largely localised to a certain region with limited impact on the domestic poultry industry. Nevertheless, as part of measures to protect domestic poultry industry from any loss on account of *Avian Flu*, in April 2006, the Reserve Bank announced guidelines for relief measures by commercial banks and urban cooperative banks. Keeping in view the loss of income that occurred due to culling of birds as well as steep fall in the demand for poultry products and their prices on account of outbreak of *Avian Flu* in some areas of the country, the Reserve Bank asked banks to consider extending certain facilities to poultry units financed by them. The Reserve Bank has also constituted an Inter-Departmental Committee to look into the details of the impact of *Avian Flu* on the financial sector of the economy. In addition, the Government granted a one-time interest subvention of 4 per cent per annum on the outstanding principal amount as on March 31, 2006 (not including any part of the principal amount that has become overdue) to all poultry units availing loans from banks due to *Avian Flu*.

6.139 The virus has been contained in the Far East. Should there be a further outbreak of the disease and its consequent resurfacing in India, its impact could also be felt on Indiaís export of poultry products.

6. Overall Assessment

6.140 The financial system in India has become robust over the last few years. This has been the result of calibrated and well-sequenced measures. The banking framework is now more or less aligned with the international best practices. Financial markets are becoming increasingly deep and liquid. The increasing use of the RTGS system has reduced a major source of systemic risk in the payments and settlement system of the country.

6 Standard and Poorís (2005), ëDetermining the Insurance Ramifications of a Possible Pandemic,í Ratings Direct, November.

7 International Monetary Fund, (2006), Global Financial Stability Report, World Economic and Financial Surveys, Washington, September.

6.141 The profitability of the banking sector has remained stable over the years, despite upturn in interest rate cycle in the last 2 years. A significant development during the year was decline in net NPA ratio to below 2 per cent, which is now more or less comparable with international standards. The recovery of NPAs during the year was more than the fresh slippages. The capital position of the banking sector, as a percentage of the risk-weighted assets, continues to be significantly above the stipulated norm of 9 per cent, which itself is above the international norm of 8 per cent. Apart from the credit risk, banks now maintain capital charge for market risk as per Basel I framework (capital charge for market risk has not been modified under Basel II framework). The quantitative impact study QIS 5 reveals that on implementation of Basel II, the capital adequacy ratio of banks, which participated in the excercise, would decline by one per cent, which banks should be able to manage given that 78 of 84 banks have CRAR more than 10 per cent.

6.142 The profitability and asset quality of co-operative banks improved significantly during the year, even as the issue of dual control of this sector remains to be addressed. The regional rural banks are in the process of consolidation. Profitability and asset quality of FIs and NBFCs, in general, also improved. The capital adequacy ratio of most of FIs and NBFCs continued to be well above the stipulated prescription. On the whole, strong balance sheets and comfortable capital position have significantly improved the resilience of the financial system.

6.143 There are, however, some short to medium-term risks to which banks are exposed. Banks face two major risks, *viz*., credit risk and market risk. While the credit risk environment is expected to be benign over the short-term, banks do face some degree of market risk, although the extent of banking systemís exposure to such risk has declined significantly in comparision with the previous year as detailed in the following paragraphs.

6.144 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 grew at an average annual rate of over 8.0 per cent during last three years and is also expected to grow at a high rate of around 8.0 per cent during 2006-07. The growth rate of 8.9 in Q1 of 2006-07 was indeed impressive. The industrial sector, in particular, is performing very well and is expected to maintain the growth momentum in the near future. Inflation rate continues to be low in the range of 5.0-5.5 per cent, despite revision in domestic oil prices. Although the absence of complete pass-through was a cause of concern from the future inflation point of view, the recent easing of international oil prices should provide the much needed relief. Indiaís external sector has been a source of major strength. Capital inflows continue despite rise in interest rates by major central banks the world over. There was some upward movement in yield on corporate bonds during the year. The spread between AAA bonds and the sovereign bonds also widened, reflecting some uncertainty. However, the financing conditions remain comfortable. Corporates are also able to raise resources from the international capital market. The profitability of the corporate sector continues to be strong, notwithstanding some slowdown. The deleveraging of the corporatesí balance sheets through issuance of equity and internal generation of funds in the past has held them in good stead in a rising interest rate scenario.

6.145 The credit offtake increased sharply in the last two years. However, the credit growth continues to be broad-based. Although banksí exposure to certain sectors, especially the housing sector has been increasing rather rapidly, such exposure in relation to the total loan portfolio remains small and there have not been any major defaults, despite rise in interest rates. With the overall economy doing well, banks are not expected to face a major problem on such exposures. Also, such exposures are small and spread over a large number of borrowers. As such, the credit risk environment, on the whole, is expected to be benign in the near-term.

6.146 Banks, however, are exposed to some degree of market risk in the near-term. The major source of such risk is the continuing large global financial imbalances. Should there be an abrupt asset portfolio reallocation, there is a risk of sharp currency readjustments which could cause heightened volatility in the financial markets through changes in exchange rate and interest rate. In the event of a sharp rise in interest rate, banks may suffer significant marked to market losses on their investment portfolio. Having said that, investment portfolio of banks has declined significantly in comparison with the last year. The decline, in fact, is more significant in relative terms as share of such investments in total assets declined sharply to 31.1 per cent from 36.9 per cent in the last year.

6.147 In case of a rise in interest rates, 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 households to interest rate risk. This, in turn, could impact banksí balance sheets through increase in loan losses. Reversal of capital flows could impact the equity market and some of the advances extended for investments in the equity market might be impaired. 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 have any significant impact on the banksí balance sheets, given their limited exposures to the asset markets.

6.148 To sum up, the macroeconomic environment continues to be quite favourable, which augurs well for credit risk environment. Although the financial system is facing certain degree of market risk, it is resilient enough to withstand such risk should it materialise. Banks have sufficient cushion in the form of strong capital position. While disruptions in global financial markets might have some impact, it is the domestic conditions which impact banking operations the most. In this context, strong growth prospects would continue to have a positive impact on the balance sheets of the corporate sector and households. As such, the banking system should be able to cope with the situation emerging out of any adverse global development.

Chapter VII

Perspectives

7.1 Financial sector reforms have been introduced in a calibrated and well-sequenced manner since the early 1990s. The sustained efforts by the Government, the Reserve Bank and by banks themselves have resulted in a competitive, healthy and resilient financial system. The asset quality and soundness parameters of the Indian banking sector, on the whole, are now comparable with global levels. This has been achieved in the backdrop of gradual alignment of prudential norms with international best standards and in an environment of growing competitive pressures. There is also an evidence of some financial deepening in recent years. Having achieved substantial success in improving the financial health of commercial banks over this period, there is now need to focus on the further expansion and deepening of financial services so as to serve the needs of those who are underprivileged. This would include particular attention being given to the underdeveloped regions of the country. The reform process is also being extended to the improvement of financial health and prudential regulation of urban co-operative banks, regional rural banks, the rural co-operative banking sector and non-banking financial institutions. In view of the dual regulatory control of urban co-operative banks, the strategy of reform is being conducted through a consultative mechanism involving State Governments.

7.2 In view of accelerating economic growth, the main challenge for the banking sector in the coming years would be to expand while maintaining sound financial health. With large credit expansion during the last two years, while banking penetration has increased on the asset side, it continues to be relatively low on the liability side. Banks, therefore, would need to focus on reaching the hitherto untapped clients and regions. With increasing competition on the asset side, banks would also need to look for new creditworthy borrowers. While there is an enormous scope, the need is to find innovative methods to reach them. With the expected expansion of banking operations in line with the overall macroeconomic growth and the introduction of Basel II requirements, there is clear recognition of the need for banks to also extend their capacity. Consequently, the Reserve Bank allowed banks to raise capital from the market by way of certain innovative instruments during the year.

Credit Delivery and Pricing

7.3 The high growth in credit offtake by the banking sector during the year (2005-06) was more broad based than in the previous two years. In order to fund large credit demand, banks partially liquidated their SLR portfolio during the year. As on October 13, 2006, SLR holdings of the banks were at 29.8 per cent of NDTL, a significant reduction from 36.7 per cent in 2001-02. With the SLR portfolio now drawing close to the minimum statutory requirements, the higher credit growth in future could be financed mainly through greater accretion of deposits. In this context, the higher increase in time deposit growth during the current year is encouraging.

7.4 In the recent period, robust industrial growth has been an important contributory factor in increased credit demand from the corporate sector. Latest information on sectoral deployment of credit suggests that credit expansion is well diversified across almost all the sectors. The credit expansion to the infrastructure sector, in particular, has been very strong. Banks, which have traditionally financed working capital requirements, have been gradually increasing their exposure to project finance, including infrastructure. While this is a welcome development, banks need to ensure that their exposure to project finance is in sync with their asset liability management (ALM) structure.

7.5 Although credit to agriculture and allied activities has been increasing in recent years, there is a clear room for further improvement in the rural credit delivery system, particularly in some under-served regions. To increase the flow of credit to agriculture and related activities, 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.

7.6 With a view to aligning bank credit to the changing needs of the society, the scope and definition of the priority sector are being continuously fine-tuned by including new items as also by enhancing credit limit of the constituent sub-sectors. Continuing with the process, several measures were initiated during 2005-06. These were: (i) excluding fresh investments by banks on or after July 1, 2005 in venture capital from priority sector lending; (ii) requiring all private sector banks to actively participate in various fora under the Lead Bank Scheme; (iii) advising banks to provide a simplified mechanism for one-time settlement of loans where the principle amount is equal to or less than Rs.25,000 and which have been ëdoubtfulí and ëlossí assets as on September 30, 2005; (iv) requiring banks to introduce general credit card (GCC) scheme for issuing GCC to their constituents in rural and semi-urban areas without any insistence on the security and the purpose or end-use of credit.

7.7 The small and medium enterprises (SME) sector is an important segment of Indiaís economy, especially because of its export and employment generating potential. However, bank credit to the SME sector has tended to stagnate in recent years, which is a matter of concern. The Reserve Bank, therefore, initiated several measures to boost the credit flow to the SME sector. Banks were advised to include only SSI financing in the priority sector. The following measures were also advised to banks: (i) to fix self-targets for financing the SME sector so as to reflect a higher disbursement over the immediately preceding year; (ii) to initiate necessary steps to rationalise the cost of loans to the SME sector by adopting a transparent rating system; (iii) to adopt at least five new small/ medium enterprises of each of their semi-urban/ urban branches per year to increase the outreach of formal credit to the SME sector; (iv) to treat cluster-based approach for financing as a thrust area and increasingly adopt the same for financing; (v) to ensure specialised SME branches in identified clusters/centres with preponderance of medium enterprises to enable the SME entrepreneurs to have an easy access to bank credit; (vi) to implement a one-time settlement scheme for recovery of NPAs below Rs.10 crore for SME account applicable to public sector banks; (vii) to implement a debt restructuring mechanism for units in the SME sector; and (viii) to implement a scheme for Small Enterprises Financial Centres (SEFCs) which encourages banks to establish mechanism for better co-ordination of their branches and those of SIDBI.

7.8 Subsequent to the deregulation of lending rates, the Reserve Bank had introduced the benchmark prime lending rate (BPLR) to enhance transparency in pricing of credit by banks. Given the competitive conditions in the credit market, the share of sub-BPLR lending in total lending of commercial banks increased to 77.0 per cent of total outstanding advances above Rs.2 lakh at end-July 2006 from 69.0 per cent at end-June 2005. This was evident from the modest increase in the weighted average lending rate of banks from 12.57 per cent at end-March 2005 to 12.60 per cent at end-March 2006, even though interest rates hardened during this period.

7.9 The robust credit expansion witnessed in the last two years has continued during the current year. In the context of the anticipated higher growth rate of the economy in the next few years, the banking system needs to innovate in order to support and facilitate the growth process. In dealing with new consumer and production demands of rural enterprises and that of small and medium enterprises in urban areas, banks have to look for new delivery mechanisms that economise on transaction costs and provide better access to the currently under-served. Innovative channels of credit delivery for serving these new rural credit needs are already being explored by some banks and financial institutions under the umbrella of financial inclusion. The budding expansion of non-agriculture service enterprises in rural areas will also have to be financed adequately to augment income and employment opportunities. The banking system is being strengthened to respond adequately to the challenges of greater diversification that is taking place in the economy. These challenges are particularly important since banking penetration is still low in India as compared to other countries with similar socio-economic background.

7.10 The flow of credit to retail financial services, particularly housing and personal loans has been quite robust in recent years. With the changing growth dynamics of the economy, certain segments of the population could become susceptible to excessive optimism or even to vicissitudes in the macro-economic conditions. While the surge in credit offtake reflects buoyant aggregate demand conditions in a growing economy, it could also raise concerns about the quality of credit. In order to address potential vulnerabilities, several regulatory measures were introduced by the Reserve Bank during the year.

7.11 It is increasingly felt in some quarters that individuals are not in a position to take full advantage of the guidelines issued regularly to the banks by the Reserve Bank for a variety of reasons.†These may include inadequacies in managing their finances, especially delinquent accounts. Further, individuals may not be able to articulate their financial situation adequately to the banks.†Therefore, it will be in the interest of banks themselves to help individual borrowers through appropriate credit counselling. It is encouraging that some banks have already initiated efforts in this direction.

7.12 Counselling generally serves three purposes. First, it examines ways to solve current financial problems. Second, by creating awareness about the costs of credit, it improves financial management and develops realistic spending plans. Third, it advises the distressed people to gain access to the structured financial system, including banking. However, such counselling will be appropriate only if it addresses unique situations of households in different parts of the country.

Customer Service and Financial Inclusion

7.13 The Reserve Bank has taken several initiatives recently for ensuring delivery of quality service by banks to their customers at a reasonable price. The focus of attention has been on basic banking services provided to the common person and positioning of an effective customer grievance redressal mechanism. Banks have been advised to fix reasonable service charges in line with the average cost of providing these services.

7.14 A significant initiative to improve customer service was the announcement made in April 2005 to set up the Banking Codes and Standards Board of India (BCSBI), which became operational in March 2006. The BCSBIís objective is to locate and rectify systemic deficiencies by taking collaborative remedial actions rather than through penal measures. The Board would measure a bankís performance against established best practices. A ëCode of Bankís Commitment to Customerí has been evolved through which banks have committed to have in place a ëtariff scheduleí covering all charges.

7.15 To improve grievance and complaints redressal mechanism, the Banking Ombudsman Scheme (BO) was revamped in January 2006, enlarging its scope and authority. It incorporated new grounds of complaints such as credit card issues, failure in providing the promised facilities, non-adherence to the Fair Practices Code and levying of excessive charges without prior notice. It relaxed the mandatory requirement of filing of complaints to facilitate registering of complaints through on-line or through e-mail. Further, the complainants can also appeal against the award of BO.

7.16 The Reserve Bank constituted a separate Customer Service Department in July 2006 with a view to bringing all the activities relating to customer service in banks under a single umbrella. The Reserve Bank also issued guidelines to banks on Fair Practices Code and advised them not to resort to undue harassment of customers in matters pertaining to recovery of loans. In order to ensure transparency in banking services, banks were advised in May 2006 to display and update, on their websites, the details of various service charges in the prescribed format. The format could be modified depending on products offered and all service charges, as indicated in the format, should be covered. The Reserve Bank is now in the process of finalising a scheme for ensuring reasonableness of bank charges.

7.17 In an endeavour towards improving customer service, the Reserve Bank has been looking into state specific requirements. Thus, in order to address the problems of small traders, businessmen and the general public, the Reserve Bank constituted a Task Force to accelerate resolution of relief measures to *Tsunami* affected borrowers in the Union Territory of Andaman and Nicobar Islands. Similarly, separate Working Groups were constituted to examine the problems/ issues relating to banking services in Uttaranchal and Chattisgarh, and to prepare an action plan for implementation.

7.18 The Reserve Bank has been seriously concerned with regard to the banking practices that tend to exclude vast sections of population. The All-India Debt and Investment Survey (2002) suggests that the dependence of households on institutional finance declined from 64 per cent in 1991 to 57 per cent by 2002 in rural areas, while it increased from 72 per cent to 75 per cent in the urban areas. Rural landlords and moneylenders accounted for over 30 per cent of the household debt compared with 18 per cent in 1991. Thus, notwithstanding the outreach of the banking sector, the formal credit system has not been able to adequately penetrate into informal financial markets. In the past few years, therefore, the Reserve Bank has been advising banks to review their existing practices with a view to aligning them with the objective of financial inclusion. Banks were advised to make available a basic banking ëno-frillsí account either with ënilí or very low balances as well as charges that would make such accounts accessible to vast sections of the population. Banks were also advised to give wide publicity to the facility of such ëno-frillsí accounts. According to the information available with the Reserve Bank, about 5,00,000 ëno-frillsí accounts have been opened, of which about two-third are with the public sector and one-third with the private sector banks.

7.19 With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks have also been allowed to use the services of Non-Government Organisations/Self-Help Groups/Micro-Finance Institutions/Civil Society Organisations, as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. Banks were also advised to adopt a flexible approach with the parameters of ëKYCí norms from time to time. The Reserve Bank has directed banks to make available all printed material used by retail customers in English, Hindi and the concerned regional language. With a view to providing hassle free credit to customers, banks were encouraged to issue GCC akin to *Kisan* credit cards.

7.20 As part of ongoing efforts to encourage greater financial inclusion, particular attention has also been paid to issues relating to farmers. A Working Group has been constituted to ensure greater outreach of banking facilities in rural areas and to ensure availability of bank finance at reasonable rates. The convenors of the State Level Bankers Committee in all States/Union Territories have been advised to identify at least one district in their area for achieving 100 per cent financial inclusion by providing a ëno-frillsí account and a general purpose credit card. A Technical Group has also been set up to review the existing legislative framework governing money lending and its enforcement machinery so as to provide for greater credit penetration by the financial sector in the rural areas at reasonable rates of interest.

7.21 While resource limitations experienced by low-income households will continue to constrain their access and use of financial products, the challenge remains for developing appropriate policies, procedures and products that can overcome this difficulty within the bounds of resource constraints. One area that calls for greater latitude in this regard is the range of identity documents that are acceptable to open an account with a bank. Keeping this in view, the Reserve Bank, in its Mid-term Review for 2006-07 released in October 2006, relaxed the KYC procedure for small accounts. It was proposed that for opening small accounts, banks need to seek only a photograph of the account holder and self-certification of address. However, some prudent limits were fixed for transactions and outstanding balances beyond which banks are required to follow normal procedure of KYC. The Reserve Bank will also issue certain clarifications in respect of conduct of the KYC procedure for normal accounts so as to make it more customer-friendly.

7.22 In recent years, there has been a significant growth and development of micro-finance activities. Self-Help Groups (SHGs) formed by non-Government organisations and financed by banks represent an important element of this development process in India. However, the micro-finance programme has also brought in various associated non-financial activities under its fold. Time has, therefore, arrived for older and mature SHGs to graduate into micro enterprises by taking to income generating activities. There is also a need for the programme to expand in those states where it is yet at a nascent stage. It is also important to develop a proper regulatory structure for micro-finance institutions for healthy growth of the sector along with supportive refinance and capacity building measures.

7.23 The experience of developed countries suggests that the level of financial inclusion increases with rising prosperity and declining income inequality. However, there are a number of barriers that can come in the way of achieving banking for all. It is, therefore, a continuous challenge for policymakers to identify ways in which these barriers can be minimised. First, there is a need for independent information and advisory service. Lack of knowledge of financial products deters some households from taking up financial services. Second, nurturing appropriate public-private partnership remains a challenge. Third, solutions to banking exclusion need to involve more intensive use of technological developments not only to contain costs but also to enable wider geographical access. Finally, there is a need to monitor whether financial exclusion is replaced by marginalisation. In other words, people are offered products and methods of delivery that are either unable to fulfil their requirements or are not equipped to integrate them into the mainstream of financial services.

Banking Expansion

7.24 As the economy begins to grow rapidly and an increasing number of people migrate out of the poverty levels, the rate of financial intermediation of savings is expected to increase further. In other words, the banking system will have to intermediate a larger quantum of funds than is presently the case. In India, the ratio of bank assets or bank deposits to GDP is among the lowest in the world, notwithstanding some increase in recent years. As banking expansion takes place, the ratio of deposits to GDP first rises and then begins to decline as high-rated corporates begin to successfully tap the capital market. Given the prudential requirements associated with raising capital through equity issues and inadequately developed private corporate debt market, the rural sector and small and medium enterprises would continue to depend on bank finance to a significant extent. This, in effect, provides a lot of room for credit expansion to financing varied and multifaceted activities in the rural areas.

7.25 In the current situation of high credit expansion, banks have been unwinding their surplus investments in SLR securities, over and above the stipulated statutory minimum. This unwinding would soon reach a limit. Therefore, banks need to make sustained efforts towards mobilising stable retail deposits by extending banking facilities and wide-spreading its deposit base. The rural areas are also not being served adequately. Banks would need to devise imaginative ways to mop up the resources in rural areas if they are to balance their deposit mobilisation and credit creation.

7.26 In dealing with the new demands of rural enterprises and that of SMEs in urban areas, banks need to innovate and look for modern delivery mechanisms that economise on transaction costs and provide better access to the currently under-served. Innovative channels for credit delivery for serving these new rural credit needs, encompassing full supply chain financing, covering storage, warehousing, processing, and transportation from farm to market will have to be found. Banks would be required to invest in fresh skills through new recruitment and through intensive training of existing personnel.

Implementation of Basel II

7.27 With a view to facilitating gradual convergence of prudential norms for the banking sector with international best practices, commercial banks in India were advised to implement Basel II with effect from March 31, 2007. Taking into account the state of preparedness of the banking system, however, it was decided to provide banks some more time to put in place appropriate systems so as to ensure full compliance with Basel II. In terms of the new timeframe, foreign banks operating in India and Indian banks having presence outside India are required to migrate to the standardised approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009. The Reserve Bank is committed to the adoption of Basel II by banks and will guide the smooth implementation of Basel II.

7.28 Compared to Basel I, Basel II is considered to be highly complex. The complexity of Basel II arises from several options available, making its understanding and implementation a challenge to both the regulatory and the regulated community. However, as Basel II is more sensitive to risk, it allows banks to utilise capital more efficiently and also provides direct incentives for stronger corporate governance and greater transparency.

7.29 With a view to ensuring smooth migration to Basel II, a consultative and participative approach has been adopted for both - designing and implementing Basel II. Implementation of Basel II will require more capital for banks in India due to the fact that operational risk is not captured under Basel I, and the capital charge for market risk was not prescribed until recently. Preliminary analysis indicates that the combined capital adequacy ratio of select banks is expected to come down by about 100 basis points when these banks apply Basel II norms. These estimates are based on eleven banks accounting for about 50 per cent of market share (by assets) which participated in the Quantitative Impact Study (QIS 5) conducted by the Basel Committee on Banking Supervision. The estimates revealed that although none of the eleven banks would be breaching the minimum capital adequacy ratio under the new framework, the net impact reflects a wide range. The banking system on the whole with a capital to risk assets ratio (CRAR) of over 12 per cent is comfortably placed, especially when 78 out of 84 banks had CRAR more than 10 per cent. While banks are exploring various avenues for meeting the capital requirements under Basel II, the Reserve Bank has, on its part, issued policy guidelines enabling issue of several instruments by banks, *viz.*, innovative perpetual debt instruments, perpetual non-cumulative preference shares, redeemable cumulative preference shares and hybrid debt instruments to enhance their capital raising options. The Reserve Bank is also involved in capacity building for ensuring the regulatorís ability for identifying and permitting eligible banks to adopt Internal Rating Based (IRB)/Advanced Measurement approaches.

7.30 Taking into account the size and complexity of operations of the banking system [commercial (public, private, foreign) and co-operative banks; single and multiple state co-operative banks; duality of control; and deposit taking non-banking companies], the capital adequacy norms applicable to these entities have been maintained at varying levels of stringency. A three-track approach has been adopted with regard to capital adequacy. On the first track, commercial banks would be required to maintain capital for both credit and operational risks as per Basel II framework. Commercial banks are already required to maintain capital for market risk as per Basel I framework; capital charge for market risk has not been modified under Basel II. The co-operative banks, on the second track, are required to maintain capital for credit risk as per Basel I framework and through surrogates for market risk; and the regional rural banks, on the third track, have a minimum capital requirement. Thus, a major segment of systemic importance will be on a full Basel II framework, a portion of the minor segment partly on Basel I framework, and a smaller segment on a non-Basel framework. A somewhat similar choice has been exercised even in the US where one is likely to see at least Basel II and Basel I-A entities operating simultaneously. Similarly, amongst the Basel II entities in the US, it is likely that banks will be implementing various combinations of the multiple options available for computing capital requirements for the three major risks. Consequently, Basel II implementation may follow as a part of a spectrum of frameworks within which there can be progressive enhancement of quality amongst different categories.

7.31 Risk management has assumed added significance in the context of Basel II. Financial entities have become increasingly conscious about risk management practices and have instituted risk management models based on their product profiles, business philosophy and customer orientation. It is likely that on implementation of Basel II, some banks might adopt the IRB approach for credit risk, while some other banks in the same jurisdiction might adopt the standardised approach. Since the IRB approach is more risk sensitive *vis-‡-vis* the standardised approach, a small change in the degree of risk could result in a large additional capital requirement for the banks following the IRB approach - which would dissuade such banks from assuming high-risk exposures.

NPA Management

7.32 One of the major achievements of the Indian banking sector in recent years has been the reduction in non-performing assets (NPAs). Gross NPAs have declined sharply to close to 3.0 per cent (15.7 per cent at end-March 1997). Net NPAs of the banking sector are now at close to one per cent and the gap between the gross and net NPAs has narrowed over the years. Recovery of dues is also more than the fresh slippages. NPAs of the Indian banking system are now comparable to several advanced economies and significantly lower than several economies in the Asian region. The decline in NPAs is particularly significant as income recognition, asset classification and provisioning norms were tightened over the years. For instance, banks now follow 90-day delinquency norm as against 180-day earlier. An asset is now treated as ëdoubtfulí if it remains unpaid for more than 120 days instead of 180 days earlier. Banks are also required to make general provisioning (0.40 per cent) for standard advances, barring banksí direct advances to agricultural and SME sector. The general provisioning requirement is 1.0 per cent for certain sensitive sectors. Improved profitability, underpinned by robust macroeconomic environment and upturn in interest rate cycle, has enabled banks to reduce the backlog of NPAs. Improvement in the credit appraisal process and new institutional mechanisms created by the Government and the Reserve Bank for resolution of NPAs (including enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002; *Lok Adalats;* debt recovery tribunals; and corporate debt restructuring mechanism) have also played a significant role.

7.33 Although asset quality in the banking system has improved considerably over the years, banks need to guard against any deterioration of credit quality, particularly in the wake of significant expansion of credit. Banks need to have a comprehensive system in which the process of risk monitoring is combined with proper risk assessment. This would entail creation and maintenance of an appropriate data base on risk assessment and credit extended, which would be required to be updated periodically. The enactment of the Credit Information Companies (Regulation) Act is an important development in this regard. As the Reserve Bank issues guidelines for such companies to be formed, the availability of credit information to banks can be expected to increase over time. This should help significantly in risk assessment and monitoring, thereby leading to lower transaction costs.

Corporate Governance

7.34 A strong financial system is premised on principles of sound corporate governance. Corporate governance lays down the fundamental rules by which companies are governed in their management. Each institution needs to evolve its own governance principles based on its changing business philosophy over a period of time. These principles would have to be adapted in line with the changing circumstances. The quality of corporate governance has become particularly important in the banking system in view of growing competition and consolidation of the banking system.

7.35 The banking sector in India is quite large and widespread across the country. There are several banks of varying sizes and the shareholding pattern also varies significantly. The issues of size and governance are extremely important from the point of view of financial stability. The two major concerns that arise in the context of corporate governance in banks are concentration of ownership and the quality of management that controls the bank. The recent irregularities involving accounting firms in the US have amply demonstrated the importance of good corporate governance practices. The quality of corporate governance in banks assumes critical importance as competition intensifies and banks strive to retain their client base.

7.36 Corporate governance in banks has improved significantly over the years. As part of its efforts to promote sound corporate governance, the Reserve Bank has been focusing on ensuring ëfit and properí owners and directors of banks and laying stress on diversified ownership. Banks have been advised to ensure that a nomination committee screens the nominated and elected directors to satisfy the ëfit and properí criteria. The improved corporate governance practices would also provide an opportunity to accord greater freedom to the banksí boards and concentrate on macro risk management aspects.

Competition and Consolidation

7.37 Competition in the banking sector has been intensifying. The share of private and foreign banks in total assets increased to 27.6 per cent at end-March 2006 from 24.7 per cent at end-March 2005 and less than 10.0 per cent at the inception of reforms. The growth of new private sector banks is particularly noticeable. Increased competition has led to a significant improvement in efficiency and customer service.

7.38 The trend is towards consolidation among banks the world over. As banking business is expanding, the number of banks have been declining. The consolidation process is being driven by increasing competition and the desire to cut costs. When competition increases, banks focus on cutting cost through increased use of technology and newer range of products and services. This requires increased investment and effective use of technology, and skilled human resources. As small banks find it difficult to manage, the pressure is to become bigger through inorganic growth.

7.39 An important issue concerning the banking sector in India is consolidation. It is interesting to note that in the background of the liberalisation process, the structure of the Indian banking system has continued without much change. The consolidation process within the banking system in recent years has primarily been confined to mergers of two development finance institutions with banks and a few mergers in the private sector segment induced by the financial position of banks. The process of consolidation is now beginning to gain momentum. Since October 2005, three banks have been amalgamated. The Reserve Bank has created an enabling environment by laying down guidelines on mergers and acquisitions.

7.40 The consolidation, however, is taking place in a significant way amongst RRBs, following the initiative by the Government. RRBs are facing several problems such as constraints of timely credit availability, its high cost and neglect of small farmers and continued presence of informal lenders. RRBs are also not well capitalised and they often have high level of delinquent loans. However, there are several viable institutions among the RRBs. The problems facing the RRBs are being addressed on a priority basis and the process of revitalising them in a medium-term framework is also under way.

7.41 In order to reposition the RRBs as an effective instrument of credit delivery in the Indian financial system, the Government of India, after consultation with the State level sponsored banks, initiated amalgamation of RRBs in September 2005. Till October 31, 2006, 137 RRBs were amalgamated to form 43 new RRBs sponsored by 18 banks in 15 States, bringing down the total number of RRBs to 102 from 196. The amalgamation process is still continuing. After amalgamation, RRBs would become bigger in size with a larger area of operation, which would enable them to function in a competitive environment more effectively by taking advantage of economies of scale and reducing transaction costs.

Changing Institutional Focus

7.42 Following the liberalisation of the licensing norms, many urban co-operative banks had fallen sick and were placed under direction/liquidation. The sector has shown several weaknesses, including poor financial health, low capitalisation, governance and managerial failures, and lack of professionally qualified staff. Weak enforcement of regulatory and supervisory oversight arising out of dual control has been identified as the most significant challenge for revival of the sector. Consultative approach of policy formulation through the signing of MoU with the State Governments, therefore, has been guiding the process of reviving these institutions in recent years.

7.43 Several structural, legislative and regulatory measures were initiated for urban co-operative banks in recent years with a view to evolving a policy framework oriented towards revival and healthy growth of the sector. The ëVision Document for UCBsí and the ëMedium-Term Framework for UCBsí provided the vision and implementable action plan in this regard. Consequently, memoranda of understanding (MoU) are being entered into with the State Governments. A Task Force for Urban Co-operative Banks (TAFCUB) is also being constituted in each of these States to identify viable/weak UCBs and to strengthen/revive them while suggesting a non-disruptive exit for the non-viable UCBs. The regulatory policy is also being attuned to enhance the capacity of smaller UCBs to align with higher prudential standards.

7.44 Parallel to the initiatives for the UCBs, major revival attempts were also initiated in the rural co-operative banking sector. The Task Force on Revival of Rural Co-operative Credit Institutions constituted by the Government of India (Chairman: Prof. A. Vaidyanathan) to formulate a practical and implementable action plan to rejuvenate the rural co-operatives is one of the most significant measures in this regard. Consequently, a revival package for short-term co-operative credit structure has been formulated and it is being implemented through the mechanism of National Implementation Monitoring Committee (NIMC) in consultation with the State Governments. NABARD has also initiated several capacity building initiatives in consonance with the revival plan. The same Task Force also has submitted its report for revival of long-term co-operative credit institutions which has been placed in the public domain.

Banking and Technology

7.45 Information Technology (IT) has made steady inroads into the financial sector. In fact, IT has brought about a significant change in many aspects relating to financial stability. Banks, customers and the regulators have benefited alike from the increasing use of information technology by the banking sector. Computerisation of transaction processing at banks has enabled the availability of audit trails which could be used for analysis. The greatest beneficiary of use of IT in the banking sector is the payments and settlement systems. With the migration of traditional paper-based funds movement to quick and more efficient electronic modes, funds transfers have become easy and efficient to perform. More importantly, these systems have ensured settlement finality being achieved within time frames which are much smaller than was possible under the manual system. Quicker funds settlement has a direct impact on availability of money, which has a positive impact on liquidity management.

7.46 IT has provided for better asset-liability management, which was a relatively difficult task in a manual based system spanning a large number of branches of banks, geographically spread across the country. This has helped banks in better funds management, thereby improving profitability for banks. IT has also improved information availability as also their timeliness. Concepts such as core banking systems, internet banking, anytime banking and anywhere banking have all been made possible with the help of IT. All these have made banking transactions to be performed in a manner, which is beneficial not only for the customer and his banker but for the economy as a whole.

7.47 The Financial Sector Technology Vision document 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. 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: (i) emerging challenges in achieving standardisation across a variety of hybrid systems at different financial entities; (ii) need for decision support systems; and (iii) the requisite technology to facilitate risk based off-site supervision. 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. The Vision document proposes that specific attention would be devoted to percolation of technology efforts to all types of banks and all sections of customers in the banks with specific reference to the rural areas. It also emphasises 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 and changes in rules and procedures for aligning them with e-governance in a manner so as to achieve implementable objectives.

7.48 In India, the spread of the RTGS system has been very rapid in comparison with other countries. While the payment system is cheque dominated in the US and the UK, in continental Europe it is mainly through the electronic mechanism. In view of the existing IT capabilities in India, it should be possible to leverage this capability in reducing transaction costs within the banking system and furthering the cause of financial inclusion.

Primary Dealers

7.49 In terms of the Fiscal Responsibility and Budget Management Act, 2003, the Reserve Bank is prohibited from participating in the primary issuance process of Central Government securities from April 2006. In this context, effective institutional arrangements are required to ensure that debt management objectives are met and that the Government is able to borrow under all market conditions without exacerbating market volatility. Since the Reserve Bank can no longer act as the underwriter of last resort, the responsibility of ensuring full subscription to the primary issuance has fallen upon the primary dealers (PDs). The Reserve Bank has, therefore, been working towards enabling the PDs to cope with interest rate cycles by giving them greater flexibility in operations. The multi-pronged approach in this direction includes measures such as allowing intra-day short sales in Government securities; introduction of ìwhen issuedî trading; allowing PDs to diversify their activities and generate alternative streams of income; revamping the system of underwriting; and allowing financially healthy commercial banks to undertake PD activity. It is expected that such steps would enhance the market making role of PDs and enable them to make the Government securities market more efficient as well as widen the investor base.

Non-Banking Financial Companies

7.50 Non-banking financial companies (NBFCs) play a crucial role in extending financial services, enhancing competition and diversification of the financial sector. In recent years, the deposit taking NBFCs and deposits held by them have come down and the emerging trend indicates a shift in resources from deposits raised by them. However, the prime concern of the Reserve Bank in the current scenario is the protection of interest of depositors in the case of deposit taking NBFCs. Keeping this in view, discretionary investments in respect of RNBCs are being phased out and from April 1, 2007, all liabilities of RNBCs to the depositors would be required to be invested in directed investments only. In the medium to long run, the Reserve Bank aims to streamline the reporting mechanism, improve the quality of surveillance and strengthen the viability of the sector.

Annex: Chronology of Major Policy Developments

Announcement Date		Measures
A) Scheduled Commercial Banks (SCBs)		
2005		
April	7	ï The restructured lending and deposit rates of interest in case of amounts disbursed on or before October 2003 under RIDF IV to VII, were effective from April 16, 2005.
	8	ï The cut off date for lapsing of sanction and completion of disbursement for the cases sanctioned for 2004-05 (under PMRY) in Andaman & Nicobar Islands was extended from March 31, 2005 to September 30, 2005.
	11	ï Detailed guidelines issued to banks on rural lending under Annual Credit Plans on the basis of Potential Linked Plans (PLPs) prepared by NABARD. ï Banks to pay compensation for delayed credit under ECS/EFT/SEFT *suo moto*.
	13	ï The rate of interest to be charged on group loans under SGSY linked to per capita size of the loans.
	15	ï Banks to put in place a Business Continuity Plan, including a robust information risk management system, within a fixed time frame.
	16	ï Banks 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	ï Banks advised on the role of customer service committee of the Board for monitoring the implementation of awards under the Banking Ombudsman Scheme.
	27	ï 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	ï Banks allowed to formulate schemes, subject to the approval of the Reserve Bank, for providing services at the premises of a customer within the framework of Section 23 of Banking Regulation Act, 1949. ï Banks with capital of at least nine per cent of the risk weighted assets for both credit risk and market risk for both Held for Trading (HFT) and Available for Sale (AFS) categories may transfer the balance in excess of five per cent of securities included under HFT and AFS categories in the Investment Fluctuation Reserve (IFR) to Statutory Reserve, which is eligible for inclusion in Tier I capital.
May	4	ï General permission granted to banks to declare dividends under fulfilment of a few conditions, including observance of minimum CRAR and NPA ratio, subject to a ceiling of dividend payout ratio of 40 per cent. ï 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.
	11	ï Detailed guidelines were issued for merger/amalgamation of private sector banks, 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	ï Comprehensive guidelines were issued, allowing all Regional Rural Banks (RRBs) to undertake insurance business on a referral basis, subject to certain conditions.
	13	ï The Vision Document on Payment and Settlement System 2005-08 was released.
	20	ï Banks to initiate early action with regard to scheme for ëSmall Enterprises Financial Centresí (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	ï Banks were advised to put in all efforts to achieve the credit mobilisation targets under SGSY during 2005-06 including the minimum subsidy credit ratio as fixed by the Government and to maintain per family investment of Rs.25,000.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
June	7	ï Banks were 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	ï 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. ï Banks (both in private and public sector) need not obtain approval of the Reserve Bank for permitting any of their whole-time officers or employees (other than a Chairman/CEO) to become Director or a part-time employee of any other company.
	14	ï Processing charges waived for all electronic products for transactions under EFT, SEFT and ECS facility involving Rs.2 crore and above with immediate effect upto the period ending March 31, 2006.
	20	ï 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 to violate the provisions of the laws relating to secrecy in banking transactions.
	24	ï For the purpose of Section 20 of the Banking Regulation Act, 1949, the term ëloans and advancesí shall not include line of credit/ overdraft facility extended by settlement bankers to National Security Clearing Corporation Limited (NSCCL) to facilitate smooth settlement.
	25	ï Banks opting for rights issues should henceforth make complete disclosures of the regulatory requirements in their offer documents.
	29	ï 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 and 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 and provide details of the break-up in their Annual Report.
July	1	ï Fresh investments by banks in venture capital made ineligible for classification under priority sector lending with immediate effect. Investments in venture capital made by banks up to June 30, 2005 made ineligible for classification under priority sector lending with effect from April 1, 2006.
	5	ï Banks allowed the discretion to approach any general insurance company (which is a member of General Insurersí Public Sector Association of India) or any private sector general insurance company to provide personal accident insurance cover to *Kisan* Credit Card (KCC) holders at competitive rates/terms.
	13	ï Banks advised to furnish information on pricing of services for products based on RTGS / SEFT/ EFT/ECS infrastructure. ï Guidelines issued on sale/purchase of NPAs, including valuation and pricing aspects, and prudential and disclosure norms.
	20	ï Banks permitted to offer internet banking services without the prior approval of the Reserve Bank but subject to fulfillment of certain conditions.
	23	ï Select commercial banks have been delegated 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.
	26	ï The risk weight for credit risk on capital market and commercial real estate exposure increased from 100 per cent to 125 per cent.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
July	29	ï 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 upto 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	ï Banks to issue necessary instructions to the Controlling Offices of currency chest branches to ensure verification of balances as per the stipulated minimum periodicity and that the essential safeguards in the internal control system (such as surprise verification/joint custody) are adhered to. ï In view of the unprecedented floods in Maharashtra and the need to provide immediate succour, banks were advised to observe minimum formalities for enabling affected persons to open bank account quickly.
	3	ï Banks advised to formulate a detailed mid-term corporate plan of 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. 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	ï 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 initiate steps to improve the flow of credit to the sector. A reporting and monitoring system for the same was also prescribed. Similar guidelines were issued to private sector banks, foreign banks, RRBs and LABs on August 25, 2005.
	23	ï Banks were 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 were also asked 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 SCs/STs are strictly followed. ï The KYC procedure for opening bank accounts simplified for those persons who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed 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 the customer to the satisfaction of the bank. Similar guidelines were also issued to RRBs.
	31	ï Banks were advised that for the purpose of Section 20 of the Banking Regulation Act, 1949, the term ëLoans and Advancesí shall not include line of credit/overdraft facilities extended by settlement bankers to Clearing Corporation of India Ltd. (CCIL).
September	1	ï Banks participating in the Pilot Cheque Truncation Project at New Delhi were advised to address issues requiring urgent action including finalisation of the ëpoint of truncationí 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, and deciding upon the systems for storage of inward and outward images. ï It was clarified to the banks 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.
	3	ï Guidelines on one time settlement scheme for SME accounts issued to public sector banks for recovery of NPAs below Rs.10 crore.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
September	5	ï 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	ï The policy for authorisation of the branches of banks in India liberalised and rationalised with a framework for a branch authorisation policy made 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 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. ï Banks were advised to implement a debt restructuring mechanism for units in 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 and repeated restructuring.
	9	ï Industrial Development Bank of India (IDBI) Ltd. was excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from April 2, 2005.
	24	ï Bank of Punjab Ltd. was merged with Centurion Bank Ltd. with effect from October 1, 2005.
October	1	ï Conversions/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 by the District Consultative Committee (DCC).
	9	ï 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	ï 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 category 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 ëbelow the lineí in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit and Loss Account.
	15	ï Revised guidance note on management of operational risk issued to banks. The design of risk management framework should be oriented towards the banksí 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, market dynamics and introduction of innovative products by banks in future.
	17	ï Banks to provide details to the customers in their Pass Book/Account Statement regarding the credits effected through ECS. Similar approach to be adopted for capturing the sender/remittance details of other electronic payment products like EFT, SEFT and RTGS.
	18	ï Banks to take appropriate action to ensure successful implementation of SGSY as per the recommendations of the Central Level Coordination Committee (CLCC). The recommendations include, delegation of powers to branch managers to sanction SGSY applications, disposal of all the pending applications as at the end of the year by the first quarter of the succeeding year, utilisation of micro-finance institutions for bridging the credit gap, making efforts to achieving the desired credit to subsidy ratio of 1:3, submission of status report to Ministry of Rural Development on the under-performance of their bank branches, and maintaining separate record in respect of SGSY distinct from IRDP.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date			Measures
2005			
October	25	ï	Reverse repo rate and repo rate, under the liquidity adjustment facility (LAF) of the Reserve Bank, increased by 25 basis points each from October 26, 2005 to 5.25 per cent and 6.25, respectively.
November	2	ï	Banks (excluding RRBs) advised that while considering granting advances against jewellery, they may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.
	4	ï	The general provisioning requirement for ëstandard advancesí, with the exception of banksí direct advances to agricultural and SME sectors, increased from the present level of 0.25 per cent to 0.40 per cent.
	9	ï	Banks to set up Special Sub-Committees of DLCC in the districts having credit deposit ratio less than 40 per cent, in order to monitor and to draw up monitorable action plans to increase the ratio. The districts having ratios between 40 per cent and 60 per cent will be monitored by DLCC under the existing system.
	10	ï	Revised guidelines on CDR mechanism issued. The major modifications included, extension of the scheme to entities with outstanding exposure of Rs.10 crore or more, requirement of support of 60 per cent of creditors by number in addition to the support of 75 per cent of creditors by value, discretion to the core group in dealing with wilful defaulters, linking the restoration of asset classification to implementation of the CDR package within four months, restricting the regulatory concession in asset classification and provisioning to the first restructuring, convergence in the methodology for computation of economic sacrifice, limiting the Reserve Bankís role to providing broad guidelines for CDR mechanism, enhancing disclosures in the balance sheet, pro-rata sharing of additional finance requirement by both term lenders and working capital lenders, and allowing one-time settlement as a part of the CDR mechanism to make the exit option more flexible.
		ï	For the purpose of CDR mechanism for SMEs involving wilful defaulters, banks were advised to review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default status, provided an opportunity is granted to him under the Debt Restructuring Mechanism for SMEs. Such exceptional cases may be admitted for restructuring with the approval of the Board only.
	11	ï	With a view to achieving the objective of greater financial inclusion, all banks were advised to initiate steps within one month, to make available a basic banking ëno-frillsí account either with ënilí or very low minimum balances and to report to the Reserve Bank on a quarterly basis. Banks were also advised to give wide publicity including on their web sites, to the facility of such ëno-frillsí account, indicating the charges in a transparent manner. Similar guidelines issued to RRBs on December 27, 2005.
	16	ï	All the present SEFT clearing banks were advised to migrate to NEFT system by December 15, 2005. Banks, which fulfill the eligibility criteria for participation in RTGS, were invited to participate in the NEFT. As NEFT serves all the bank customers using SEFT, the SEFT system would be discontinued from January 1, 2006.
	21	ï	Banks were advised to have a well documented policy and a Fair Practices Code for credit card operations. The Fair Practices Code for credit card operations released by IBA in March 2005 could be adopted by banks for this purpose. Guidelines include norms relating to issue of cards, interest rate and other charges, wrongful billing, use of DSAs / DMAs and other agents, protection of customer rights, right to privacy, customer confidentiality, fair practices in debt collection, redressal of grievances, internal control and monitoring system, and right to impose penalty.
	22	ï	Agency banks to confirm that they have filed the Annual Information Returns in respect of all their authorised branches which have accepted the subscription of Rs.5 lakh or more in respect of Saving Bonds issued by them during the period April 1, 2004 to March 31, 2005.
	23	ï	Banks were advised to develop appropriate delivery channels of electronic payment services using the payment systems developed by the Reserve Bank, like RTGS, ECS, EFT and NEFT, with no further delay. The service charges may also be reviewed keeping in view the need for promotion of electronic payment culture.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
December	5	ï Banks were advised to consider increasing the limit of consumption loan to be provided to the calamity affected persons in Tamil Nadu upto 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.
	6	ï State level in-charges of Small Farmersí Agri-Business Consortium (SFAC) and Nodal Officers of SFAC to be invited in the Sub-Committee of State Level Bankersí Committee (SLBC) as ëSpecial Inviteesí to discuss the problems, if any, faced in the implementation of Scheme for establishment of Agri-Clinics/Agri-business in rural areas. ï All private sector banks were advised to ensure that they actively participate in the various fora under Lead Bank Scheme to increase the flow of credit to agriculture, priority sector and weaker sections of the society. ï Draft guidelines were issued on outsourcing of financial services by banks.
	21	ï Profit making banks permitted make donations during a financial year (which can not be carried forward) aggregating upto one per cent of the published profit of the banks for the previous year. Loss-making banks were permitted to make donations totalling Rs.5 lakh only in a financial year including donations to exempted entities/funds.
	27	ï Banks (excluding RRBs) are not allowed to extend advances, including to their employees/ Employee Trusts set up by them, for the purpose of purchasing their (banksí) own shares under ESOP/IPO or from the secondary market. This prohibition will apply irrespective of whether the advances are unsecured or secured. ï Guidelines on General Credit Card (GCC) scheme issued to banks (including RRBs) for issuing GCC in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card. Interest rate on the facility may be charged, as considered appropriate and reasonable. Banks advised to utilise the services of local post offices, schools, primary health centers, local government functionaries, farmersí association/ club, well-established community-based agencies and civil society organisations for sourcing of borrowers for issuing GCC. ï For accelerating the flow of credit by RRBs, a few measures were introduced including; i) provision of lines of credit by sponsor banks at reasonable rates of interest; ii) borrowing by RRBs from/ place funds with other RRBs including those sponsored by other banks subject to counter-party credit risk policy and limits; iii) organising training programme/s with help from the Reserve Bank and NABARD in the regulatory and operational aspects of the Repo/CBLO market; iv) setting up an off-site ATM in its area of operation after assessing the cost and benefit; v) opening of currency chests to be considered by the Reserve Bank; vi) reviewing of the existing norms by RBI for conduct of various types of foreign exchange transactions by RRBs; and vii) handling pension and other Government business as sub-agents. ï Banks (including RRBs) and LABs advised to provide a simplified mechanism for one-time settlement of loans where the principal amount is equal to or less than Rs.25,000 and which have become doubtful and loss assets as on September 30, 2005. In case of loans granted under Government-sponsored schemes, banks may frame separate guidelines following a state-specific approach to be evolved by the SLBC. The borrowers whose accounts are settled under this mechanism will be eligible for fresh loans.
	28	ï Banks were advised to make available all printed material used by retail customers including account opening forms, pay-in-slips and passbooks in trilingual form *i.e.*, English, Hindi and the concerned Regional Language. Similar guidelines were issued to RRBs, on December 30, 2005.
2006		
January	20	ï Banks were advised to ensure filing of the Returns under Banking Cash Transaction Tax (BCTT), every month and in case the particular bank has no collection under BCTT a ëNILí Return may be filed.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
January	23	ï The revised guidelines on branch authorisation policy include, i) requirement of approaching Central Office of the Reserve Bank for licencing, obviating the need for approaching Regional Offices; ii) listing of types of branches for which proposal should be submitted; iii) reporting of opening of all types of branches; iv) the validity and the extension of authorisation granted; v) shifting of branch; vi) conversion of specialised branch, conversion of extension counter into a full-fledged branch; viii) conversion of rural branch into satellite office; and viii) merger of rural branch. ï Banks were prohibited from crediting ëaccount payeeí cheque to the account of any person other than the payee named therein. Where the drawer/payee instructs the bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the ëaccount payeeí cheque, bank should ask the drawer/payee to have the cheque or the account payee mandate thereon withdrawn by the drawer. This instruction would also apply with respect to the cheque drawn by a bank payable to another bank.
	25	ï Banks advised to augment their capital funds by issue of the following additional instruments: i) innovative perpetual debt instruments (IPDI) eligible for inclusion as Tier 1 capital, ii) debt capital instruments eligible for inclusion as upper Tier 2 capital, iii) perpetual non-cumulative preference shares eligible for inclusion as Tier 1 capital, and iv) redeemable cumulative preference shares eligible for inclusion as Tier 2 capital. ï FIIs registered with SEBI and NRIs permitted to subscribe to the issue of perpetual debt instruments eligible for inclusion as Tier-I capital and debt capital instruments as upper Tier-II capital, subject to certain limits. ï Guidelines issued to banks for the use of business facilitator and correspondent models to achieve greater financial inclusion and to†increase the outreach of the banking sector. The guidelines include, i) eligible entities and scope of activities under business facilitator and correspondent models; ii) payment of commission/ fees and other terms and conditions for these entities; iii) redressal of grievances; and iv) compliance with know your customer (KYC) norms.
	31	ï ING Bank N.V. excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 28, 2005.
February	2	ï Guidelines on securitisation of standard assets issued to all banks (excluding RRBs). The guidelines include definitions and norms relating to true sale, criteria to be met by SPV, special features including representations and warranties and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services, prudential norms for investment in the securities issued by SPV and accounting treatment of the securitisation transactions.
	6	ï In order to obviate the time lag between the issue of orders by the Government on dearness relief and other allowances for the pensioners, pension paying banks may put in place a mechanism to immediately obtain copies of Government Orders and release it to the pension paying branches for action at their end.
	7	ï Banks (excluding RRBs) were advised to review their existing procedure for export credit, Gold Card Scheme, export credit for non-star exporters and other issues on the lines prescribed in the notification in this regard.
	15	ï Banks were advised to examine the provisions of Prevention of Money Laundering Act (PMLA), 2002 as also the Rules notified there under on July 1, 2005 and initiate measures considered necessary to ensure compliance. The Rules include, maintenance of records of transactions, preservation of information and reporting to financial intelligence unit-India, Ministry of Finance. Similar guidelines were issued to RRBs on March 9, 2006.
	20	ï Banks were advised that loans to power distribution corporations/companies, emerging out of bifurcation/restructuring of SEBs, may also be classified as indirect finance to agriculture, subject to certain conditions.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
February	27	ï Banks (excluding RRBs) made eligible to apply for primary dealership subject to the following guidelines: i) banks which do not at present have a partly or wholly owned subsidiary and fulfill the following criteria (a) minimum net owned funds of Rs.1,000 crore, (b) minimum CRAR of nine per cent (c) net NPAs of less than three per cent, and d) a profit making record for the last three years; (ii) Indian banks which are undertaking PD business through a partly or wholly owned subsidiary and wish to undertake PD business departmentally by merging/taking over PD business from their partly/wholly owned subsidiary, subject to fulfilling the criteria as laid down above; (iii) foreign banks operating in India who wish to undertake PD business departmentally by merging the PD business being undertaken by group companies, subject to fulfillment of the above criteria.
March	1	ï Banks were advised while appraising loan proposals involving real estate, they should ensure that the borrowers should have obtained prior permission from Government/local Governments/other statutory authorities for the project, wherever required.
	3	ï Banks were advised to expedite the process of allotting Indian Financial System Codes (IFSC) to the branches. It was also decided that IFSC of the branch be printed just above the MICR band on the cheques, preferably above the serial number of the cheque.
	6	ï The name of ëCenturion Bank Limitedí has been changed to ëCenturion Bank of Punjab Limitedí in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 17, 2005.
	9	ï Banks were advised that they may first credit the proposed relief to the farmerís account before March 31, 2006 and thereafter seek reimbursement. The modalities of interest calculation was also laid out. This measure was announced to grant relief of two percentage points in the interest rate, as envisaged in the Union Budget Speech, on the principal amount upto Rs.1 lakh on crop loans availed by the farmers for *Kharif* and *Rabi* 2005-06. ï An additional nine branches of nine banks were designated for the purpose of collection of contribution to Prime Ministerís National Relief Fund (PMNRF), in addition to the already designated branches of twelve banks.
	16	ï The concessions/credit relaxations to borrowers/customers in the state of Jammu and Kashmir will continue to be operative for a further period of one year *i.e.*, upto March 31, 2007.
	17	ï The name of ëUFJ Bank Ltdí excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from January 1, 2006. The name of ëThe Bank of Tokyo - Mitsubishi, Ltdí changed to ëThe Bank of Tokyo - Mitsubishi UFJ, Ltdí in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from January 1, 2006.
	21	ï Banks were advised to suitably extend the banking hours of their branches authorised to conduct Government business by keeping the counters open for the purpose, taking into account security aspects of the bank branch concerned to accomodate the rush of the assesses for payment of taxes. No assessee should be turned away from the bank without payment of tax and special clearing (with return clearing) may be conducted in the evening/night of March 31, 2006.
	24	ï As the performance of implementing banks in respect of sanction and disbursement under PMRY for 2005-06 is not satisfactory, the Ministry of Agro and Rural Industries, Government of India decided to extend the cut-off date for lapsing of sanction and completion of disbursement for the sanction cases of 2005-06 by a further period of two months, *i.e.*, upto May 31, 2006. ï Norms relating to risk weight and exposure norms for bills discounted under letter of credit (LC) revised for banks. Accordingly, i) bills purchased/discounted/negotiated under LC (where the payment to the beneficiary is not made ëunder reserveí) will be treated as an exposure on the LC issuing bank and not on the borrower; ii) all clean negotiations as indicated above will be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes; and iii) in the case of negotiations ëunder reserveí the exposure should be treated as on the borrower and risk weight assigned accordingly.
	29	ï Banks to deduct income tax at source while disbursing interest payment under the Senior Citizens Savings Scheme (SCSS)-2004.
	31	ï It has been decided to extend the exemption granted to RRBs from ëmark to marketí norms in respect of their investments in SLR securities by one more year *i.e.*, for the financial year 2006-07.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
April	4	ï Banks were advised that principal and interest due on working capital loans in poultry industry as also installments and interest on term loans therein which have fallen due for payment on/after the onset of bird flu, *i.e.*, February 1, 2006 and remaining unpaid may be converted into term loans. The converted loans may be recovered in installments based on projected future inflows over a period up to three years with an initial moratorium of up to one year. Other measures include a proposal from Union Government for grant of a one time interest subvention of four per cent per annum on the outstanding principal amount as on March 31, 2006 (not including any part of the principal amount that has become overdue) to all poultry units availing loans from banks.
	5	ï Banks were advised to instruct designated branches to strictly adhere to the direction that only one bond ledger account (BLA) shall be opened in the name of each investor for operations in relief/ savings bonds. The existing multiple BLAs, if any, in the name of the same investor should be reviewed and merged into one BLA.
	12	ï Banks (excluding RRBs) were advised to furnish annual return in the revised format within one month in respect of non-SSI (sick/weak) industrial units beginning from March 31, 2006. As a one time measure, the banks are required to furnish data in the revised format for the period ending March 31, 2004 and March 31, 2005 by May 2006. ï Banks were advised to charge specific transfer fee in case of transfer of account from one deposit office to another, in terms of Senior Citizens Savings Scheme (Amendment) Rules, 2006, where the deposit is rupees one lakh or above, a transfer fee of rupees five per lakh of deposit for the first transfer and rupees ten per lakh of deposit for the second and subsequent transfers shall be payable.
	13	ï Banks were advised that the Government of India have allocated a target of 3,84,340 persons to States/UTs under PMRY for the year 2006-07.
	20	ï Banks were advised that the term ëloan or advanceí in clause (a) of the Explanation under sub-section 4 of Section 20 of the Banking Regulation Act, 1949 (10 of 1949), shall not include a credit limit granted under credit card facility provided by the bank to its Directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.
May	2	ï Credit mobilisation target for the year 2006-07 under SGSY was fixed at Rs.2,814 crore by the Government of India. State Level Bankersí Committees (SLBCs) should finalise the targets of individual banks on the basis of acceptable parameters like resources and number of rural/semi urban branches, so that each bank will be in a position to arrive at its corporate target. Banks were advised to make efforts to achieve the credit targets, minimum subsidy credit ratio as fixed by the Government and maintain per family investment of Rs.25,000.
	8	ï The rates of agency commission payable to banks for conduct of Government business has been revised. For ëother paymentsí excluding ëreceiptsí and ëpension paymentsí rates applicable from July 1, 2006 would stand at nine paisa per Rs.100 turnover in place of Rs.50 per transaction applicable currently. ï Banks were advised to take corrective action to rectify deficiencies in Annual Information Returns filed under Section 285 BA of Income Tax Act, 1961 for the Financial Year 2004-05 and submit a ëSupplementary Information Reportí, if need be, to the Income Tax Department. The necessary information for 2005-06 is to be furnished before May 31, 2006.
	16	ï Banks (including RRBs) were advised to display and update, on their website, the details of various service charges in the prescribed format. SCBs are also to display the charges relating to certain services as prescribed in their offices/branches. This may also be displayed in the local language.
	17	ï RRBs, were advised that with approval of their Board of Directors, they may enter into agreements with mutual funds for marketing their units subject to certain conditions, including i) the bank should act as an agent of the customers; ii) the purchase of MF units should be at the customersí risk and without the bank guaranteeing any assured return; iii) the bank should not acquire such units of mutual fund from the secondary market; iv) the bank should not buy back units of mutual funds from the customers; and v) compliance with extant KYC/AML guidelines.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
May	23	ï It was clarified to banks that the interest subvention related to relief measures to specific categories of poultry industry will be calculated at four percentage points on the term loans and working capital loans outstanding as on March 31, 2006.
	25	ï The risk weight on exposure of banks to commercial real estate increased to 150 per cent from 125 per cent. Further, total exposure of banks to venture capital funds will form a part of its capital market exposure and, henceforth, a higher risk weight of 150 per cent will be assigned to these exposures.
	29	ï The general provisioning requirement for banks on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans increased to 1.0 per cent from the present level of 0.40 per cent. ï Banks (excluding RRBs) were advised to disclose in the ëNotes on Accountí the information providing details of break-up of provisions and contingencies shown under the head ëExpenditureí in Profit and Loss Account as follows: i) provisions for depreciation on investment; ii) provision towards NPA; iii) provision towards standard asset; iv) provision made towards income tax; and v) other provision and contingencies (with details).
June	5	ï In pursuance with the announcement in the Union Budget, 2006-07, the Government will provide interest subvention of two per cent per annum to public sector banks (PSBs) and RRBs in respect of short-term production credit up to Rs.3 lakh provided to farmers. The amount of subvention will be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan becomes overdue *i.e.*, March 31, 2007 for *Kharif* and June 30, 2007 for *Rabi*, respectively, whichever is earlier. This subvention will be available to PSBs and RRBs on the condition that they make available short-term credit at ground level at seven per cent per annum. In case of RRBs, this will be applicable only to short term production credit disbursed out of their own funds and will exclude such credit supported by NABARD refinance. Banks were advised to immediately, provide their estimates of short-term production credit to farmers up to Rs.3 lakh for *Kharif* and *Rabi* 2006-07, separately.
	8	ï Banks (excluding RRBs) were advised not to enter into swap transactions involving conversion of fixed rate rupee liabilities in respect of innovative Tier I/Tier II bonds into floating rate foreign currency liabilities. Further, with regard to swaps already entered into, banks are to follow certain procedure for accounting gains / losses arising out of such swap transactions.
	12	ï Bureau of Indian Standards (BIS) has formulated a comprehensive National Building Code (NBC) of India 2005, providing guidelines for regulating the building construction activities across the country. The Code contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements; fire safety requirements; stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. The boards of banks were advised to consider this aspect for incorporation in their loan policies. Similar guidelines were issued to RRBs on June 22, 2006.
	13	ï The Empowered Committees (EC) for RRBs, constituted by the Reserve Bank at its Regional Offices, would deliberate and make recommendation on the applications for opening, shifting or merger of branches of RRBs. The Reserve Bank would take into account the ECís recommendation and dispose of such applications expeditiously. Similarly, requests from RRBs for conduct of foreign exchange business, as limited authorised dealers for current account transactions, would be considered by the Reserve Bank after clearance by the EC.
	22	ï Revised norms issued to banks (excluding RRBs) on utilisation, creation, accounting and disclosures of floating provisions, *i.e.*, provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirement for provisions for standard assets.
	27	ï In order to start a robust state-of-the-art nationwide ECS covering more branches and locations with centralised data submission system, banks were advised to furnish certain information indicating their level of preparedness for the project.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
July	4	ï Banks were advised to initiate steps for incorporating an appropriate mandate management routine for handling ECS (Debit) transactions.
	12	ï Banks were permitted to phase out the additional general provisioning on standard advances in specific sectors *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans. Additional provisioning requirement over the financial year 2006-07 would stand at (a) 0.55 per cent for the quarter ended June 2006; (b) 0.70 per cent for the half-year ending September 2006; (c) 0.85 per cent for the quarter ending December 2006; and (d) 1.00 per cent for the year ending March 2007.
	14	ï Banks were advised not to associate themselves with internet based electronic purse schemes which are in the nature of acceptance of deposits that can be withdrawn on demand.
	17	ï Banks were advised to ensure that all the farmersí loan-accounts in the notified districts, which are overdue as on July 01, 2006, are rescheduled on the lines of the package of ëRelief Measures to the Vidarbha Region in Maharashtraí announced by the Honíble Prime Minister and the interest thereon (as on July 01, 2006) is fully waived. Fresh finance may be ensured to such farmers. The total amount of credit of Rs.1,275 crore envisaged to be released by banks will be allocated by Bank of Maharashtra (as SLBC Convenor) among the banks functioning in the districts.
	20	ï Banks were advised to place service charges and fees on the homepage of their website at a prominent place under the title ëService Charges and Feesí so as to facilitate easy access by the bank customers. A complaint form, along with the name of the nodal officer for complaint redressal, may be provided in the homepage itself to facilitate complaint submission by the customers. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month.
August	1	ï Accounting and related aspects for ëWhen Issuedí transactions in Central Government securities issued.
	3	ï A new district *viz*., Tarn Taran covering three tehsils, *viz*., Tarn Taran (200 villages), Khadoor Sahib (96 Villages) and Patti (197 Villages) has been carved out of the existing district of Amritsar with effect from June 16, 2006. Lead Bank responsibility of the new district has been assigned to Punjab National Bank.
	9	ï Additional guidelines issued on relief measures to be extended by banks in areas affected by natural calamities.
		ï Banks were advised that they need not maintain a separate SGL account for PD business. Banks undertaking PD business departmentally may maintain a single SGL account. They would, however, need to keep separate books of accounts internally for monitoring on an ongoing basis, maintenance of the minimum stipulated balance of Rs.100 crore of Government securities and for recording the transactions undertaken by the PD business.
	10	ï Guidelines were issued on penal rate of interest in case of default in maintaining stipulated balances under CRR. With effect from the fortnight beginning June 24, 2006 penal interest would be charged as follows: i) in cases of default in maintenance of CRR requirement on a daily basis, which is presently 70 per cent of the total CRR requirement, penal interest would be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day; and if the shortfall continues on the next succeeding day/s, penal interest would be recovered at a rate of five per cent per annum above the Bank Rate; (ii) in cases of default in maintenance of CRR on average basis during a fortnight, penal interest would be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934. Similar guidelines were issued to RRBs on August 11, 2006.
	22	ï Banks permitted to offer internet based foreign exchange services, for certain transactions, in addition to the local currency products already allowed to be offered on internet based platforms, subject to certain conditions.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
August	24	ï All banks were advised to recognise interest subsidy eligibility certificate issued by *Khadi* and Village Industries Commission (KVIC) for extending credit to *khadi* institutions and entrepreneurs, provided KVICís assessment for working capital requirement does not exceed the assessment made by banks by more than 10 per cent.
		ï To further improve customer service for outstation investors, half-yearly interest/ principal of relief/ savings bonds to investors may be made at a place of their choice, either by issue of a demand draft, free of cost, or an ëat parí cheque payable at all branches of the bank.
September	1	ï Within the overall target for priority sector lending and the sub-target of 10 per cent for the weaker sections, sufficient care should be taken to ensure that the minority communities also receive an equitable portion of the credit. The above requirement should be considered by lead banks while preparing district credit plans.
		ï In order to improve the quality of service available to customers in branches, banks were advised to ensure that full address/telephone number of the branch is invariably mentioned in the pass books/statement of accounts issued to account holders. Similar guidelines were issued to RRBs on September 15, 2006.
	4	ï It was clarified to the banks that instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance will be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture. Asset classification of the restructured accounts as on the date of natural calamity will continue if the restructuring is completed within a period of three months from the date of natural calamity.
	14	ï Banks were advised to delegate adequate powers to the bank managers for sanctioning loans without referring to higher authorities and following of the procedure for calculating interest on loans, excluding subsidy amount under SGSY Scheme.
	18	ï The name of ìChohung Bankî has been changed to ìShinhan Bankî in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from August 12, 2006.
	20	ï Banks were advised that the exposure of banks to entities for setting up Special Economic Zones (SEZs) or for acquisition of units in SEZs which includes real estate would be treated as exposure to commercial real estate sector with immediate effect and banks would have to make provisions as also assign appropriate risk weights for such exposures as per the existing guidelines. ï Detailed instructions issued to Banks under Section 17(1) and 17(1)(b)(ii) of BR Act 1949 regarding transfer of profit to their Reserve Fund.
October	4	ï Banks were advised to invariably offer pass book facilities to all its savings bank account holders (individuals). In case the bank offers the facility of sending the statement of account and the customer chooses to get statement of account, the bank must issue monthly statement of accounts. Similar guidelines were issued to RRBs on October 13, 2006.
	5	ï Operational guidelines were issued for banks undertaking/proposing to undertake primary dealer business.
	11	ï Banks were advised that it would not be mandatory to put a clause in the guarantee issued by them, regarding an obligation on the part of the beneficiary of the guarantee to seek confirmation of the controlling office/head office.
	18	ï The banks were advised to ensure that all the loan accounts of the farmers in the specified districts which are overdue as on July 1, 2006 are rescheduled on the lines of package of relief measures for the debt stressed farmers of 25 districts in the states of Andhra Pradesh, Karnataka and Kerala.
	31	ï All SCBs (excluding RRBs) advised that in view of the current macroeconomic and overall monetary conditions, the fixed repo rate under the liquidity adjustment facility (LAF) of the Reserve Bank has been increased by 25 basis points with effect from Second LAF of October 31, 2006 to 7.25†per cent from 7.00 per cent. The reverse repo rate under the LAF remains unchanged at 6.00 per cent. All other terms and conditions of the current LAF Scheme will remain unchanged.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
B) Co-operative Banks		
2005		
April	11	ï The normal donations (for development of co-operative movement, charitable or any other public purpose) to be made during a year, in aggregate, to be restricted to a ceiling of one per cent of the published profits of the Urban Co-operative Banks (UCB) for the previous year. Such normal donations, together with those that may be made to national funds and other funds recognised/sponsored by the Central/State Governments, during a year, would not exceed two per cent of the published profits of the bank for the previous year.
	15	ï UCBs were advised to reduce the prudential exposure limits on advances to 15 per cent and 40 per cent of the ëCapital Fundsí in case of single borrower and group of borrowers, respectively. The definitions of capital funds and exposure were also modified for this purpose. UCBs are to bring down the outstanding or the sanctioned exposure limit exceeding the revised limit within a maximum period of two years, *i.e.*, by March 31, 2007.
	19	ï UCBs, which have granted loans and advances against the guarantee/surety of the directors and/or their relatives prior to October 1, 2003, were advised that they may not unwind the position and may continue with the guarantee/surety of the directors and/or their relatives till the maturity of the facility. However, no fresh borrowals should be allowed by the UCBs with the guarantees/surety of their directors and/or their relatives.
	28	ï UCBs were advised to explore the option of merger/amalgamation wherever necessary for revitalising and rehabilitating the weak scheduled UCBs.
May	4	ï UCBs were advised to forward in the quarterly statement on ëconsolidated position of frauds outstandingí a footnote detailing the position of frauds outstanding in the housing loan segment, effective quarter ended March 2005.
	6	ï State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) allowed to undertake insurance business on a referral basis, without any risk participation through their network of branches, subject to certain conditions.
	11	ï The eligibility to participate in repo market was extended to non-scheduled UCBs and listed companies, having a gilt account with a scheduled commercial bank subject to certain conditions.
	17	ï The investment limit in plant and machinery for the seven items belonging to sports goods which are already reserved for manufacture in SSI sector, as per Government of India, Gazette Notification No.SO 1109 (E) dated October 13, 2004, has been enhanced from Rs.1 crore to Rs.5 crore. UCBs were advised that the advances given to these units could be treated as priority sector lending.
	21	ï The statutory inspection of all UCBs to be carried out by the Reserve Bank with reference to the financial position as on March 31 immediately preceding the date of inspection and the gradation determined based thereon. However, inspection report should cover important developments having a significant bearing, subsequent to the reference date of inspection on the bankís financial health.
June	20	ï The non-scheduled UCBs having gilt account with an SGL Account holder permitted to participate in repo market, both repos and reverse repos, subject to conditions as prescribed for ready forward contracts (including reverse ready forward contracts). ï UCBs were advised to adopt a standardised settlement on T+1 basis of all outright secondary market transactions in Government securities with effect from May 25, 2005. In the case of repo transactions in Government securities, however, market participants will have the choice of settling the first leg on T+0 basis or T+1 basis, as per the requirement of participants. ï In order to facilitate further deepening of the Government securities market, the UCBs have been permitted to sell the Government securities allotted to successful bidders in primary issues on the day of allotment, with and between CSGL account holders.
July	4	ï UCBs having a single branch/head office with deposits upto Rs.100 crore and those having multiple branches within a single district with deposits upto Rs.100 crore were permitted to classify loan NPAs based on 180-day delinquency norm instead of the extant 90-day norm, till March 31, 2007.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
July	12	ï 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 depositors,the procedure for settlement of claims in respect of deceased depositors was simplified and advised to StCBs and DCCBs.
	13	ï The norms relating to classification and valuation of investment portfolio of StCBs and DCCBs were modified, allowing them to amortise their additional provisioning requirement. ï Some relaxations have been given to those UCBs which have difficulty in implementing the revised credit exposure norms dated April 15, 2005 for sanction of fresh advances owing to the impact of past accumulated losses. Such UCBs were advised to approach the Reserve Bank explaining the issues involved and submit specific proposals for its consideration.
	14	ï The UCBs were 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 the receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s).
	20	ï Acceptance of NRO deposits by UCBs to be phased out. The UCBs were advised not to accept any fresh deposits in the form of savings/current/recurring/term deposits and not to renew the existing recurring/term deposits on maturity with immediate effect. The existing current/savings deposits may be allowed to continue up to a period of six months. The accounts may be closed thereafter, with advance notice to the deposit holders.
August	3	ï In view of the unprecedented floods in Maharashtra and the need to provide immediate succour, UCBs were advised to observe minimum formalities for enabling such persons to open a bank account quickly. Similar guidelines were issued to StCBs and DCCBs on August 16, 2005.
	4	ï StCBs and DCCBs were 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 a few conditions.
	9	ï UCBs were advised that the risk weight to be raised to i) 125.0 per cent (from 100.0 per cent) in case of loans extended 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) to 125.0 per cent (from 100.0 per cent) in case of commercial real estate.
	23	ï The KYC procedure for opening accounts simplified further for UCBs for those persons who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs.1,00,000 in a year. UCBs 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 was issued to StCBs and DCCBs.
September	2	ï Grade II UCBs, which have been classified as such on account of net NPAs only, permited to declare dividend not exceeding 10 per cent provided they have made net profit for the current year and conform to certain other conditions as in the case of Grade III banks.
	17	ï 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 stipulated by the Reserve Bank/NABARD and prior permission of the Reserve Bank.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
September	29	ï UCBs were advised that 108 items have been de-reserved by the Government of India from the list of items reserved for exclusive manufacture by the SSIs.
October	6	ï Certain categories of directors of UCBs excluded from the purview of the guidelines prohibiting extension of any loans and advances (both secured and unsecured) to directors, their relatives and the firms/concerns/companies in which they are interested.
	10	ï The StCBs/DCCBs to furnish certain information in the form of ëNotes on Accountsí to their Balance Sheets from the year ending March 31, 2006.
	20	ï UCBs carrying accumulated losses in their balance sheet would not be eligible to make donations.
	21	ï The draft guidelines for set-off/adjustment of deposits against non-performing assets of UCBs working under directions have been forwarded to Registrar of Co-operative Societies of all States and Central Registrar of Co-operative Societies and they have been requested to issue the final guidelines in this regard keeping in view the provisions of the respective State Co-operative Societies Act and the Rules/Notification framed there under.
November	22	ï On a review, it has been decided that with effect from close of business in India on November 17, 2005, the interest rates on NRE savings deposits accounts for UCBs shall be at the rate applicable to domestic saving deposits. The interest rates on fresh repatriable Non-Resident (External) Rupee (NRE) term deposits for one to three years should not exceed LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturity plus 75 basis points. The interest rates so determined for three years deposits should also be applicable in case the maturity period exceeds three years. ï In order to smoothen the process of merger in the UCB sector, the acquirer UCB permitted to amortise the loss taken over from the acquired UCB over a period of not more than five years, including the year of merger.
	24	ï With a view to achieving the objective of greater financial inclusion, all UCBs to initiate steps within one month, to make available a basic banking ëno-frillsí account either with ënilí or very low minimum balances as well as charges and report to the Reserve Bank on a quarterly basis. Banks are also to give wide publicity to the facility of such a ëno-frillsí account, including on their web sites, indicating the facilities and charges in a transparent manner. Similar guidelines were issued to StCBs and DCCBs on December 13, 2005. ï The general provisioning requirement for ëstandard advancesí increased to 0.40 per cent from 0.25 per cent. However, direct advances to agriculture and SME sector which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto. The higher provisioning requirements will be applicable for Unit banks and UCBs having multiple branches within a single district with deposits base of Rs.100 crore and above, and all other UCBs operating in more than one district. For other UCBs, the existing requirement of provisioning of 0.25 per cent for standard assets will continue. These provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes upto the permitted extent as hitherto.
	30	ï All the UCBs have been advised to furnish the name, designation, e-mail address and the contact telephone numbers of Principal Officer (AML) appointed by the Director, Financial Intelligence Unit-India, Government of India.
December	5	ï The limit on unsecured advances by UCBs without surety, in respect of purchase/discount/withdrawal against third party cheques for a temporary period of 30 days in emergent cases, enhanced from Rs.5,000 to Rs.25,000 and Rs.10,000 respectively, for scheduled UCBs and unscheduled UCBs in Grade III and IV, while for those in grade other than III and IV the limit for scheduled and unscheduled UCBs were placed at Rs.50,000 and Rs.20,000 respectively. However, the ceiling on temporary unsecured advances without sureties for other class of unsecured advances, *viz*., clean bills, *multani hundis*, upto a period of 30 days, would however, continue to be limited to a maximum of Rs.5,000. The total unsecured advances (with surety and without surety) granted by a bank to its members should not exceed 15.0 per cent of its demand and time liabilities as against the present limit of 33.3 per cent and a phased reduction in exposure was allowed till March 31, 2007.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
December	23	ï With a view to minimise the delay in settling the claims of depositors, DICGC has reviewed the procedure followed in regard to appointment of Chartered Accountants (CAs) and fixing remuneration, for the UCBs. With a view to minimize the time lag in appointment of CAs, it is decided to consider fixing remuneration of CAs in terms of charge per depositor.
	30	ï StCBs and DCCBs to make available all printed material used by retail customers including account opening forms, pay-in-slips, passbooks *etc*. in trilingual form *i.e.*, English, Hindi and the concerned Regional Language.
2006		
January	9	ï UCBs were advised to take the benefit of the scheme for ëSmall Enterprises Financial Centresí on such terms as are mutually agreed to between them and SIDBI.
	19	ï StCBs/DCCBs have been advised to continue charging depreciation on computers on a straight-line method at the rate of 33.3 per cent per annum. Similar guidelines were issued to UCBs on January 24, 2006.
	23	ï Multi-State co-operative societies engaged in manufacturing activity permitted to raise external commercial borrowings (ECBs) under the Approval Route, provided that the society is financially solvent, submits its up-to-date audited balance sheet and the proposal complies with all other parameters of ECB guidelines.
	30	ï It has been clarified that in case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, UCBs may reckon the outstanding for arriving at credit exposure limit for the purpose of adhering to the exposure norms. ï UCBs prohibited from crediting ëaccount payeeí cheque to the account of any person other than the payee named therein. For crediting proceeds to third party *i.e.*, other than to payee, UCBs can do so only after obtaining mandate on the cheque from the drawer. These instructions will also apply with respect to the cheque drawn by a bank payable to another bank. Similar guidelines were issued to StCBs and DCCBs on April 27, 2006.
February	17	ï It has been decided that the non-scheduled UCBís, having single branch-cum-head-office or having multiple branches within single district, having a deposit base of Rs.100 crore or less would be exempted from minimum SLR in the form of prescribed assets up to maximum of 15 per cent of their demand and time liabilities (DTL) to the extent of the amounts deposited by them with State Bank of India, subsidiary banks, corresponding new bank and IDBI Ltd. This exemption will be in force upto March 31, 2008. ï In order to offer small borrowers an opportunity to settle their NPA accounts with UCBs and become eligible for fresh finance, Chief Secretaries of the States were advised to consider notifying, a simplified mechanism for one-time settlement of loans where the principal amount is equal to or less than Rs.25,000 and which have become doubtful and loss assets as on September 30, 2005.
March	2	ï UCBs were advised that while considering granting advances against jewellery they may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon. Similar guidelines were issued to StCBs and DCCBs on March 9, 2006.
	3	ï StCBs and DCCBs were advised to comply with the provisions of Prevention of Money Laundering Act (PMLA), 2002 and the Rules notified there under on July 1, 2005. The Rules include, maintenance of records of transactions, preservation of information and reporting to Financial Intelligence Unit-India. Similar guidelines were issued to UCBs on March 21, 2006.
	9	ï UCBs were advised to install dual display note counting machines at the payment counters of their branches for the use of their customers towards building confidence in the minds of the public to accept note packets secured with paper bands.
		ï As a part of announcement made by Honíble Finance Minister for improving flow of credit to small and medium enterprises, certain guidelines covering *inter alia*, eligibility and viability criteria for restructuring of debts and the consequential effects of such restructuring on classification of these assets were issued to the UCBs. Such dispensation of asset classification should be made available only when the account is restructured for the first time.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date			Measures
2006			
March	21	ï	Based on the half-yearly review by NABARD, StCBs/DCCBs were advised to take appropriate action in the following areas, including i) conduct of the half-yearly review of investment portfolio; ii) framing of investment policy; iii) preparation of approved panel of brokers; iv) placing of funds as deposits with PSUs/Companies/Corporations/UCBs/NBFCs *etc*.; v) quarterly certificate of securities actually held;vi) irregularities in non-SLR investments; vii) submission of concurrent audit of SLR investment portfolio and the monthly audit of treasury transactions to NABARD/RBI; and viii) violation of Section 19 of the B.R. Act, 1949 (aACS) relating to investments in shares of other co-operative institutions.
	24	ï	The currency chest facility was extended to scheduled UCBs which are registered under Multi-State Co-operative Societies Act, 2002 and to the UCBs under the State Acts, where the State Governments concerned have assured regulatory co-ordination by entering into MOU with the Reserve Bank. The eligibility norm in this regard was also laid down.
	29	ï	UCBs were permitted on an ongoing basis to exceed the limit of 25 per cent of their total investments under HTM category provided: i) the excess comprises only of SLR securities; and ii) the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight. Further relaxations include: i) as a special case, shifting of securities from and to HTM once more on or before March 31, 2006; ii) the provision required to be made is the difference between book value and face value when the market value is lower than the face value; iii) provision may be spread over the remaining period to maturity, instead of five years; and iv) in case, as a result of valuation as above, the provision already held by the bank is rendered surplus, the same should not be taken to the Profit and Loss account.
April	13	ï	UCBs registered in states, which have signed MoU and those registered under the Multi-State Co-operative Societies Act, 2002 may enter into agreements with mutual funds for marketing their units subject to the certain conditions, including i) the UCB should act as an agent of the customers, ii) the purchase of MF units should be at the customersí risk and without the UCB guaranteeing any assured return, iii) the UCB should not acquire such units of mutual fund from the secondary market, iv) the UCB should not buy back units of mutual funds from the customers, and v) the UCB should ensure compliance with extant KYC/AML guidelines.
	28	ï	In order to enable better customer service, UCBs were advised to undertake following limited transactions at the extension counters: i) deposit/withdrawal transactions, ii) issue and encashment of drafts and mail transfers, iii) issue and encashment of travellersí cheques, iv) collection of bills, v) advances against fixed deposits of their customers (within the sanctioning power of the concerned officials at the Extension Counter), and vi) disbursement of other loans (only for individuals) sanctioned by the Head Office / base branch up to the limit of Rs.10 lakh.
		ï	UCBs were permitted to set up ATMs subject to the following eligibility criteria: i) minimum deposits of Rs.100 crore, ii) compliance with the prescribed CRAR, iii) net NPAs less than 10 per cent, and iv) consistent record of profitability and compliance with CRR/SLR. Among others, the requirement of prior approval of the Reserve Bank for network connectivity and/or sharing of the ATMs installed by UCBs has also been dispensed with.
May	26	ï	UCBs were advised to display and update, on their website, the details of various service charges in the prescribed format. UCBs are also to display the charges relating to certain services as prescribed in their offices/branches. This may also be displayed in the local language.
June	1	ï	The risk weight on UCBsí exposure to the commercial real estate increased to 150 per cent from 125 per cent.
	6	ï	StCBs and DCCBs permitted to open savings bank accounts in the names of State Government departments/bodies/agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by State Governments on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
June	15	ï The general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans increased to 1.0 per cent from the present level of 0.40 per cent. The revised norms were made applicable for UCBs (Unit banks and banks having multiple branches within a single district with deposit of Rs.100 crore and above and all other UCBs operating in more than one district) on June 15, 2006.
	19	ï Bureau of Indian Standards (BIS) has formulated a comprehensive building Code namely National Building Code (NBC) of India 2005, providing guidelines for regulating the building construction activities across the country. The Code contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements; fire safety requirements; stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. Banksí Boards may consider this aspect for incorporation in their loan policies. Similar guidelines were issued to StCBs and DCCBs on June 26, 2006.
July	11	ï Investments that may be made by UCBs on or after April 1, 2007 in the bonds issued by NHB/ HUDCO shall not be eligible for classification under priority sector lending.
	21	ï UCBs to ensure that all the farmersí loan-accounts in notified districts, which are overdue as on July 01, 2006, are rescheduled on the lines of the package of ìRelief Measures to the Vidarbha Region in Maharashtraî announced by the Honíble Prime Minister and the interest thereon (as on July 01, 2006) is fully waived. Fresh finance may be ensured to such farmers. The total amount of credit of Rs.1,275 crore envisaged to be released by banks will be allocated by Bank of Maharashtra (as SLBC Convenor) among the banks functioning in the districts.
	24	ï UCBs to place service charges and fees on the homepage of their website at a prominent place under the title ëService Charges and Feesí so as to facilitate easy access by the UCB customers. A complaint form, along with the name of the nodal officer for complaint redressal, may be provided in the homepage itself to facilitate complaint submission by the customers. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month.
	26	ï UCBs not to associate themselves with internet based electronic purse schemes which are in the nature of acceptance of deposits that can be withdrawn on demand. Similar guidelines were issued to StCBs and DCCBs on August 7, 2006.
August	11	ï StCBs advised that with effect from the fortnight beginning June 24, 2006 penal interest in case of default in maintaining stipulated balances under CRR would be charged as follows: i) in cases of default in maintenance of CRR requirement on a daily basis, which is presently 70 per cent of the total Cash Reserve Ratio requirement, penal interest would be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest would be recovered at a rate of five per cent per annum above the bank rate; (ii) in cases of default in maintenance of CRR on average basis during a fortnight, penal interest would be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934. Similar guidelines were issued to scheduled UCBs on August 16, 2006.
	18	ï Accounting and related aspects for ëWhen Issuedí transactions in Central Government issued to UCBs.
September	4	ï Guidelines issued to UCBs on relief measures to be extended in areas affected by natural calamities.
	22	ï In order to improve the quality of service available to customers in branches, StCBs/DCCBs were advised to ensure that full address/telephone number of the branch is invariably mentioned in the pass books/statement of accounts issued to account holders.
	26	ï UCBs were advised to furnish the data on frauds, thefts, burglaries *etc*., in format FMR ñ 2, 3, and 4 on a quarterly basis to the Regional Offices of the Reserve Bank within 15 days of the end of the quarter to which the data relates.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
October	6	ï UCBs were advised to ensure that full address/telephone numbers of the branch is invariably mentioned in the Pass Books/Statement of Accounts issued to account holders.
	11	ï StCBs/DCCBs were advised to invariably offer pass book facilities to all its account holders (individuals). Similar guidelines were issued to UCBs on October 16, 2006.
	17	ï UCBs were advised that within the overall target for priority sector lending and the sub-target of 25 per cent for the weaker sections, sufficient care should be taken to ensure that the minority communities also receive an equitable portion of the credit. ï UCBs allowed to extend individual housing loan upto the limit of Rs.25 lakh per beneficiary of a dwelling unit. However housing loans above Rs.15 lakh will not be treated as priority sector lending. The present stipulation that the amount of instalment and interest should not exceed 30 per cent of the income of the borrowers stands dispensed with.
C) Financial Institutions (FIs)		
2005		
April	26	ï 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.
	27	ï 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 ëQuarterly Return on Important Financial Parameters in respect of Select Financial Institutionsí.
November	22	ï FIs were advised that guidelines on one time settlement scheme for SME accounts issued to public sector banks should be uniformly implemented as applicable.
December	6	ï The general provisioning requirement for ëstandard advancesí, with the exception of direct advances to agricultural and SME sectors, increased from the present level of 0.25 per cent to 0.40 per cent for the FIs.
2006		
February	2	ï Guidelines on securitisation of standard assets issued to FIs. The guidelines include definitions and norms relating to true sale, criteria to be met by SPV, special features including representations and warranties and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services, prudential norms for investment in the securities issued by SPV, accounting treatment of the securitisation transactions, disclosures, *etc*.
D) Non-Banking Financial Companies (NBFCs)		
2005		
April	28	ï 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 Boardís 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	ï NBFCs not accepting/holding public deposits and having assets size of ëRs.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.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
October	11	ï 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 the NBFCs.
	21	ï NBFCs to have a well documented policy and a Fair Practices Code for credit card operations. The Fair Practices Code for credit card operations released by IBA in March 2005 could be adopted by NBFCs for this purpose. Guidelines include norms relating to issue of cards, interest rate and other charges, wrongful billing, use of DSAs / DMAs and other agents, protection of customer rights, right to privacy, customer confidentiality, fair practices in debt collection, redressal of grievances, internal control and monitoring system, and right to impose penalty.
	26	ï Guidelines were issued to all deposit taking NBFCs (including RNBCs) that all individual cases of frauds involving amount less than Rs.25 lakh may be reported to the respective Regional Offices of the 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 may be reported to Frauds Monitoring Cell, Department of Banking Supervision, Central Office, Reserve Bank, Mumbai.
December	9	ï It was clarified by the Reserve Bank that in case of premature repayment of deposits, the clause relating to clubbing of all deposit accounts, standing to the credit of sole/first named depositor in the same capacity, for the purpose of premature repayment/grant of loan, as the case may be, of an amount upto Rs.10,000 to the depositor is applicable only in case of problem NBFC/RNBC/MNBC. In case of death of depositor, even the problem NBFC/RNBC/MNBC may repay the deposit/public deposit within the lock-in period without clubbing of deposit/public deposit.
	12	ï NBFCs (including RNBCs) with public deposits/deposits of Rs.50 crore and above were advised that it would be desirable if such NBFCs stipulate that the partners of the Chartered Accountant firm conducting the audit be rotated every three years so that the same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC/RNBC after an interval of three years, if the NBFC/RNBC, so decides. NBFC/RNBCs were advised to incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.
	27	ï It was decided not to call for returns in First schedule annexed to Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977 from the Miscellaneous Non-Banking Companies which were not holding/accepting deposits.
2006		
January	24	ï The norms relating to prior public notice about the change in the control/management of the company of the NBFCs (deposit taking and non-deposit taking) relaxed where merger and amalgamation takes place in terms of the High Court order in pursuance of Sections 391 and 394 of the Companies Act, 1956.
February	2	ï Guidelines on securitisation of standard assets issued to NBFCs (including RNBCs). The guidelines include definitions and norms relating to true sale, criteria to be met by SPV, special features including representations and warranties and re-purchase of assets from SPVs, policy on provision of credit enhancement, liquidity and underwriting facilities, policy on provision of services, prudential norms for investment in the securities issued by SPV, accounting treatment of the securitisation transactions and disclosures.
March	7	ï It was decided to further simplify the KYC procedure for opening accounts by NBFCs for those persons who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs.1,00,000 in a year. In respect of such persons, NBFCs may open accounts subject to introduction from another account holder who has been subjected to full KYC procedure or any other evidence as to the identity and address of the customer to the satisfaction of the NBFC.
	22	ï Pending the exercise of examining the eligibility criteria of NBFCs who can be assigned the role of Business Correspondent/s, the scheduled commercial banks to defer selection/use of NBFCs as Business Correspondent/s. However, they can use NBFCs licensed under Section 25 of the Companies Act, 1956 as Business Correspondents.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
March	31	ï The investment pattern contained in the RNBC Directions were modified as under with effect from April 1, 2006: (i) not less than 10 per cent of the ALD in the manner prescribed under paragraph 6(1)(a) of the RNBC Directions, 1987; (ii) not less than 75 per cent of the ALD in the manner prescribed under paragraph 6(1)(b) of the RNBC Directions, 1987; and (iii) not more than 5 per cent of the ALD as on December 31, 2005 or one-time of net owned fund of the company, whichever is less in the manner prescribed under paragraph 6(1)(c) of the RNBC Directions, 1987 for discretionary investments upto March 31, 2007. After March 31, 2007 RNBCs shall invest in accordance with paragraph 6(a) and (b) of the RNBC Directions, 1987 only and there will be no discretionary investment from April 1, 2007.
April	5	ï Certain changes were made in the format of monthly return to be submitted by the NBFCs not accepting/holding public deposits and having assets size of Rs.100 crore and above to include parameters such as cumulative position in Profit and Loss Account, age-wise break up of NPAs, highest outstanding balance of working capital, certain additional information on capital market exposure of the company and foreign sources of funds. ï NBFCs, MNBCs and RNBCs to go through the provisions of Prevention of Money Laundering Act (PMLA), 2002 and the Rules notified there under on July 1, 2005 and take all steps considered necessary to ensure compliance. The Rules include, maintenance of records of transactions, preservation of information and reporting to Financial Intelligence Unit-India.
September	20	ï While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFCs may ënet-offí against the total outstanding exposure to the borrower advances standardised by cash margins/security deposits/caution money against which right to set off is available. ï Securitisation Companies or Reconstruction Companies should invest in security receipts an amount not less than five per cent issued under each scheme with immediate effect. In the case of Securitisation Companies or Reconstruction Companies, which have already issued the security receipts, such companies shall achieve the minimum subscription limit in security receipts under each scheme, within a period of six months from the date of Notification issued in this regard.
	28	ï NBFCs issued comprehensive instructions under Sec(45) of RBI Act 1934 to frame broad guidelines on fair practice code approved by their Board of Directors and the same should be published and disseminated on the website of the company for information of the public.
October	19	ï A Securitisation Company or Reconstruction Company, which has obtained a Certificate of Registration from the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 should commence business within six months from the date of grant of Certificate of Registration. The Reserve Bank may, on an application made by the Securitisation Company or Reconstruction Company, grant extension of time for commencement of business beyond six months, on merits, but in no case, such extension of time shall exceed 12 months from the date of grant of Certificate of Registration.
	27	ï It has been clarified that prior public notice about change in control/management should be given by the NBFC and also by the transferor or the transferee or jointly by the parties concerned.
		E) Primary Dealers (PDs)
2005		
May	11	ï Guidelines were issued on adoption of standardised settlement on T+1 basis for all outright secondary market transactions in Government securities. ï Guidelines were issued permitting sale of Government Securities allotted to successful bidders in primary issues on the day of allotment, with and between CSGL constituent account holders. ï The eligibility to participate in repo market was extended to non-scheduled UCBs and listed companies, having a gilt account with a scheduled commercial bank, subject to certain conditions.
	19	ï Underwriting bids allowed to be submitted electronically on PDO-NDS application. Underwriting commission credited to current account of PD on the date of settlement of auction.

Annex: Chronology of Major Policy Developments *(Concluded)*

Announcement Date		Measures
2005		
July	20	ï Guidelines on transaction in Government Securities were further relaxed by permitting a buyer from an allottee in primary auction to re-sell the security.
August	22	ï Guidelines issued dispensing with the need to obtain counterparty confirmation in respect of deals matched on NDS-OM since CCIL is the counter-party in such transactions.
2006		
February	27	ï Banks, both Indian and foreign, which fulfill certain eligibility criteria, permitted to undertake PD business departmentally.
	28	ï Guidelines issued permitting banks and PDs to undertake intra-day short sale in Central Government dated security subject to the same being covered by outright purchase in secondary market within the same trading day.
April	4	ï Guidelines issued on Revised Scheme of Underwriting Commitment and Liquidity Support for PDs and banks undertaking PD business departmentally in the wake of coming into effect the provisions of the Fiscal Responsibility and Budget Management Act (FRBM) 2003.
May	3	ï Guidelines issued permitting NDS-OM members to enter into ëWhen Issuedí transactions in Central Government Securities that have been notified for issuance but not actually issued.
July	4	ï Guidelines issued permitting stand-alone PDs to diversify their activities in addition to existing business of Government securities, subject to limits.
October	5	ï Operational guidelines issued for banks undertaking/proposing to undertake PD business.
	31	ï PDs advised that the fixed repo rate under LAF has been revised to 7.25 per cent. Accordingly, the Standing Liquidity Facilities provided to PDs from the Reserve Bank would be available at repo rate, *i.e.*, 7.25 per cent with immediate effect.

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			
	2005		2006		2005		2006		2005		2006	
	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	15,527.36	0.88	12,329.80	0.61	13,769.78	1.29	10,570.20	0.86	1,035.80	0.17	1,035.80	0.15
2. Reserves and Surplus	84,366.18	4.76	1,02,685.81	5.10	47,431.26	4.45	60,441.49	4.90	31,728.29	5.06	36,596.06	5.29
3. Deposits	14,36,540.52	80.98	16,22,481.09	80.52	9,15,788.47	85.95	10,54,071.06	85.39	5,05,649.41	80.63	5,42,409.12	78.40
3.1. Demand Deposits	1,63,305.73	9.21	1,97,353.32	9.79	88,158.26	8.27	1,06,824.15	8.65	71,260.82	11.36	85,354.50	12.34
3.2. Savings Bank Deposits	3,78,663.37	21.35	4,50,787.73	22.37	2,50,554.12	23.52	2,98,238.24	24.16	1,26,217.36	20.13	1,50,050.52	21.69
3.3. Term Deposits	8,94,571.42	50.43	9,74,340.05	48.36	5,77,076.10	54.16	6,49,008.67	52.57	3,08,171.23	49.14	3,07,004.10	44.37
4. Borrowings	93,144.70	5.25	1,15,787.37	5.75	19,398.73	1.82	30,657.87	2.48	23,740.43	3.79	37,599.29	5.43
5. Other Liabilities and Provisions	1,44,402.49	8.14	1,61,614.27	8.02	69,115.62	6.49	78,721.78	6.38	64,963.21	10.36	74,230.90	10.73
Total Liabilities	**17,73,981.25**	**100.00**	**20,14,898.35**	**100.00**	**10,65,503.86**	**100.00**	**12,34,462.40**	**100.00**	**6,27,117.14**	**100.00**	**6,91,871.17**	**100.00**
Assets												
1. Cash and balances with RBI	89,992.31	5.07	1,12,769.50	5.60	62,396.22	5.86	79,060.86	6.40	25,220.19	4.02	31,028.55	4.48
2. Balances with banks and money at call and short notice	65,271.60	3.68	74,416.42	3.69	33,925.20	3.18	43,506.46	3.52	28,069.13	4.48	28,227.28	4.08
3. Investments	6,86,212.76	38.68	6,33,740.55	31.45	4,00,453.81	37.58	3,83,445.02	31.06	2,60,704.26	41.57	2,24,945.00	32.51
3.1 In Government Securities (a+b)	5,67,594.99	32.00	5,20,305.87	25.82	3,21,518.39	30.18	3,10,817.25	25.18	2,31,178.35	36.86	1,93,308.71	27.94
a) In India	5,64,345.53	31.81	5,16,560.78	25.64	3,18,786.75	29.92	3,07,719.48	24.93	2,30,660.53	36.78	1,92,661.38	27.85
b) Outside India	3,249.46	0.18	3,745.09	0.19	2,731.65	0.26	3,097.77	0.25	517.82	0.08	647.33	0.09
3.2 In other approved securities	15,463.23	0.87	13,382.65	0.66	10,817.32	1.02	9,080.13	0.74	4,645.91	0.74	4,302.53	0.62
3.3 In non-approved securities	1,03,154.53	5.81	1,00,052.03	4.97	68,118.09	6.39	63,547.65	5.15	24,880.00	3.97	27,333.77	3.95
4. Loans and Advances	8,54,214.71	48.15	11,06,128.31	54.90	5,24,047.17	49.18	6,81,869.31	55.24	2,84,753.97	45.41	3,71,519.93	53.70
4.1 Bills purchased and discounted	64,999.36	3.66	75,690.48	3.76	35,188.88	3.30	42,117.86	3.41	27,454.21	4.38	31,369.41	4.53
4.2 Cash Credit, Overdrafts, *etc.*	3,49,259.13	19.69	4,48,794.93	22.27	2,38,842.36	22.42	3,06,330.31	24.81	1,09,133.08	17.40	1,39,908.34	20.22
4.3 Term Loans	4,39,956.23	24.80	5,81,642.90	28.87	2,50,015.94	23.46	3,33,421.14	27.01	1,48,166.69	23.63	2,00,242.18	28.94
5. Fixed Assets	13,441.44	0.76	14,662.47	0.73	9,088.11	0.85	9,900.86	0.80	3,463.91	0.55	3,950.71	0.57
6. Other Assets	64,848.43	3.66	73,181.08	3.63	35,593.35	3.34	36,679.88	2.97	24,905.68	3.97	32,199.70	4.65
Total Assets	**17,73,981.25**	**100.00**	**20,14,898.35**	**100.00**	**10,65,503.86**	**100.00**	**12,34,462.40**	**100.00**	**6,27,117.14**	**100.00**	**6,91,871.17**	**100.00**

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			
	2005		2006		2005		2006		2005		2006	
	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	3,364.49	0.79	3,933.79	0.69	808.39	0.61	1,015.35	0.68	2,556.10	0.87	2,918.43	0.69
2. Reserves and Surplus	27,370.31	6.40	39,877.63	6.98	7,250.72	5.43	8,656.11	5.78	20,119.59	6.83	31,221.52	7.40
3. Deposits	3,14,629.74	73.53	4,28,251.56	74.95	1,16,936.10	87.61	1,30,251.80	86.98	1,97,693.63	67.15	2,97,999.76	70.67
3.1. Demand Deposits	45,221.18	10.57	56,882.96	9.95	11,672.64	8.75	13,490.71	9.01	33,548.54	11.39	43,392.25	10.29
3.2. Savings Bank Deposits	50,662.98	11.84	73,259.66	12.82	20,004.24	14.99	24,035.64	16.05	30,658.74	10.41	49,224.02	11.67
3.3. Term Deposits	2,18,745.57	51.12	2,98,108.94	52.17	85,259.22	63.88	92,725.45	61.92	1,33,486.35	45.34	2,05,383.49	48.71
4. Borrowings	44,359.70	10.37	49,484.77	8.66	2,149.69	1.61	2,633.13	1.76	42,210.02	14.34	46,851.64	11.11
5. Other Liabilities and Provisions	38,167.46	8.92	49,859.85	8.73	6,325.35	4.74	7,192.63	4.80	31,842.11	10.82	42,667.22	10.12
Total Liabilities	**4,27,891.70**	**100.00**	**5,71,407.59**	**100.00**	**1,33,470.25**	**100.00**	**1,49,749.03**	**100.00**	**2,94,421.45**	**100.00**	**4,21,658.56**	**100.00**
Assets												
1. Cash and balances with RBI	21,324.16	4.98	23,584.16	4.13	7,085.35	5.31	7,053.73	4.71	14,238.81	4.84	16,530.43	3.92
2. Balances with banks and money at call and short notice	18,674.62	4.36	23,262.34	4.07	7,976.89	5.98	8,556.35	5.71	10,697.72	3.63	14,706.00	3.49
3. Investments	1,40,666.65	32.87	1,80,487.41	31.59	44,774.30	33.55	45,188.38	30.18	95,892.35	32.57	1,35,299.03	32.09
3.1 In Government Securities (a+b)	97,146.80	22.70	1,29,578.91	22.68	34,795.44	26.07	35,824.88	23.92	62,351.36	21.18	93,754.03	22.23
a) In India	97,033.22	22.68	1,29,366.88	22.64	34,719.65	26.01	35,747.09	23.87	62,313.56	21.16	93,619.79	22.20
b) Outside India	113.58	0.03	212.02	0.04	75.79	0.06	77.79	0.05	37.79	0.01	134.24	0.03
3.2 In other approved securities	613.00	0.14	480.64	0.08	522.01	0.39	445.04	0.30	90.99	0.03	35.61	0.01
3.3 In non-approved securities	42,906.85	10.03	50,427.86	8.83	9,456.85	7.09	8,918.47	5.96	33,450.00	11.36	41,509.39	9.84
4. Loans and Advances	2,21,303.30	51.72	3,12,873.71	54.75	68,184.05	51.09	82,868.25	55.34	1,53,119.25	52.01	2,30,005.46	54.55
4.1 Bills purchased and discounted	19,408.09	4.54	18,438.47	3.23	5,611.81	4.20	6,075.06	4.06	13,796.27	4.69	12,363.42	2.93
4.2 Cash Credits, Overdrafts,*etc*.	56,962.21	13.31	80,411.85	14.07	30,549.27	22.89	37,051.21	24.74	26,412.94	8.97	43,360.63	10.28
4.3 Term Loans	1,44,933.00	33.87	2,14,023.39	37.46	32,022.97	23.99	39,741.98	26.54	1,12,910.04	38.35	1,74,281.41	41.33
5. Fixed Assets	7,726.76	1.81	7,990.03	1.40	1,581.52	1.18	1,688.54	1.13	6,145.23	2.09	6,301.49	1.49
6. Other Assets	18,196.22	4.25	23,209.94	4.06	3,868.13	2.90	4,393.78	2.93	14,328.09	4.87	18,816.16	4.46
Total Assets	**4,27,891.70**	**100.00**	**5,71,407.59**	**100.00**	**1,33,470.25**	**100.00**	**1,49,749.03**	**100.00**	**2,94,421.45**	**100.00**	**4,21,658.56**	**100.00**

Source : Balance sheets of respective banks.

Appendix Table III. I (C): Consolidated Balance Sheet of Foreign Banks in India

(As at end-March)

(Amount in Rs. crore)

Item	2005		2006	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	7,012.94	4.56	8,940.17	4.43
2. Reserves and Surplus	11,968.41	7.79	15,346.41	7.61
3. Deposits	86,389.16	56.23	1,13,744.99	56.43
3.1. Demand Deposits	26,001.39	16.92	38,696.61	19.20
3.2. Savings Bank Deposits	15,505.46	10.09	18,783.18	9.32
3.3. Term Deposits	44,882.31	29.21	56,265.20	27.91
4. Borrowings	30,847.16	20.08	40,161.78	19.92
5. Other Liabilities and Provisions	17,418.66	11.34	23,392.33	11.60
Total Liabilities	**1,53,636.33**	**100.00**	**2,01,585.69**	**100.00**
Assets				
1. Cash and balances with RBI	6,759.01	4.40	8,108.24	4.02
2. Balances with banks and money at call and short notice	11,410.65	7.43	18,717.55	9.29
3. Investments	42,857.61	27.90	53,562.31	26.57
3.1 In Government Securities (a+b)	34,042.99	22.16	42,061.42	20.87
a) In India	34,042.99	22.16	42,061.42	20.87
b) Outside India	–	–	–	–
3.2 In other approved securities	215.22	0.14	84.85	0.04
3.3 In non-approved securities	8,599.40	5.60	11,416.03	5.66
4. Loans and Advances	75,318.25	49.02	97,554.98	48.39
4.1 Bills purchased and discounted	7,495.06	4.88	9,519.50	4.72
4.2 Cash Credits, Overdrafts,*etc.*	30,797.62	20.05	39,759.00	19.72
4.3 Term Loans	37,025.58	24.10	48,276.48	23.95
5. Fixed Assets	1,882.73	1.23	2,405.95	1.19
6. Other Assets	15,408.08	10.03	21,236.65	10.53
Total Assets	**1,53,636.33**	**100.00**	**2,01,585.69**	**100.00**

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.2: Issue of Certificates of Deposit by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Outstanding (Rs crore)	Range of Discount Rate (Per cent) @	Fortnight ended	Total Outstanding (Rs. crore)	Range of Discount Rate (Per cent) @
1	2	3	4	5	6
2005			**2006**		
January 7	7,033	3.91 - 6.26	January 6	34,432	4.40 - 7.75
21	4,236	4.01 - 6.25	20	34,521	5.40 - 7.75
February 4	8,202	4.50 - 6.32	February 3	33,986	4.35 - 7.90
18	9,214	4.25 - 6.12	17	34,487	4.35 - 8.16
March 4	10,310	5.25 - 6.31	March 3	36,626	5.85 - 8.50
18	12,078	4.21 - 6.34	17	36,931	4.35 - 8.81
April 1	14,975	4.75 - 6.60	31	43,568	6.50 - 8.94
15	14,106	4.10 - 6.60	April 14	38,568	6.00 - 8.90
29	16,602	4.24 - 6.50	28	44,059	6.00 - 8.45
May 13	17,420	4.29 -6.75	May 12	48,515	6.50 - 7.90
27	17,689	4.29 - 6.75	26	50,228	6.37 - 8.67
June 10	18,503	5.47 - 7.00	June 9	53,863	5.75 - 7.96
24	19,270	5.58 - 7.50	23	56,390	5.50 - 8.16
July 8	20,509	4.50 - 7.00	July 7	57,256	6.00 - 8.70
22	20,768	4.25 - 7.00	21	59,167	4.35 - 8.21
August 5	21,062	4.75 - 7.00	August 4	64,748	6.00 - 8.62
19	23,568	4.66 - 7.00	18	65,621	4.75 - 8.50
September 2	23,646	4.66 - 7.00	September 1	66,340	4.60 - 8.50
16	25,604	4.66 - 7.00	15	63,864	7.13 - 8.50
30	27,641	4.39 - 7.00			
October 14	27,626	4.66 - 7.75			
28	29,193	5.25 - 7.75			
November 11	29,345	5.25 - 6.50			
25	27,457	5.25 - 7.50			
December 9	30,445	5.35 - 7.75			
23	32,806	5.50 - 7.25			

@ : Effective interest rate range per annum.

Appendix Table III.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Sector	Outstanding as on			Variation	
		March 19, 2004 (47 Banks)	March 18, 2005 (52 Banks)	March 31, 2006 (52 Banks)	2004-05 (47 Banks)	2005-06 (52 Banks)
1	2	3	4	5	6	7
I.	**Gross Bank Credit (II + III)**	**7,64,383**	**10,40,909**	**14,45,837**	**1,93,229**	**4,04,928**
II.	**Food Credit**	**35,961**	**41,121**	**40,691**	**5,160**	**-430**
III.	**Non-Food Gross Bank Credit (1 to 6)**	**7,28,422**	**9,99,788**	**14,05,146**	**1,88,069**	**4,05,358**
		(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
	1. Agriculture and Allied Activities	**90,541**	**1,25,250**	**1,72,292**	**31,774**	**47,042**
		(12.4)	**(12.5)**	**(12.3)**	**(16.9)**	**(11.6)**
	2. Industry (Small, Medium and Large)	**3,13,065**	**4,26,892**	**5,49,057**	**62,014**	**1,22,165**
		(43.0)	**(42.7)**	**(39.1)**	**(33.0)**	**(30.1)**
	3. Services		**30,584**	**48,137**	**N.A.**	**17,553**
		–	**(3.1)**	**(3.4)**	**–**	**(4.3)**
	3.1 Transport Operators	N.A.	9,599	16,101	N.A.	6,502
		–	(1.0)	(1.1)	–	(1.6)
	3.2 Computer Software	N.A.	2,436	3,694	N.A.	1,258
		–	(0.2)	(0.3)	–	(0.3)
	3.3 Tourism, and Hotels and Restaurants	N.A.	4,158	7,800	N.A.	3,642
		–	(0.4)	(0.6)	–	(0.9)
	3.4 Shipping	N.A.	1,130	4,472	N.A.	3,342
		–	(0.1)	(0.3)	–	(0.8)
	3.5 Professional and Other Services	N.A.	13,261	16,070	N.A.	2,809
		–	(1.3)	(1.1)	–	(0.7)
	4. Personal Loans		**2,45,080**	**3,53,777**	**N.A.**	**1,08,697**
		–	**(24.5)**	**(25.2)**	**–**	**(26.8)**
	4.1 Consumer Durables	8,274	9,083	8,783	108	300
		(1.1)	(0.9)	(0.6)	(0.1)	-(0.1)
	4.2 Housing	N.A.	1,28,728	1,86,429	N.A.	57,701
		–	(12.9)	(13.3)	–	(14.2)
	4.3 Advances against Fixed Deposits	26,346	29,850	34,897	3,259	5,047
	(including FCNR (B), NRNR Deposits *etc.*)	(3.6)	(3.0)	(2.5)	(1.7)	(1.2)
	4.4 Advances to individuals against share, bonds, *etc.*	2,020	4,117	5,089	366	972
		(0.3)	(0.4)	(0.4)	(0.2)	(0.2)
	4.5 Credit Card Outstandings	N.A.	5,760	9,177	N.A.	3,417
		–	(0.6)	(0.7)	–	(0.8)
	4.6 Education	N.A.	5,119	10,057	N.A.	4,938
		–	(0.5)	(0.7)	–	(1.2)
	4.7 Other Personal Loans	35,165	62,423	99,345	24,876	36,922
		(4.8)	(6.2)	(7.1)	(13.2)	(9.1)
	5. Trade	**24,867**	**57,948**	**81,402**	**31,262**	**23,454**
		(3.4)	**(5.8)**	**(5.8)**	**(16.6)**	**(5.8)**
	5.1 Wholesale Trade (other than food procurement)	24,867	32,549	39,706	6,561	7,157
		(3.4)	(3.3)	(2.8)	(3.5)	(1.8)
	5.2 Retail Trade	N.A.	25,399	41,696	N.A.	16,297
		–	(2.5)	(3.0)	–	(4.0)
	6. Others	**2,99,949**	**1,14,034**	**2,00,481**	**N.A.**	**86,447**
		(41.2)	**(11.4)**	**(14.3)**	**–**	**(21.3)**
	6.1 Real Estate Loans	5,577	13,302	26,682	7,622	13,380
		(0.8)	(1.3)	(1.9)	(4.1)	(3.3)
	6.2 Non-Banking Financial Companies	16,802	22,484	30,942	2,501	8,458
		(2.3)	(2.2)	(2.2)	(1.3)	(2.1)
	6.3 All Others	2,77,570	78,248	1,42,857	N.A.	64,609
		(38.1)	(7.8)	(10.2)	–	(15.9)
	Memo:					
	7. Priority Sector	**2,63,834**	**3,81,476**	**5,09,910**	**1,06,235**	**1,28,434**
		(36.2)	**(38.2)**	**(36.3)**	**(56.5)**	**(31.7)**
	7.1 Agriculture and Allied Activities	90,541	1,25,250	1,72,292	31,774	47,042
		(12.4)	(12.5)	(12.3)	(16.9)	(11.6)
	7.2 SSI	65,855	74,588	90,239	8,051	15,651
		(9.0)	(7.5)	(6.4)	(4.3)	(3.9)
	7.3 Housing	N.A.	90,848	1,33,360	N.A.	42,512
		–	(9.1)	(9.5)	–	(10.5)

– : Nil/Negligible.

N.A. : Not available as these categories were not shown separately under the old classification.

Note : 1. Due to reclassification of sectors and increase in coverage of banks, data for 2004-05 for 47 banks is not strictly comparable to that of the year 2005-06.

2. Figures in brackets represent the share in total 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 2003	March 2004	March 2005	March 2006@	June 1969	March 2003	March 2004	March 2005	March 2006@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	168	190	202	237	162 (5.4)	70,502 (14.5)	84,435 (15.1)	1,09,917 (15.3)	1,54,900 (15.2)
i) Direct	1.6	165	187	195	219	40 (1.3)	51,484 (10.6)	62,170 (11.1)	83,038 (11.6)	1,11,636 (11.0)
ii) Indirect	0.1	3	3	7	18	122 (4.0)	19,017 (3.9)	22,265 (4.0)	26,879 (3.7)	43,264 (4.3)
II. Small-scale industries	0.5	17	17	14	19	257 (8.5)	52,646 (10.8)	58,311 (10.4)	67,800 (9.5)	82,492 (8.1)
III. Other priority sector advances	0.4	85	89	89	92	22 (0.7)	71,197 (14.7)	96,170 (17.1)	1,25,114 (17.4)	1,64,473 (16.2)
IV. Total priority sector advances #	2.6	273	301	314	360	441 (14.6)	1,99,786 (41.2)	2,44,456 (43.6)	3,07,046 (42.8)	4,10,379 (40.3)
V. Net Bank Credit	–	–	–	–	–	3,016	4,85,271	5,60,819	7,17,419	10,17,614

– : Nil/Negligible.

@ : Provisional.

: Inclusive of advances for setting up industrial estates, loans to small road and water transport operators, housing loans, education loans, and loans to software industries, food and agro-processing sector, self-help groups, venture capital, *etc.*

Note : Figures in brackets represent percentages to net bank credit.

Source : Data furnished by respective banks.

Appendix Table III.5: Advances of Public Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2006)

(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	**1,11,636.24**	**11.0**	**43,263.88**	**4.3**	**1,54,900.12**	**15.2**	**78,373.90**	**7.7**	**4,10,379.05**	**40.3**
	Nationalised Banks										
1.	Allahabad Bank	4,371.83	14.5	1,354.30	4.5	5,726.13	19.0	3,013.78	10.0	12,452.72	41.4
2.	Andhra Bank	3,397.63	15.3	666.59	3.0	4,064.22	18.4	2,264.04	10.2	8,923.93	40.3
3.	Bank of Baroda	4,885.26	10.5	1,983.80	4.3	6,869.06	14.8	3,748.34	8.1	18,740.09	40.4
4.	Bank of India	6,284.00	13.6	2,736.00	5.9	9,020.00	18.1	5,107.00	11.1	22,611.00	49.1
5.	Bank of Maharashtra	1,652.24	9.8	1,097.69	6.5	2,749.93	14.3	923.90	5.5	7,206.25	42.7
6.	Canara Bank	8,348.00	11.2	3,684.00	4.9	12,032.00	15.7	4,423.00	5.9	30,937.00	41.4
7.	Central Bank of India	4,821.54	12.5	2,044.08	5.3	6,865.62	17.0	3,608.10	9.3	17,897.37	46.2
8.	Corporation Bank	963.58	4.5	971.22	4.5	1,934.80	9.0	665.32	3.1	9,043.74	41.9
9.	Dena Bank	1,531.40	10.6	831.21	5.8	2,362.61	15.1	648.75	4.5	6,073.86	42.2
10.	Indian Bank	3,570.84	17.0	677.85	3.2	4,248.69	20.2	2,498.28	11.9	10,675.49	50.8
11.	Indian Overseas Bank	4,467.36	13.6	1,486.43	4.5	5,953.79	18.1	3,626.57	11.0	14,113.79	42.9
12.	Oriental Bank of Commerce	2,241.84	6.8	2,238.16	6.7	4,480.00	11.3	1,561.10	4.7	13,399.14	40.4
13.	Punjab National Bank	11,026.28	14.6	3,560.66	4.7	14,586.94	19.1	8,311.00	11.0	33,409.51	44.2
14.	Punjab and Sind Bank	1,050.34	11.0	507.18	5.3	1,557.52	15.5	525.61	5.5	3,994.22	42.0
15.	Syndicate Bank	4,406.33	13.5	1,464.61	4.5	5,870.94	18.0	3,267.71	10.0	14,626.62	44.9
16.	Union Bank of India	5,885.68	11.6	2,241.42	4.4	8,127.10	16.1	3,280.93	6.5	22,232.05	43.9
17.	United Bank of India	1,611.00	10.2	716.00	4.5	2,327.00	14.7	1,236.00	7.8	7,109.00	44.8
18.	UCO Bank	3,306.00	9.3	1,679.00	4.7	4,985.00	13.8	1,599.86	4.5	14,231.00	40.0
19.	Vijaya Bank	1,554.76	9.2	901.02	5.4	2,455.78	13.7	1,011.66	6.0	7,360.61	43.8
	State Bank Group										
20.	State Bank of India	23,484.00	10.5	7,032.00	3.1	30,516.00	13.6	19,883.00	8.9	82,895.00	37.0
21.	State Bank of Bikaner and Jaipur	2,426.55	15.2	462.57	2.9	2,889.12	18.0	1,526.62	9.5	6,969.97	43.5
22.	State Bank of Hyderabad	1,813.73	8.8	1,159.22	5.6	2,972.95	13.3	528.80	2.6	8,767.32	42.3
23.	State Bank of Indore	1,676.97	14.1	480.07	4.0	2,157.04	18.1	709.79	6.0	5,189.82	43.6
24.	State Bank of Mysore	1,413.60	12.7	243.98	2.2	1,657.58	14.8	1,056.91	9.5	4,493.08	40.2
25.	State Bank of Patiala	2,518.00	11.4	997.00	4.5	3,515.00	15.9	2,220.00	10.0	8,550.00	38.6
26.	State Bank of Saurashtra	1,239.22	15.4	263.24	3.3	1,502.46	18.6	419.18	5.2	3,638.18	45.1
27.	State Bank of Travancore	1,554.00	8.8	869.00	4.9	2,423.00	13.3	708.65	4.0	7,966.00	45.2
	Other Public Sector Bank										
28.	IDBI Ltd.	134.26	0.3	915.58	1.8	1,049.84	2.0	–	–	6,872.29	13.4

– : Nil/Negligible.

Note : 1. Data are provisional.
2. NBC - net bank credit.
3. Indirect agricultural advance is taken to the extent of 4.5 per cent of net bank credit.

Source : Data furnished by respective banks.

Appendix Table III.6: Advances to the Priority Sector by Private Sector Banks

(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	March 2004		March 2005		March 2006@	
	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 #	**48,920**	**47.3**	**69,886**	**43.6**	**1,06,566**	**42.8**
of which :						
I. Agriculture	14,730	14.2	21,636	13.5	36,185	13.5
II. Small-scale industries	7,590	7.3	8,592	5.4	10,447	4.2
III. Other priority sectors	25,786	24.9	38,797	24.2	58,243	23.4

@ : Data are provisional.

: Inclusive of advances to setting up industrial estates, loans to small road and water transport operators, housing loans, education loans, loans to software industries, food and agro-processing sector, self-help groups, venture capital, *etc*.

Source : Data furnished by respective banks.

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	**22,317.45**	**9.0**	**13,867.37**	**5.6**	**36,184.82**	**13.5**	**3,909.26**	**1.6**	**1,06,565.80**	**42.8**
1.	Bank of Rajasthan Ltd.	67.70	1.6	498.82	12.0	566.52	6.1	78.12	1.9	1,256.09	30.3
2.	Bharat Overseas Bank Ltd.	90.08	6.4	65.35	4.7	155.43	10.9	19.43	1.4	624.13	44.6
3.	Catholic Syrian Bank Ltd.	160.55	5.9	151.37	5.5	311.92	10.4	44.82	1.6	1,171.77	42.9
4.	Centurion Bank of Punjab Ltd.	552.20	8.7	733.33	11.6	1,285.53	13.2	50.02	0.8	2,437.78	38.5
5.	City Union Bank Ltd.	108.97	4.2	107.79	4.1	216.76	8.3	44.55	1.7	1,040.79	40.0
6.	Development Credit Bank Ltd.	54.76	2.6	165.64	8.0	220.40	7.1	13.81	0.7	678.84	32.6
7.	Dhanalakshmi Bank Ltd.	175.51	11.1	101.69	6.4	277.20	15.6	51.40	3.2	694.86	43.8
8.	Federal Bank Ltd.	1,035.00	9.7	492.00	4.6	1,527.00	14.2	764.14	7.2	4,483.00	42.0
9.	Ganesh Bank of Kurundwad Ltd.	34.58	34.5	–	–	34.58	34.5	10.23	10.2	63.45	63.3
10.	HDFC Bank Ltd.	3,219.57	9.4	3,000.64	8.8	6,220.21	13.9	348.64	1.0	14,914.90	43.5
11.	ICICI Bank Ltd.	9,832.95	11.3	4,547.36	5.2	14,380.31	15.8	427.75	0.5	43,316.47	49.8
12.	IndusInd Bank Ltd.	679.12	7.4	94.25	1.0	773.37	8.4	0.92	–	2,487.04	26.9
13.	ING Vysya Bank Ltd.	435.48	4.3	451.15	4.5	886.63	8.8	378.36	3.8	3,657.04	36.4
14.	Jammu and Kashmir Bank Ltd.	276.31	2.3	401.41	3.3	677.72	5.5	374.11	3.1	3,454.76	28.1
15.	Karnataka Bank Ltd.	386.41	4.8	363.83	4.6	750.24	9.3	136.16	1.7	3,025.23	37.8
16.	Karur Vysya Bank Ltd.	575.59	10.2	369.91	6.5	945.50	14.7	255.83	4.5	2,269.64	40.1
17.	Kotak Mahindra Bank Ltd.	547.17	8.6	325.52	5.1	872.69	13.1	–	–	2,548.21	40.2
18.	Lakshmi Vilas Bank Ltd.	380.21	13.0	100.15	3.4	480.36	16.4	149.90	5.1	1,178.94	40.2
19.	Lord Krishna Bank Ltd.	107.72	7.6	67.73	4.8	175.45	12.1	12.44	0.9	578.60	40.7
20.	Nainital Bank Ltd.	61.05	10.1	7.65	1.3	68.70	11.4	14.37	2.4	303.85	50.4
21.	Ratnakar Bank Ltd.	43.30	8.4	35.92	6.9	79.22	12.9	9.11	1.8	212.51	41.1
22.	Sangli Bank Ltd.	48.00	5.2	69.13	7.4	117.13	9.7	19.00	2.0	171.08	18.4
23.	SBI Commercial and International Bank Ltd.	12.91	7.7	39.54	23.7	52.45	12.2	–	–	55.78	33.4
24.	South Indian Bank Ltd.	682.30	11.3	154.42	2.6	836.72	13.9	160.89	2.7	2,502.26	41.5
25.	Tamilnad Mercantile Bank Ltd.	404.34	12.4	146.52	4.5	550.86	16.9	223.70	6.9	1,503.38	46.1
26.	United Western Bank Ltd.	400.26	9.3	163.48	3.8	563.74	13.1	218.62	5.1	2,116.17	49.2
27.	UTI Bank Ltd.	1,660.06	7.6	990.77	4.5	2,650.83	12.1	102.94	0.5	8,900.63	40.5
28.	Yes Bank Ltd.	285.35	11.9	222.00	9.2	507.35	16.4	–	–	918.60	38.2

– : Nil/Negligible.

Note : 1. Data are provisional.
2. NBC - net bank credit.
3. Indirect agricultural advance taken to the extent of 4.5 per cent of net bank credit.

Source: Data furnished by respective banks.

Appendix Table III.8: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Industry	Outstanding as on			Absolute Variation	
		March 19, 2004 (47 Banks)	March 18, 2005 (52 Banks)	March 31, 2006 (52 Banks)	2004-05 (47 Banks)	2005-06 (52 Banks)
1	2	3	4	5	6	7
	Industry	**3,13,065**	**4,26,892**	**5,49,057**	**62,014**	**1,22,165**
	(Small, Medium and Large)					
1.	Mining and Quarrying (including Coal)	2,800	2,170	4,431	-684	2,261
2.	Food Processing	20,676	24,433	30,843	1,109	6,410
	of which:					
	Sugar	6,363	6,975	9,131	-108	2,156
	Edible Oils and Vanaspati	3,219	3,521	5,041	216	1,520
	Tea	1,222	1,664	1,673	141	9
3.	Beverage and Tobacco	891	2,091	3,584	783	1,493
4.	Textiles	34,158	43,977	57,716	4,648	13,739
	of which:					
	Cotton Textiles	17,166	22,920	29,564	2,782	6,644
	Jute Textiles	1051	915	1,040	-158	125
	Man Made Textiles	N.A.	121	3,017	N.A.	2,896
	Other Textiles	15,941	20,021	24,095	1,903	4,074
5.	Leather and Leather Products	3,167	3,305	4,419	83	1,114
6.	Wood and Wood Products	N.A.	438	1,424	N.A.	986
7.	Paper and Paper Products	5,990	6,882	9,218	-228	2,336
8.	Petroleum, Coal Products and Nuclear Fuels	13,431	15,569	24,103	1,426	8,534
9.	Chemicals and Chemical Products	30,629	39,492	48,935	1,661	9,443
	of which:					
	Fertiliser	6,249	8,104	10,979	287	2,875
	Drugs and Pharmaceuticals	8,667	12,682	16,200	2,138	3,518
	Petro-Chemicals	7,221	6,812	7,392	-1,442	580
10.	Rubber, Plastic and their Products	2,593	3,666	6,989	717	3,323
11.	Glass and Glass Ware	N.A.	390	1,811	N.A.	1,421
12.	Cement and Cement Products	5,689	8,059	7,578	569	-481
13.	Basic Metals and Metal Products	34,463	47,637	64,821	5,058	17,184
	of which:					
	Iron and Steel.	26,295	36,001	50,385	3,120	14,384
	Other Metal and Metal Products	8,168	11,636	14,436	1,938	2,800
14.	All Engineering	26,348	29,396	34,666	273	5,270
	of which:					
	Electronics	8,421	8,961	10,717	-204	1,756
15.	Vehicles, Vehicle Parts and Transport Equipments	5,302	11,862	18,667	2,900	6,805
16.	Gems and Jewellery	9,178	14,306	19,866	3,013	5,560
17.	Construction	5,978	8,122	13,867	1,708	5,745
18.	Infrastructure	51,314	79,009	1,08,787	21,829	29,778
	of which:					
	Power	33,745	38,744	57,863	4,638	19,119
	Telecomunications	8,408	15,794	17,713	4,774	1,919
	Roads and Ports	9,161	14,472	18,975	4,464	4,503
	Other Infrastructure	N.A.	9,999	14,236	N.A.	4,237
19.	Other Industries	60,458	86,088	87,332	16,465	1,244

N.A. : Data not available as these categories were not shown separately under the old classification.

Note : Data are provisional. Due to reclassification of industries and increase in coverage of banks, data for the current year are strictly not comparable to those of the previous year.

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						
March	4,664.42	–	399.66	–	5,064.08	–
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	4,814.53	800.00	–	–	4,814.53	800.00
October	4,984.91	–	–	–	4,984.91	–
November	5,025.00	–	–	–	5,025.00	–
December	5,194.92	459.78	–	–	5,194.92	459.78
2006						
January	5,419.51	1,900.04	–	–	5,419.51	1,900.04
February	5,710.56	3,068.47	–	–	5,710.56	3,068.47
March	6,050.63	1,567.68	–	–	6,050.63	1,567.68
April	6,674.53	119.06	–	–	6,674.53	119.06
May	6,638.08	2.06	–	–	6,638.08	2.06
June	6,513.55	2.06	–	–	6,513.55	2.06
July	7,046.20	2.06	–	–	7,046.20	2.06
August	7,046.52	–	–	–	7,046.52	–

– : Nil/Negligible.

Note : Total limits under normal and back-stop facility merged into a single facility since March 29, 2004.

Appendix Table III.10: Bank Group-wise Lending to the Sensitive Sectors

(Amount in Rs. crore)

Advances to	State Bank Group			Nationalised Banks			Other Public Sector Banks			Public Sector Banks		
	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	2,398.85 (0.84)	3,375.22 (0.91)	40.70	4,888.28 (0.93)	8,633.59 (1.27)	76.62	2,103.05 (4.63)	1,478.33 (2.80)	-29.71	9,390.18 (1.10)	13,487.14 (1.22)	43.63
2. Real Estate @	23,244.27 (8.16)	44,283.76 (11.92)	90.51	48,125.99 (9.18)	1,02,566.11 (15.04)	113.12	5,942.74 (13.09)	10,053.16 (19.06)	69.17	77,313.10 (9.05)	1,56,903.03 (14.18)	102.95
3. Commodities	–	–	–	1,206.51 (0.23)	1,227.54 (0.18)	1.74	–	–	–	1,206.51 (0.14)	1,227.54 (0.11)	1.74
Total Advances to Sensitive Sectors	**25,643.12 (9.01)**	**47,658.98 (12.83)**	**85.85**	**54,220.78 (10.35)**	**1,12,427.24 (16.49)**	**107.35**	**8,045.79 (17.72)**	**11,531.49 (21.87)**	**43.32**	**87,909.69 (10.29)**	**1,71,617.71 (15.52)**	**95.22**

Advances to	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation
1	14	15	16	17	18	19	20	21	22	23	24	25
1. Capital Market #	3,381.91 (2.21)	5,286.41 (2.30)	56.46	774.38 (1.14)	1,044.99 (1.26)	34.48	2,313.63 (3.07)	2,258.37 (2.31)	-2.39	15,860.10 (1.38)	22,076.91 (1.46)	39.20
2. Real Estate @	43,490.81 (28.40)	66,337.17 (28.84)	52.51	8,640.70 (12.67)	12,029.09 (14.52)	39.33	16,160.04 (21.46)	24,953.31 (25.58)	54.41	1,45,604.55 (12.65)	2,60,222.60 (17.16)	78.72
3. Commodities	1,046.42 (0.68)	2,984.94 (1.30)	185.25	98.83 (0.14)	147.26 (0.18)	49.00	14.73 (0.02)	31.64 (0.03)	114.80	2,366.49 (0.21)	4,391.38 (0.29)	85.56
Total Advances to Sensitive Sectors	**47,919.14 (31.30)**	**74,608.52 (32.44)**	**55.69**	**9,513.91 (13.95)**	**13,244.47 (15.95)**	**39.03**	**18,488.40 (24.55)**	**27,243.32 (27.93)**	**47.35**	**1,63,831.14 (14.24)**	**2,86,690.88 (18.90)**	**74.99**

– : Nil/Negligible.

: Exposure to capital market is inclusive of both investments and advances.

@ : Exposure to real estate sector is inclusive of both direct and indirect lending.

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	Outstand-ing as on March 31, 2006	Variations							
		Financial year*				April-September			
		2004-05		2005-06		2005-06		2006-07	
		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)	**20,49,773**	**1,94,980**	**13.6**	**3,40,789**	**19.9**	**1,36,741**	**8.0**	**1,87,909**	**9.2**
C.I.1 Demand Deposits	3,64,640	23,005	10.2	78,623	27.5	18,917	6.6	-7,463	-2.0
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	16,85,133	1,71,975	14.3	2,62,167	18.4	1,17,824	8.3	1,95,372	11.6
C.I.2.1 Short-term Time Deposits	7,58,310	77,389	14.3	1,17,975	18.4	53,021	8.3	87,917	11.6
C.I.2.1.1 Certificates of Deposits (CDs)	44,499	6,201	89.7	28,972	186.6	12,462	80.3	21,289	47.8
C.I.2.2 Long-term Time Deposits	9,26,823	94,586	14.3	1,44,192	18.4	64,803	8.3	1,07,454	11.6
C.II Call/Term Funding from Financial Institutions	**83,144**	**44,853**	**181.8**	**11,224**	**15.6**	**6,357**	**8.8**	**1,507**	**1.8**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**23,64,241**	**3,26,410**	**19.7**	**3,22,807**	**15.8**	**1,34,145**	**6.6**	**1,91,534**	**8.1**
S.I.1 Credit to the Government	7,00,742	64,224	9.8	-19,514	-2.7	16,868	2.3	30,142	4.3
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	16,63,499	2,62,186	26.1	3,42,321	25.9	1,17,278	8.9	1,61,393	9.7
S.I.2.1 Bank Credit	15,07,077	2,59,643	30.9	3,54,868	30.8	1,24,029	10.8	1,47,657	9.8
S.I.2.1.1 Non-food Credit	14,66,386	2,54,484	31.6	3,54,193	31.8	1,24,496	11.2	1,54,890	10.6
S.I.2.2 Net Credit to Primary Dealers	4,369	-499	-25.6	2,586	145.0	4,371	245.1	953	21.8
S.I.2.3 Investments in Other Approved Securities	16,712	-2,658	-11.6	-3,295	-16.5	-541	-2.7	5,168	30.9
S.I.2.4 Other Investments (in non-SLR Securities)	1,35,340	5,699	4.1	-11,838	-8.0	-10,581	-7.2	7,616	5.6
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-45,616**	**-17,626**	–	**29,640**	–	**-6,907**	–	**-9,458**	–
S.II.1 Foreign Currency Assets	43,494	-8,295	-24.1	14,059	47.8	-3,223	-11.0	-4,636	-10.7
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	59,275	802	1.1	-16,876	-22.2	991	1.3	5,424	9.2
S.II.3 Overseas Foreign Currency Borrowings	29,834	8,529	49.8	1,295	4.5	2,693	9.4	-602	-2.0
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**1,38,619**	**19,632**	**25.5**	**35,581**	**34.5**	**12,739**	**12.4**	**14,365**	**10.4**
S.III.1 Balances with the RBI	1,27,061	19,108	27.7	34,077	36.6	12,717	13.7	13,286	10.5
S.III.2 Cash in Hand	13,046	574	7.3	2,897	28.5	727	7.2	1,021	7.8
S.III.3 Loans and Advances from the RBI	1,488	50	–	1393	–	705	–	-58	–
S.IV Capital Account	**1,77,727**	**29,135**	**27.9**	**40,320**	**29.3**	**22,889**	**16.7**	**15,205**	**8.6**
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,46,600**	**59,448**	**48.9**	**-4,304**	**-2.9**	**-26,009**	**-17.2**	**-8,180**	**-5.6**
S.V.1 Other Demand and Time Liabilities (net of S.II.3)	1,58,946	36,146	27.6	468	0.3	-10,863	-6.9	29,038	18.3
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	25,141	8,945	108.4	2,031	8.8	4,506	19.5	-8,391	-33.4

– : Nil/Negligible.
* : Variation over April 1, 2005.
Note : 1. Data are provisional.
2. Time deposits include the impact of India Millenniun Deposits (IMDs).

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		
	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	1,25,351.04 (19.99)	1,87,048.79 (27.04)	49.22	2,72,656.79 (25.59)	2,98,695.96 (24.20)	9.55	18,419.46 (22.64)	19,570.55 (22.10)	6.25	4,16,427.29 (23.47)	5,05,315.30 (25.08)	21.35
2. Guarantees given	23,177.86 (3.70)	32,631.36 (4.72)	40.79	53,130.66 (4.99)	67,180.44 (5.44)	26.44	3,188.60 (3.92)	4,027.19 (4.55)	26.30	79,497.12 (4.48)	1,03,838.99 (5.15)	30.62
3. Acceptances, endorsements, *etc.*	56,728.18 (9.05)	77,798.20 (11.24)	37.14	92,802.62 (8.71)	1,01,832.17 (8.25)	9.73	38,441.67 (47.25)	53,422.32 (60.32)	38.97	1,87,972.48 (10.60)	2,33,052.69 (11.57)	23.98
Contingent Liabilities	**2,05,257.08 (32.73)**	**2,97,478.35 (43.00)**	**44.93**	**4,18,590.07 (39.29)**	**4,67,708.56 (37.89)**	**11.73**	**60,049.73 (73.81)**	**77,020.06 (86.96)**	**28.26**	**6,83,896.89 (38.55)**	**8,42,206.98 (41.80)**	**23.15**

Item	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation	2004-05	2005-06	Percentage Variation
1	14	15	16	17	18	19	20	21	22	23	24	25
1. Forward exchange contract	2,78,124.65 (94.46)	4,28,420.21 (101.60)	54.04	41,807.53 (31.32)	41,534.74 (27.74)	-0.65	14,60,589.19 (950.68)	23,04,908.63 (1,143.39)	57.81	21,96,948.67 (93.27)	32,80,178.87 (117.66)	49.31
2. Guarantees given	20,139.36 (6.84)	27,083.86 (6.42)	34.48	4,645.15 (3.82)	5,715.88 (3.82)	23.05	19,195.07 (12.49)	24,812.58 (12.31)	29.27	1,23,476.69 (5.24)	1,61,451.32 (5.79)	30.75
3. Acceptances, endorsements, *etc.*	1,99,743.84 (67.84)	3,34,638.06 (79.36)	67.53	13,514.58 (10.13)	15,776.62 (10.54)	16.74	1,10,851.77 (72.15)	2,24,443.71 (111.34)	102.47	5,12,082.67 (21.74)	8,07,911.08 (28.98)	57.77
Contingent Liabilities	**4,98,007.85 (169.15)**	**7,90,142.13 (187.39)**	**58.66**	**59,967.26 (44.93)**	**63,027.24 (42.09)**	**5.10**	**15,90,636.03 (1,035.33)**	**25,54,164.92 (1,267.04)**	**60.58**	**28,32,508.03 (120.25)**	**42,49,541.72 (152.43)**	**50.03**

– : Nil/Negligible.

Note : Figures in brackets are percentages to total assets 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	
		2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6
	Public Sector Banks	**8,483.23**	**4,446.14**	**2,190.51**	**2,540.31**
	Nationalised Banks	**5,679.44**	**2,735.20**	**1,441.01**	**1,321.20**
1.	Allahabad Bank	347.43	138.95	43.75	58.88
2.	Andhra Bank	385.51	70.84	28.45	27.71
3.	Bank of Baroda	535.15	252.12	193.27	178.19
4.	Bank of India	180.23	114.09	223.40	182.31
5.	Bank of Maharashtra	215.02	-32.37	22.12	28.66
6.	Canara Bank	499.78	111.64	188.59	154.78
7.	Central Bank of India	587.85	183.66	28.35	26.09
8.	Corporation Bank	200.04	135.75	41.03	32.94
9.	Dena Bank	117.80	125.33	23.99	25.26
10.	Indian Bank	209.77	75.92	68.66	68.06
11.	Indian Overseas Bank	373.05	233.68	71.91	65.75
12.	Oriental Bank of Commerce	237.10	188.52	77.60	74.86
13.	Punjab and Sind Bank	144.34	26.62	21.28	21.04
14.	Punjab National Bank	531.63	458.00	141.76	122.10
15.	Syndicate Bank	245.80	133.45	34.44	43.40
16.	UCO Bank	195.79	83.38	27.23	31.68
17.	Union Bank of India	260.32	95.39	166.59	149.77
18.	United Bank of India	263.91	191.80	9.06	6.20
19.	Vijaya Bank	148.90	148.44	29.51	23.52
	State Bank Group	**2,461.53**	**1,007.54**	**721.21**	**1,160.10**
20.	State Bank of India	1,775.30	587.17	528.20	954.75
21.	State Bank of Bikaner and Jaipur	168.86	36.08	17.37	15.47
22.	State Bank of Hyderabad	79.96	69.22	46.75	61.27
23.	State Bank of Indore	17.37	78.32	22.20	27.15
24.	State Bank of Mysore	151.20	90.57	21.61	21.58
25.	State Bank of Patiala	74.93	53.87	38.40	40.84
26.	State Bank of Saurashtra	13.78	25.07	12.41	9.53
27.	State Bank of Travancore	180.12	67.25	34.29	29.51
	Other Public Sector Banks				
28.	IDBI Ltd.	342.27	703.40	28.29	59.02

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											
2003-04	52,592.60	22,270.90	1,83,861.05	1,44,332.83	39,528.22	1,61,590.16	87,566.84	43,701.61	26,379.72	30,321.71	56,766.00
	(2.66)	(1.13)	(9.31)	(7.31)	(2.00)	(8.18)	(4.43)	(2.21)	(1.34)	(1.54)	(2.87)
2004-05	51,023.22	20,958.18	1,90,235.72	1,55,801	34,434.72	1,69,277.53	89,079.15	50,133.34	29,479.16	30,065.04	66,721.84
	(2.17)	(0.89)	(8.08)	(6.61)	(1.46)	(7.19)	(3.78)	(2.13)	(1.25)	(1.28)	(2.83)
2005-06	56,560.30	24,592.47	2,22,208.58	1,84,510.45	37,698.12	1,97,616.11	1,06,919.11	58,729.16	33,424.71	31,967.83	77,591.34
	(2.03)	(0.88)	(7.97)	(6.62)	(1.35)	(7.09)	(3.84)	(2.11)	(1.20)	(1.15)	(2.78)
Public Sector Banks											
2003-04	39,290.06	16,546.36	1,37,587.30	1,09,548.08	28,039.22	1,21,040.94	65,764.54	32,532.70	22,605.66	22,743.71	43,783.54
	(2.67)	(1.12)	(9.35)	(7.45)	(1.91)	(8.23)	(4.47)	(2.21)	(1.54)	(1.55)	(2.98)
2004-05	38,761.43	15,442.42	1,44,566.95	1,20,365.09	24,201.87	1,29,124.53	68,764.45	37,041.07	25,171.67	23,319.00	51,600.63
	(2.18)	(0.87)	(8.15)	(6.79)	(1.36)	(7.28)	(3.88)	(2.09)	(1.42)	(1.31)	(2.91)
2005-06	39,142.14	16,538.66	1,60,946.11	1,37,614.11	23,332.00	1,44,407.45	80,272.30	41,531.67	27,378.16	22,603.48	57,341.80
	(1.94)	(0.82)	(7.99)	(6.83)	(1.16)	(7.17)	(3.98)	(2.06)	(1.36)	(1.12)	(2.85)
Nationalised Banks											
2003-04	24,926.53	10,927.64	85,712.03	68,591.70	17,120.34	74,784.39	40,369.40	20,416.10	14,252.99	13,998.89	28,222.30
	(2.70)	(1.19)	(9.30)	(7.44)	(1.86)	(8.11)	(4.38)	(2.21)	(1.55)	(1.52)	(3.06)
2004-05	23,121.24	9,459.31	87,752.53	73,657.91	14,094.62	78,293.22	41,454.51	23,176.78	15,971.59	13,661.93	32,203.40
	(2.17)	(0.89)	(8.24)	(6.91)	(1.32)	(7.35)	(3.89)	(2.18)	(1.50)	(1.28)	(3.02)
2005-06	23,011.37	10,021.29	95,375.25	83,117.43	12,257.82	85,353.96	47,462.53	24,901.34	16,394.57	12,990.08	35,654.90
	(1.86)	(0.81)	(7.73)	(6.73)	(0.99)	(6.91)	(3.84)	(2.02)	(1.33)	(1.05)	(2.89)
State Bank Group											
2003-04	14,363.53	5,618.71	51,875.26	40,956.38	10,918.88	46,256.55	25,395.14	12,116.59	8,352.68	8,744.81	15,561.24
	(2.62)	(1.02)	(9.44)	(7.46)	(1.99)	(8.42)	(4.62)	(2.21)	(1.52)	(1.59)	(2.83)
2004-05	15,279.17	5,675.86	53,531.58	44,051.46	9,480.12	47,855.72	24,842.07	13,410.33	9,042.53	9,603.32	19,209.39
	(2.44)	(0.91)	(8.54)	(7.02)	(1.51)	(7.63)	(3.96)	(2.14)	(1.44)	(1.53)	(3.06)
2005-06	15,329.90	5,956.48	58,909.69	49,115.96	9,793.73	52,953.21	27,808.94	15,770.84	10,665.09	9,373.42	21,307.01
	(2.22)	(0.86)	(8.51)	(7.10)	(1.42)	(7.65)	(4.02)	(2.28)	(1.54)	(1.35)	(3.08)

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 Contin-gencies	Spread (NII)
								Total	*of which:* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Other Public Sector Banks											
2004-05	361.01	307.26	3,282.85	2,655.72	627.12	2,975.59	2,467.87	453.96	157.55	53.76	187.85
	(0.44)	(0.38)	(4.03)	(3.26)	(0.77)	(3.66)	(3.03)	(0.56)	(0.19)	(0.07)	(0.23)
2005-06	800.86	560.89	6,661.17	5,380.72	1,280.45	6,100.28	5,000.82	859.48	318.51	239.97	379.89
	(0.90)	(0.63)	(7.52)	(6.08)	(1.45)	(6.89)	(5.65)	(0.97)	(0.36)	(0.27)	(0.43)
Old Private Sector Banks											
2003-04	3,195.94	1,446.49	11,551.34	9,120.38	2,430.96	10,104.85	5,981.85	2,373.54	1,395.99	1,749.46	3,138.53
	(2.65)	(1.20)	(9.57)	(7.55)	(2.01)	(8.37)	(4.95)	(1.97)	(1.16)	(1.45)	(2.60)
2004-05	2,241.75	435.82	10,525.28	9,275.32	1,249.96	10,089.45	5,672.85	2,610.67	1,458.59	1,805.93	3,602.47
	(1.68)	(0.33)	(7.89)	(6.95)	(0.94)	(7.56)	(4.25)	(1.96)	(1.09)	(1.35)	(2.70)
2005-06	2,368.97	876.36	11,728.7	10,359.04	1,369.66	10,852.33	6,236.43	3,123.30	1,763.06	1,492.61	4,122.61
	(1.58)	(0.59)	(7.83)	(6.92)	(0.91)	(7.25)	(4.16)	(2.09)	(1.18)	(1.00)	(2.75)
New Private Sector Banks											
2003-04	5,121.08	2,035.00	21,710.36	16,529.77	5,180.59	19,675.36	11,548.18	5,041.09	1,178.41	3,086.09	4,981.59
	(2.08)	(0.83)	(8.80)	(6.70)	(2.10)	(7.98)	(4.68)	(2.04)	(0.48)	(1.25)	(2.02)
2004-05	5,442.75	3,097.57	22,107.33	16,990.13	5,117.20	19,009.76	10,600.40	6,064.18	1,484.13	2,345.18	6,389.73
	(1.85)	(1.05)	(7.51)	(5.77)	(1.74)	(6.46)	(3.60)	(2.06)	(0.50)	(0.80)	(2.17)
2005-06	8,388.25	4,108.85	32,098.64	24,301.45	7,797.19	27,989.79	15,260.88	8,449.51	2,306.59	4,279.40	9,040.57
	(1.99)	(0.97)	(7.61)	(5.76)	(1.85)	(6.64)	(3.62)	(2.00)	(0.55)	(1.01)	(2.14)
Foreign Banks											
2003-04	4,985.51	2,243.06	13,012.06	9,134.61	3,877.45	10,769.00	4,272.27	3,754.28	1,199.66	2,742.46	4,862.34
	(3.66)	(1.65)	(9.55)	(6.70)	(2.84)	(7.90)	(3.13)	(2.75)	(0.88)	(2.01)	(3.57)
2004-05	4,577.30	1,982.37	13,036.16	9,170.46	3,865.70	11,053.79	4,041.62	4,417.41	1,364.76	2,594.93	5,129.02
	(2.98)	(1.29)	(8.49)	(5.97)	(2.52)	(7.19)	(2.63)	(2.88)	(0.89)	(1.69)	(3.34)
2005-06	6,660.94	3,068.60	17,435.13	12,235.85	5,199.28	14,366.53	5,149.50	5,624.69	1,976.90	3,592.34	7,086.35
	(3.30)	(1.52)	(8.65)	(6.07)	(2.58)	(7.13)	(2.55)	(2.79)	(0.98)	(1.78)	(3.52)

Note : 1. The number of scheduled commercial banks in 2003-04, 2004-05 and 2005-06 were 90, 88 and 84, respecitvely.
2. The number of old private banks in 2003-04, 2004-05 and 2005-06 were 20, 20 and 19, respectively
3. The number of new private banks in 2003-04, 2004-05 and 2005-06 were 10, 9 and 8, respectively.
4. The number of foreign banks in 2003-04, 2004-05 and 2005-06 were 33, 31 and 29, respectively.
5. Figures in brackets are percentages to total assets.
6. NII - Net Interest Income.
7. Scheduled commercial banks data for 2004-05 are as reported in the balance sheets for 2005-06 and hence may not tally with those reported in the Report on Trend and Progress of Banking in India, 2004-05, to the extent the figures of 2004-05 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		2004-05*	2005-06*	Variation	
				Absolute	Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**1,90,235.72 (100.00)**	**2,22,208.58 (100.00)**	**31,972.86**	**16.81**
	i) Interest Income	1,55,801.00 (81.90)	1,84,510.45 (83.03)	28,709.46	18.43
	of which: Interest on Advances	81,408.28	1,08,681.61	27,273.33	33.50
	Income on Investments	65,867.81	66,190.34	322.53	0.49
	ii) Other Income	34,434.72 (18.10)	37,698.12 (16.97)	3,263.40	9.48
	of which: Commission and Brokerage	14,793.82	18,358.87	3,565.05	24.10
B.	**Expenditure (i+ii+iii)**	**1,69,277.53 (100.00)**	**1,97,616.11 (100.00)**	**28,338.57**	**16.74**
	i) Interest Expended	89,079.15 (52.62)	1,06,919.11 (54.10)	17,839.96	20.03
	of which: Interest on Deposits	77,254.72	89,460.61	12,205.89	15.80
	ii) Provisions and Contingencies	30,065.04 (17.76)	31,967.83 (16.18)	1,902.79	6.33
	of which: Provision for NPAs	59.78	40.95	-18.83	-31.50
	iii) Operating Expenses	50,133.34 (29.62)	58,729.16 (29.72)	8,595.82	17.15
	of which : Wage Bill	29,479.16	33,424.71	3,945.55	13.38
C.	**Profit**				
	i) Operating Profit	**51,023.22**	**56,560.30**	**5,537.07**	**10.85**
	ii) Net Profit	**20,958.18**	**24,592.47**	**3,634.29**	**17.34**
D.	**Net Interest Income/Margin**	**66,721.84**	**77,591.34**	**10,869.50**	**16.29**
E.	**Total Assets**	**23,55,509.27**	**27,87,891.62**	**4,32,382.35**	**18.36**

* : Includes IDBI Ltd.
Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.15(B): Financial Performance of Public Sector Banks

(Amount in Rs. crore)

Item	2004-05	2005-06	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,77,199.56 (100.00)**	**2,04,773.44 (100.00)**	**27,573.89**	**15.56**
i) Interest Income	1,46,630.53 (82.75)	1,72,274.60 (84.13)	25,644.07	17.49
of which: Interest on Advances	75,873.09	1,01,301.75	25,428.65	33.51
Income on Investments	62,921.35	62,294.86	-626.49	-1.00
ii) Other Income	30,569.02 (17.25)	32,498.84 (15.87)	1,929.82	6.31
of which: Commission and Brokerage	12,639.74	15,768.10	3,128.35	24.75
B. Expenditure (i+ii+iii)	**1,58,223.75 (100.00)**	**1,83,249.57 (100.00)**	**25,025.83**	**15.82**
i) Interest Expended	85,037.71 (53.75)	1,01,769.62 (55.54)	16,731.91	19.68
of which: Interest on Deposits	74,663.27	86,299.44	11,636.17	15.58
ii) Provisions and Contingencies	27,470.11 (17.36)	28,375.48 (15.48)	905.37	3.30
of which: Provision for NPAs	57.21	39.67	-17.54	-30.66
iii) Operating Expenses	45,715.93 (28.89)	53,104.47 (28.98)	7,388.54	16.16
of which : Wage Bill	28,114.40	31,447.81	3,333.41	11.86
C. Profit				
i) Operating Profit	**46,445.92**	**49,899.35**	**3,453.43**	**7.44**
ii) Net Profit	**18,975.81**	**21,523.87**	**2,548.06**	**13.43**
D. Net Interest Income/Margin	**61,592.83**	**70,504.99**	**8,912.16**	**14.47**
E. Total Assets	**22,01,872.94**	**25,86,305.94**	**3,84,432.99**	**17.46**

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

Source : Balance sheets of respective banks.

Appendix Table III.15(C): Financial Performance of Nationalised Banks

(Amount in Rs. crore)

Item	2004-05	2005-06	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**87,752.53 (100.00)**	**95,375.25 (100.00)**	**7,622.72**	**8.69**
i) Interest Income	73,657.91 (83.94)	83,117.43 (87.15)	9,459.52	12.84
of which: Interest on Advances	38,128.53	48,594.85	10,466.32	27.45
Income on Investments	32,660.37	31,731.39	-928.98	-2.84
Interest on Recapitalisation Bonds	1,823.73	1,886.73	63.00	3.45
ii) Other Income	14,094.62 (16.06)	12,257.82 (12.85)	-1,836.81	-13.03
of which: Commission and Brokerage	4,087.63	4,545.69	458.06	11.21
B. Expenditure (i+ii+iii)	**78,293.22 (100.00)**	**85,353.96 (100.00)**	**7,060.74**	**9.02**
i) Interest Expended	41,454.51 (52.95)	47,462.53 (55.61)	6,008.02	14.49
of which: Interest on Deposits	38,952.09	43,810.43	4,858.34	12.47
ii) Provisions and Contingencies	13,661.93 (17.45)	12,990.08 (15.22)	-671.85	-4.92
of which: Provision for NPAs	3,605.84	2,782.24	-823.60	-22.84
iii) Operating Expenses	23,176.78 (29.60)	24,901.34 (29.17)	1,724.56	7.44
of which : Wage Bill	15,971.59	16,394.57	422.97	2.65
C. Profit				
i) Operating Profit	**23,121.24**	**23,011.37**	**-109.87**	**-0.48**
ii) Net Profit	**9,459.31**	**10,021.29**	**561.98**	**5.94**
D. Net Interest Income/Margin	**32,203.40**	**35,654.90**	**3,451.50**	**10.72**
E. Total Assets	**10,65,503.86**	**12,34,462.40**	**1,68,958.54**	**15.86**

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

Source : Balance sheets of respective banks.

Appendix Table III.15(D): Financial Performance of State Bank Group

(Amount in Rs. crore)

Item			2004-05	2005-06	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**53,531.58** **(100.00)**	**58,909.69** **(100.00)**	**5,378.11**	**10.05**
	i)	Interest Income	44,051.46 (82.29)	49,115.96 (83.38)	5,064.50	11.50
		of which: Interest on Advances	18,919.55	25,517.75	6,598.20	34.88
		Income on Investments	21,332.58	19,089.26	-2,243.32	-10.52
	ii)	Other Income	9,480.12 (17.71)	9,793.73 (16.62)	313.61	3.31
		of which: Commission and Brokerage	4,793.00	5,310.38	517.38	10.79
B.	**Expenditure (i+ii+iii)**		**47,855.72** **(100.00)**	**52,953.21** **(100.00)**	**5,097.49**	**10.65**
	i)	Interest Expended	24,842.07 (51.91)	27,808.94 (52.52)	2,966.87	11.94
		of which: Interest on Deposits	23,275.67	25,017.51	1,741.84	7.48
	ii)	Provisions and Contingencies	9,603.32 (20.07)	9,373.42 (17.70)	-229.90	-2.39
		of which: Provision for NPAs	1,309.49	470.48	-839.01	-64.07
	iii)	Operating Expenses	13,410.33 (28.02)	15,770.84 (29.78)	2,360.51	17.60
		of which : Wage Bill	9,042.53	10,665.09	1,622.55	17.94
C.	**Profit**					
	i)	**Operating Profit**	**15,279.17**	**15,329.90**	**50.73**	**0.33**
	ii)	**Net Profit**	**5,675.86**	**5,956.48**	**280.62**	**4.94**
D.	**Net Interest Income/Margin**		**19,209.39**	**21,307.01**	**2,097.63**	**10.92**
E.	**Total Assets**		**6,27,117.14**	**6,91,871.17**	**64,754.03**	**10.33**

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

Source : Balance sheets of respective banks.

Appendix Table III.15(E): Financial Performance of Old Private Sector Banks

(Amount in Rs. crore)

Item	2004-05	2005-06	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**10,525.28 (100.00)**	**11,728.70 (100.00)**	**1,203.42**	**11.43**
i) Interest Income	9,275.32 (88.12)	10,359.04 (88.32)	1,083.72	11.68
of which: Interest on Advances	5,435.79	6,582.84	1,147.05	21.10
Income on Investments	3,464.17	3,249.73	-214.44	-6.19
ii) Other Income	1,249.96 (11.88)	1,369.66 (11.68)	119.70	9.58
of which: Commission and Brokerage	555.93	625.98	70.04	12.60
B. Expenditure (i+ii+iii)	**10,089.45 (100.00)**	**10,852.33 (100.00)**	**762.88**	**7.56**
i) Interest Expended	5,672.85 (56.23)	6,236.43 (57.47)	563.58	9.93
of which: Interest on Deposits	5,382.51	5,921.05	538.54	10.01
ii) Provisions and Contingencies	1,805.93 (17.90)	1,492.61 (13.75)	-313.32	-17.35
of which: Provision for NPAs	382.99	424.62	41.63	10.87
iii) Operating Expenses	2,610.67 (25.88)	3,123.30 (28.78)	512.62	19.64
of which : Wage Bill	1,458.59	1,763.06	304.47	20.87
C. Profit				
i) Operating Profit	**2,241.75**	**2,368.97**	**127.22**	**5.67**
ii) Net Profit	**435.82**	**876.36**	**440.54**	**101.08**
D. Net Interest Income/Margin	**3,602.47**	**4,122.61**	**520.14**	**14.44**
E. Total Assets	**1,33,470.25**	**1,49,749.03**	**16,278.78**	**12.20**

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

Source : Balance sheets of respective banks.

Appendix Table III.15(F): Financial Performance of New Private Sector Banks

(Amount in Rs. crore)

Item			2004-05	2005-06	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**22,107.33 (100.00)**	**32,098.64 (100.00)**	**9,991.31**	**45.19**
	i)	Interest Income	16,990.13 (76.85)	24,301.45 (75.71)	7,311.33	43.03
		of which: Interest on Advances	11,203.57	16,199.23	4,995.67	44.59
		Income on Investments	5,068.78	7,379.11	2,310.33	45.58
	ii)	Other Income	5,117.20 (23.15)	7,797.19 (24.29)	2,679.99	52.37
		of which: Commission and Brokerage	3,072.51	5,014.08	1,941.57	63.19
B.	**Expenditure (i+ii+iii)**		**19,009.76 (100.00)**	**27,989.79 (100.00)**	**8,980.03**	**47.24**
	i)	Interest Expended	10,600.40 (55.76)	15,260.88 (54.52)	4,660.48	43.97
		of which: Interest on Deposits	6,698.71	10,637.63	3,938.92	58.80
	ii)	Provisions and Contingencies	2,345.18 (12.34)	4,279.40 (15.29)	1,934.22	82.48
		of which: Provision for NPAs	460.22	157.75	-302.47	-65.72
	iii)	Operating Expenses	6,064.18 (31.90)	8,449.51 (30.19)	2,385.33	39.33
		of which : Wage Bill	1,484.13	2,306.59	822.46	55.42
C.	**Profit**					
	i)	**Operating Profit**	**5,442.75**	**8,388.25**	**2,945.50**	**54.12**
	ii)	**Net Profit**	**3,097.57**	**4,108.85**	**1,011.28**	**32.65**
D.	**Net Interest Income/Margin**		**6,389.73**	**9,040.57**	**2,650.85**	**41.49**
E.	**Total Assets**		**2,94,421.45**	**4,21,658.56**	**1,27,237.11**	**43.22**

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

Source : Balance sheets of respective banks.

Appendix Table III.15(G): Financial Performance of Foreign Banks in India

(Amount in Rs. crore)

Item	2004-05	2005-06	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**13,036.16 (100.00)**	**17,435.13 (100.00)**	**4,398.97**	**33.74**
i) Interest Income	9,170.46 (70.35)	12,235.85 (70.18)	3,065.39	33.43
of which: Interest on Advances	5,535.19	7,379.87	1,844.68	33.33
Income on Investments	2,946.45	3,895.48	949.03	32.21
ii) Other Income	3,865.70 (29.65)	5,199.28 (29.82)	1,333.59	34.50
of which: Commission and Brokerage	2,154.08	2,590.78	436.70	20.27
B. Expenditure (i+ii+iii)	**11,053.79 (100.00)**	**14,366.53 (100.00)**	**3,312.75**	**29.97**
i) Interest Expended	4,041.45 (36.56)	5,149.50 (35.84)	1,108.05	27.42
of which: Interest on Deposits	2,591.45	3,161.17	569.71	21.98
ii) Provisions and Contingencies	2,594.93 (23.48)	3,592.34 (25.00)	997.41	38.44
of which: Provision for NPAs	256.97	127.84	-129.14	-50.25
iii) Operating Expenses	4,417.41 (39.96)	5,624.69 (39.15)	1,207.28	27.33
of which : Wage Bill	1,364.76	1,976.90	612.14	44.85
C. Profit				
i) Operating Profit	**4,577.30**	**6,660.94**	**2,083.64**	**45.52**
ii) Net Profit	**1,982.37**	**3,068.60**	**1,086.23**	**54.79**
D. Net Interest Income / Margine	**5,129.02**	**7,086.35**	**1,957.34**	**38.16**
E. Total Assets	**1,53,636.33**	**2,01,585.69**	**47,949.35**	**31.21**

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

Source : Balance sheets of respective banks.

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2006)

(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	9.53	3.84	13.37	0.84	7.57	1.22	2.05	1.42	336.00	3.69
2.	Andhra Bank	12.20	1.80	14.00	0.24	7.60	1.30	2.18	1.38	426.75	3.69
3.	Bank of Baroda	10.98	2.67	13.65	0.87	6.69	1.12	1.92	0.79	396.00	2.13
4.	Bank of India	6.75	4.00	10.75	1.49	6.78	1.14	1.64	0.68	381.00	1.66
5.	Bank of Maharashtra	7.47	3.80	11.27	2.03	7.28	0.55	1.13	0.16	306.18	0.36
6.	Canara Bank	7.81	3.41	11.22	1.12	7.32	1.16	2.19	1.01	441.57	3.02
7.	Central Bank of India	7.19	3.84	11.03	2.59	7.78	0.77	1.73	0.37	240.46	0.68
8.	Corporation Bank	12.41	1.51	13.92	0.64	7.32	1.59	2.93	1.24	527.00	4.13
9.	Dena Bank	5.96	4.66	10.62	3.04	7.03	1.83	2.48	0.29	364.00	0.72
10.	Indian Bank	10.29	2.90	13.19	0.79	7.75	1.22	2.06	1.16	295.00	2.36
11.	Indian Overseas Bank	8.54	4.50	13.04	0.65	7.77	1.28	2.70	1.32	354.73	3.22
12.	Oriental Bank of Commerce	11.71	0.75	12.46	0.49	7.13	0.96	2.06	1.39	570.26	5.37
13.	Punjab and Sind Bank	10.05	2.78	12.83	2.43	7.62	0.89	1.75	0.64	277.23	1.14
14.	Punjab National Bank	10.06	1.89	11.95	0.29	7.28	0.94	2.18	1.09	330.92	2.48
15.	Syndicate Bank	7.40	4.33	11.73	0.86	6.86	1.00	1.76	0.91	348.64	2.05
16.	UCO Bank	6.09	5.03	11.12	2.10	7.56	0.80	1.48	0.34	387.00	0.82
17.	Union Bank of India	7.32	4.09	11.41	1.56	7.49	0.80	2.04	0.84	436.47	2.66
18.	United Bank of India	10.01	3.11	13.12	1.95	7.66	1.48	2.09	0.62	254.00	1.18
19.	Vijaya Bank	9.26	2.68	11.94	0.85	7.65	1.22	2.38	0.45	369.26	1.16
	State Bank Group										
20.	State Bank of India	9.36	2.52	11.88	1.87	7.19	1.48	2.27	0.89	299.23	2.17
21.	State Bank of Bikaner and Jaipur	8.50	3.58	12.08	1.18	7.92	1.45	2.39	0.53	276.85	1.20
22.	State Bank of Hyderabad	8.95	3.13	12.08	0.36	7.26	1.56	2.29	1.13	414.34	3.26
23.	State Bank of Indore	7.55	3.85	11.40	1.83	7.23	1.51	2.29	0.76	429.32	2.09
24.	State Bank of Mysore	7.44	3.93	11.37	0.74	7.65	1.97	2.49	1.23	289.93	2.22
25.	State Bank of Patiala	9.84	3.71	13.55	0.99	7.22	1.02	2.15	0.73	493.01	2.66
26.	State Bank of Saurashtra	9.02	3.01	12.03	1.16	7.79	0.91	1.92	0.31	303.94	0.64
27.	State Bank of Travancore	7.24	3.91	11.15	1.47	7.63	1.16	2.23	0.86	381.19	2.34
	Other Public Sector Bank										
28.	IDBI Ltd.	11.71	3.09	14.80	1.01	6.51	1.55	0.97	0.68	1,718.24	12.45

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2006)

(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 (Amount in Rs. lakh)	Profit per employee (Amount in Rs. lakh)
		Tier I	Tier II	Total							
1	2	3	4	5	6	7	8	9	10	11	12
	Old Private Sector Banks										
1.	Bank of Rajasthan Ltd.	6.90	3.70	10.60	0.99	6.79	0.78	0.36	0.19	291.40	0.38
2.	Bharat Overseas Bank Ltd.	8.41	2.83	11.24	1.87	6.95	0.70	1.25	0.15	484.00	0.51
3.	Catholic Syrian Bank Ltd.	7.03	4.23	11.26	2.78	7.73	0.85	0.78	0.13	247.00	0.22
4.	City Union Bank Ltd.	10.77	1.56	12.33	1.95	8.43	1.15	2.82	1.46	339.69	3.51
5.	Dhanalakshmi Bank Ltd.	6.21	3.54	9.75	2.44	7.63	0.96	1.02	0.33	311.71	0.72
6.	Federal Bank Ltd.	9.72	4.03	13.75	0.95	8.18	1.24	2.57	1.28	431.00	3.54
7.	ING Vysya Bank Ltd.	7.14	3.53	10.67	1.76	7.76	1.21	0.97	0.05	426.00	0.17
8.	Jammu and Kashmir Bank Ltd.	11.76	0.38	12.14	0.92	7.60	0.59	2.01	0.67	516.00	3.00
9.	Karnataka Bank Ltd.	11.38	0.40	11.78	1.18	7.63	1.25	2.46	1.28	478.29	4.05
10.	Karur Vysya Bank Ltd.	13.29	1.50	14.79	0.81	7.95	1.75	2.79	1.65	439.00	4.65
11.	Lakshmi Vilas Bank Ltd.	6.94	3.85	10.79	1.89	7.58	1.08	0.94	0.53	371.00	1.20
12.	Lord Krishna Bank Ltd.	7.51	2.60	10.11	3.11	8.65	1.25	0.57	0.17	326.00	0.30
13.	Nainital Bank Ltd.	10.97	2.91	13.88	–	8.06	1.12	2.44	1.06	225.00	2.00
14.	Ratnakar Bank Ltd.	9.64	1.05	10.69	2.61	8.07	0.73	1.49	0.07	250.92	0.11
15.	Sangli Bank Ltd.	0.82	0.82	1.64	2.34	7.55	0.41	0.06	-1.37	117.40	-1.61
16.	SBI Commercial and International Bank Ltd.	20.91	1.38	22.29	3.82	7.15	2.06	3.95	1.09	626.43	5.70
17.	South Indian Bank Ltd.	8.38	4.64	13.02	1.86	7.99	0.76	1.64	0.53	422.00	1.37
18.	Tamilnad Mercantile Bank Ltd.	17.60	0.73	18.33	2.17	9.03	1.36	3.28	1.67	358.29	4.41
19.	United Western Bank Ltd.	0.50	0.49	0.99	5.66	7.07	0.82	0.59	-1.55	324.00	-3.48
	New Private Sector Banks										
20.	Centurion Bank of Punjab Ltd.	10.84	1.68	12.52	1.13	8.11	2.51	1.49	0.89	339.00	1.96
21.	Development Credit Bank Ltd.	5.96	3.70	9.66	4.50	6.55	1.90	-0.46	-2.01	390.00	-7.00
22.	HDFC Bank Ltd.	8.55	2.86	11.41	0.44	4.04	1.79	2.75	1.38	758.00	7.39
23.	ICICI Bank Ltd.	9.20	4.15	13.35	0.72	7.03	2.54	2.39	1.30	905.00	10.00
24.	IndusInd Bank Ltd.	6.84	3.70	10.54	2.09	7.21	1.37	1.36	0.22	880.18	1.56
25.	Kotak Mahindra Bank Ltd.	8.07	3.20	11.27	0.24	8.15	2.85	2.48	1.39	352.00	4.15
26.	UTI Bank Ltd.	7.26	3.82	11.08	0.98	7.05	1.78	2.43	1.18	1,020.00	8.69
27.	Yes Bank Ltd.	13.78	2.65	16.43	–	7.33	3.85	3.26	2.13	848.08	8.82

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2006)

(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 (Amount in Rs. lakh)	Profit per employee (Amount in Rs. lakh)
		Tier I	Tier II	Total							
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India										
1.	ABN-AMRO Bank N.V.	7.18	3.26	10.44	0.11	7.40	3.49	3.19	1.03	905.82	8.15
2.	Abu Dhabi Commercial Bank Ltd.	36.32	0.66	36.98	15.97	8.41	0.75	0.47	0.35	1,720.49	12.06
3.	American Express Bank Ltd.	10.07	0.19	10.26	0.58	7.65	8.96	3.17	1.45	239.32	2.99
4.	Antwerp Diamond Bank	26.28	13.39	39.67	–	5.47	0.75	1.97	1.21	2,308.40	41.22
5.	Arab Bangladesh Bank Ltd.	84.99	1.22	86.21	–	4.45	4.81	6.09	3.43	193.03	11.04
6.	BNP Paribas	7.78	3.83	11.61	–	6.40	2.09	2.26	0.55	1,206.05	6.29
7.	Bank Internasional Indonesia	108.67	0.20	108.87	–	4.42	0.83	0.10	-1.28	148.00	-7.66
8.	Bank of America NA	17.67	5.73	23.40	–	5.25	3.53	4.27	2.41	1,924.81	51.82
9.	Bank of Bahrain and Kuwait B.S.C.	18.77	1.24	20.01	1.29	6.67	1.14	0.47	-1.32	728.00	-10.00
10.	Bank of Ceylon	56.10	0.27	56.37	23.74	5.31	2.35	4.04	0.25	587.10	1.64
11.	Bank of Nova Scotia	13.19	0.52	13.71	1.00	4.60	1.53	1.82	0.83	2,040.25	16.50
12.	Barclays Bank PLC	22.15	0.77	22.92	–	5.19	18.49	17.36	9.64	148.51	271.00
13.	Bank of Tokyo-Mitsubishi UFJ Ltd.	28.03	5.35	33.38	–	4.87	2.23	2.58	0.02	1,113.29	0.20
14.	Calyon Bank	14.70	5.10	19.80	0.10	7.30	6.00	4.40	4.10	1,272.00	71.00
15.	Chinatrust Commercial Bank	37.71	0.85	38.56	1.80	5.87	0.63	2.07	-1.71	980.00	16.00
16.	Chohung Bank	79.64	2.07	81.71	–	6.19	1.71	3.45	1.48	1,503.26	33.26
17.	Citibank N.A.	10.77	0.56	11.33	0.95	7.82	2.66	4.02	3.07	1,607.92	21.71
18.	DBS Bank Ltd.	20.80	10.53	31.33	–	7.05	-0.40	2.11	0.73	1,105.14	12.24
19.	Deutsche Bank AG	11.14	1.60	12.74	–	5.44	5.05	2.85	1.04	1,016.83	18.57
20.	HSBC Ltd.	9.80	0.81	10.61	0.58	6.65	2.80	3.77	1.58	975.65	12.07
21.	JPMorgan Chase Bank	11.74	0.02	11.76	–	6.38	5.11	6.72	2.53	1,252.09	88.94
22.	Krung Thai Bank Public Co. Ltd.	125.14	8.39	133.53	–	4.95	7.96	8.70	5.37	395.25	37.77
23.	Mashreqbank psc	133.17	3.75	136.92	–	7.08	2.30	1.34	1.3	484.16	37.43
24.	Mizuho Corporate Bank Ltd.	65.52	0.24	65.76	0.15	5.68	1.87	2.70	0.88	684.21	8.89
25.	Oman International Bank S.A.O.G.	9.52	0.06	9.58	41.58	5.76	0.32	-1.31	-1.31	784.02	9.35
26.	Societe Generale	37.27	0.13	37.40	–	6.16	1.58	2.27	1.15	1,467.20	20.80
27.	Sonali Bank	92.16	1.62	93.78	0.75	6.83	19.29	5.10	1.69	54.81	1.21
28.	Standard Chartered Bank	8.21	1.72	9.93	1.57	8.41	2.26	4.74	2.49	837.29	14.50
29.	State Bank of Mauritius Ltd.	32.94	2.48	35.42	1.91	8.47	0.38	2.54	1.97	1,688.00	10.00

- : Nil/Negligible.

Source : Balance sheets of respective banks.

Note : Data reported in this table may not exactly tally with the data reported in Appendix Table III.17 to Appendix Table III.23 on account of conceptual differences.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.66**	**1.53**	**1.94**	**2.39**	**2.66**	**2.17**	**2.03**
	Public Sector Banks	**1.46**	**1.34**	**1.88**	**2.31**	**2.67**	**2.18**	**1.94**
	Nationalised Banks	**1.30**	**1.29**	**1.83**	**2.34**	**2.70**	**2.17**	**1.86**
1.	Allahabad Bank	1.28	1.21	1.65	1.84	2.52	2.07	1.85
2.	Andhra Bank	1.83	1.22	2.03	3.06	3.44	3.03	1.89
3.	Bank of Baroda	1.79	1.64	1.85	2.25	2.92	2.44	1.79
4.	Bank of India	1.23	1.30	2.02	2.66	2.64	1.54	1.52
5.	Bank of Maharashtra	1.52	1.26	1.93	2.09	2.10	1.66	1.17
6.	Canara Bank	1.70	1.70	2.30	2.43	2.88	2.34	1.97
7.	Central Bank of India	1.02	1.00	1.34	1.62	2.41	2.35	1.60
8.	Corporation Bank	2.54	2.70	2.64	3.24	3.11	3.03	2.60
9.	Dena Bank	1.36	0.43	1.78	2.45	3.21	1.59	2.34
10.	Indian Bank	0.10	0.23	1.01	1.67	2.05	2.18	1.88
11.	Indian Overseas Bank	0.68	1.01	1.74	1.93	2.80	2.95	2.58
12.	Oriental Bank of Commerce	2.06	1.97	2.84	3.42	3.74	2.28	2.02
13.	Punjab and Sind Bank	0.83	0.77	1.19	1.94	1.00	1.64	1.57
14.	Punjab National Bank	1.52	1.49	2.02	2.69	3.05	1.90	1.98
15.	Syndicate Bank	1.03	1.05	1.12	1.80	2.16	1.96	1.70
16.	UCO Bank	0.75	0.78	1.52	1.79	1.82	1.54	1.38
17.	Union Bank of India	1.12	1.31	1.96	2.55	2.54	2.17	1.79
18.	United Bank of India	0.43	0.64	1.04	2.29	2.37	2.37	1.94
19.	Vijaya Bank	0.98	1.25	1.56	2.27	3.60	2.73	2.28
	State Bank Group	**1.74**	**1.42**	**1.94**	**2.27**	**2.62**	**2.44**	**2.22**
20.	State Bank of India	1.61	1.26	1.74	2.07	2.34	2.39	2.29
21.	State Bank of Bikaner and Jaipur	1.91	1.93	2.52	2.45	3.39	3.11	2.15
22.	State Bank of Hyderabad	2.65	2.43	2.71	2.90	3.31	2.04	2.14
23.	State Bank of Indore	2.06	2.10	3.48	3.70	4.08	2.08	2.03
24.	State Bank of Mysore	1.96	1.47	2.27	3.11	3.09	2.73	2.26
25.	State Bank of Patiala	2.83	2.79	3.25	3.47	3.73	2.71	1.77
26.	State Bank of Saurashtra	2.15	1.36	2.36	2.52	3.53	2.57	1.85
27.	State Bank of Travancore	1.47	1.59	1.95	2.39	2.92	2.78	2.11
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	0.44	0.90

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.95**	**1.74**	**1.74**	**2.44**	**2.27**	**1.80**	**1.88**
	Old Private Sector Banks	**1.82**	**1.75**	**2.70**	**2.67**	**2.64**	**1.68**	**1.58**
1.	Bank of Rajasthan Ltd.	0.46	1.33	1.69	2.42	2.19	0.90	0.29
2.	Bharat Overseas Bank Ltd.	1.26	1.98	2.53	2.02	2.02	1.69	1.22
3.	Catholic Syrian Bank Ltd.	0.95	1.63	2.60	2.89	2.86	1.77	0.77
4.	City Union Bank Ltd.	3.18	2.70	2.92	3.06	3.69	2.34	2.64
5.	Dhanalakshmi Bank Ltd.	1.89	1.46	2.68	3.02	2.74	0.70	0.99
6.	Federal Bank Ltd.	1.78	2.12	3.01	2.88	2.89	2.38	2.19
7.	Ganesh Bank of Kurundwad Ltd.	0.81	0.42	1.14	1.65	0.89	-1.17	–
8.	ING Vysya Bank Ltd.	1.35	1.13	1.91	2.11	1.98	0.65	0.91
9.	Jammu and Kashmir Bank Ltd.	2.20	2.14	3.14	3.30	2.96	1.51	1.71
10.	Karnataka Bank Ltd.	1.41	2.04	3.23	2.73	3.12	2.72	2.20
11.	Karur Vysya Bank Ltd.	2.91	2.61	3.17	3.20	3.02	2.53	2.54
12.	Lakshmi Vilas Bank Ltd.	2.40	2.30	2.72	2.50	2.27	1.35	0.81
13.	Lord Krishna Bank Ltd.	1.41	1.08	2.93	2.76	1.85	-0.04	0.47
14.	Nainital Bank Ltd.	1.69	1.58	1.77	1.51	2.41	2.01	2.11
15.	Ratnakar Bank Ltd.	1.46	1.75	3.69	2.74	1.70	1.10	1.33
16.	Sangli Bank Ltd.	1.14	1.08	1.51	1.11	1.41	0.28	-0.10
17.	SBI Commercial and International Bank Ltd.	3.19	1.34	1.86	2.78	5.31	2.29	3.78
18.	South Indian Bank Ltd.	1.80	2.05	2.64	2.84	2.61	1.82	1.44
19.	Tamilnad Mercantile Bank Ltd.	2.36	2.78	2.82	2.87	3.34	3.10	3.26
20.	United Western Bank Ltd.	2.96	0.88	2.99	2.31	1.86	1.02	0.57
	New Private Sector Banks	**2.11**	**1.74**	**1.22**	**2.31**	**2.08**	**1.85**	**1.99**
21.	Bank of Punjab Ltd.	1.69	1.73	2.46	2.53	2.13	0.40	–
22.	Centurion Bank of Punjab Ltd.	1.25	0.98	0.35	0.64	0.34	0.67	1.86
23.	Development Credit Bank Ltd.	1.89	1.62	2.47	1.35	1.00	-0.09	-0.53
24.	HDFC Bank Ltd.	2.21	2.44	2.29	2.33	2.38	2.61	2.69
25.	ICICI Bank Ltd.	1.88	1.47	0.52	2.41	1.98	1.76	1.87
26.	IndusInd Bank Ltd.	2.39	2.00	2.47	3.28	2.95	2.57	1.27
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.16	2.18	2.05	2.07
28.	UTI Bank Ltd.	1.74	1.23	2.83	2.09	2.89	1.50	2.00
29.	Yes Bank Ltd.	–	–	–	–	–	-0.29	2.38

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.24**	**3.05**	**3.10**	**3.20**	**3.68**	**2.98**	**3.30**
1.	ABN-AMRO Bank N.V.	3.05	3.51	3.68	3.13	3.38	2.87	2.47
2.	Abu Dhabi Commercial Bank Ltd.	2.50	1.35	0.90	0.69	0.70	0.26	0.91
3.	American Express Bank Ltd.	2.74	1.81	3.80	3.37	2.95	2.56	2.94
4.	Antwerp Diamond Bank	–	–	–	1.09	2.29	1.98	2.05
5.	Arab Bangladesh Bank Ltd.	6.08	7.09	6.40	5.26	6.93	6.23	7.61
6.	Bank Internasional Indonesia	-9.75	-6.89	0.22	-2.93	0.04	-0.23	0.97
7.	Bank of America NA	5.02	3.36	3.56	2.71	2.34	2.86	4.78
8.	Bank of Bahrain and Kuwait B.S.C.	1.74	1.49	2.72	2.23	1.23	0.30	0.49
9.	Bank of Ceylon	6.34	4.91	5.49	2.58	2.98	3.63	4.17
10.	Bank of Nova Scotia	3.11	2.19	2.70	3.19	1.95	2.05	1.87
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	-2.92	9.22	3.04	3.19	8.05	5.70	2.20
12.	Barclays Bank PLC	-0.55	-0.09	4.51	8.42	15.15	12.61	11.69
13.	BNP Paribas	2.27	1.36	-0.60	0.06	1.18	1.92	2.11
14.	Chinatrust Commercial Bank	1.11	2.03	4.20	4.23	4.58	2.33	1.84
15.	Chohung Bank	7.23	8.38	6.45	7.44	4.67	3.69	2.37
16.	Citibank N.A.	3.41	3.55	3.97	3.44	4.17	3.47	3.47
17.	Calyon Bank	-0.14	0.01	0.50	1.24	-0.27	-0.61	4.25
18.	Deutsche Bank AG	5.19	5.72	4.39	5.93	5.88	2.04	2.69
19.	DBS Bank Ltd.	3.01	2.93	3.49	4.45	1.95	0.79	1.45
20.	HSBC Ltd.	2.41	2.84	2.50	2.25	3.04	3.39	3.41
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	4.60
23.	Krung Thai Bank Public Co. Ltd.	3.57	4.94	4.38	2.75	1.66	1.32	8.70
24.	Mashreqbank psc	0.41	0.41	3.26	4.01	1.84	1.26	5.43
25.	Mizuho Corporate Bank Ltd.	-0.25	1.62	1.10	1.23	2.96	2.09	2.09
26.	Oman International Bank S.A.O.G.	-0.20	-0.64	-2.05	-1.34	-0.17	-0.10	-0.35
27.	Societe Generale	0.73	0.60	-0.05	0.58	2.61	1.27	1.89
28.	Sonali Bank	4.11	5.87	3.66	2.15	6.35	7.61	3.31
29.	Standard Chartered Bank	3.45	3.15	3.84	3.80	4.01	2.87	3.58
30.	State Bank of Mauritius Ltd.	3.79	3.80	4.56	4.12	5.22	2.41	2.65
31.	UFJ Bank Ltd.	3.02	1.95	3.34	2.51	3.86	4.16	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**0.66**	**0.49**	**0.75**	**1.01**	**1.13**	**0.89**	**0.88**
	Public Sector Banks	**0.57**	**0.42**	**0.72**	**0.96**	**1.12**	**0.87**	**0.82**
	Nationalised Banks	**0.44**	**0.33**	**0.69**	**0.98**	**1.19**	**0.89**	**0.81**
1.	Allahabad Bank	0.35	0.18	0.32	0.59	1.34	1.20	1.28
2.	Andhra Bank	0.76	0.59	0.97	1.63	1.72	1.59	1.19
3.	Bank of Baroda	0.86	0.43	0.77	1.01	1.14	0.71	0.73
4.	Bank of India	0.31	0.42	0.73	1.12	1.19	0.36	0.62
5.	Bank of Maharashtra	0.59	0.24	0.68	0.89	0.95	0.54	0.16
6.	Canara Bank	0.43	0.43	1.03	1.24	1.35	1.01	1.01
7.	Central Bank of India	0.36	0.10	0.31	0.54	0.98	0.52	0.34
8.	Corporation Bank	1.39	1.33	1.31	1.58	1.73	1.19	1.10
9.	Dena Bank	0.37	-1.49	0.06	0.57	1.04	0.25	0.27
10.	Indian Bank	-1.81	-1.03	0.11	0.53	1.04	0.93	1.06
11.	Indian Overseas Bank	0.15	0.38	0.65	1.01	1.08	1.28	1.32
12.	Oriental Bank of Commerce	1.14	0.75	0.99	1.34	1.67	1.34	0.95
13.	Punjab and Sind Bank	0.52	0.10	0.17	0.03	0.06	-0.45	0.57
14.	Punjab National Bank	0.75	0.73	0.77	0.98	1.08	1.12	0.99
15.	Syndicate Bank	0.79	0.83	0.79	1.00	0.92	0.77	0.88
16.	UCO Bank	0.16	0.12	0.52	0.59	0.99	0.63	0.32
17.	Union Bank of India	0.29	0.40	0.71	1.08	1.22	0.99	0.76
18.	United Bank of India	0.16	0.09	0.52	1.26	1.22	1.03	0.62
19.	Vijaya Bank	0.41	0.50	0.81	1.03	1.71	1.30	0.40
	State Bank Group	**0.80**	**0.55**	**0.77**	**0.91**	**1.02**	**0.91**	**0.86**
20.	State Bank of India	0.78	0.51	0.70	0.83	0.90	0.94	0.89
21.	State Bank of Bikaner and Jaipur	0.97	0.76	1.06	1.13	1.50	0.88	0.53
22.	State Bank of Hyderabad	0.82	0.82	1.02	1.15	1.24	0.72	1.05
23.	State Bank of Indore	0.72	0.78	1.27	1.76	1.73	0.79	0.67
24.	State Bank of Mysore	0.58	0.27	0.64	1.02	1.28	1.25	1.12
25.	State Bank of Patiala	1.06	1.12	1.34	1.51	1.60	0.91	0.73
26.	State Bank of Saurashtra	1.18	0.16	0.88	0.81	1.38	0.27	0.36
27.	State Bank of Travancore	0.53	0.67	0.73	0.90	1.02	0.86	0.81
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	0.38	0.63

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**0.88**	**0.70**	**0.66**	**1.00**	**0.95**	**0.83**	**0.87**
	Old Private Sector Banks	**0.81**	**0.59**	**1.08**	**1.17**	**1.20**	**0.33**	**0.59**
1.	Bank of Rajasthan Ltd.	0.30	0.74	0.84	1.12	0.82	0.38	0.15
2.	Bharat Overseas Bank Ltd.	0.06	0.95	1.08	1.17	1.25	0.62	0.15
3.	Catholic Syrian Bank Ltd.	0.25	0.38	1.07	1.17	1.31	0.24	0.13
4.	City Union Bank Ltd.	1.30	1.16	1.28	1.27	1.79	1.33	1.37
5.	Dhanalakshmi Bank Ltd.	0.71	0.40	0.53	0.71	0.71	-0.82	0.33
6.	Federal Bank Ltd.	0.61	0.69	0.81	0.86	0.90	0.54	1.09
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	0.05
9.	Jammu and Kashmir Bank Ltd.	1.14	1.32	1.77	2.01	1.92	0.47	0.67
10.	Karnataka Bank Ltd.	0.71	0.68	1.17	1.19	1.26	1.17	1.18
11.	Karur Vysya Bank Ltd.	1.90	1.70	2.12	2.02	2.27	1.34	1.50
12.	Lakshmi Vilas Bank Ltd.	1.14	1.02	1.06	1.07	1.07	0.08	0.46
13.	Lord Krishna Bank Ltd.	0.61	0.36	1.14	1.24	1.01	-0.97	0.14
14.	Nainital Bank Ltd.	0.86	0.53	0.87	0.99	1.43	1.08	0.92
15.	Ratnakar Bank Ltd.	0.70	0.67	1.00	1.30	1.04	-1.09	0.06
16.	Sangli Bank Ltd.	0.34	0.38	0.58	0.65	0.61	-1.48	-1.36
17.	SBI Commercial and International Bank Ltd.	1.70	-6.65	0.46	-1.45	3.67	-2.10	1.09
18.	South Indian Bank Ltd.	0.58	0.80	0.95	0.95	0.91	0.09	0.47
19.	Tamilnad Mercantile Bank Ltd.	1.32	1.37	1.29	1.35	1.59	1.47	1.66
20.	United Western Bank Ltd.	1.16	-0.27	0.50	0.46	0.43	-1.39	-1.49
	New Private Sector Banks	**0.97**	**0.81**	**0.44**	**0.90**	**0.83**	**1.05**	**0.97**
21.	Bank of Punjab Ltd.	1.04	0.93	0.92	0.74	0.76	-1.25	–
22.	Centurion Bank of Punjab Ltd.	0.66	0.12	-2.26	-0.75	-2.96	0.54	0.77
23.	Development Credit Bank Ltd.	0.87	0.76	0.81	0.78	0.32	-3.50	-2.28
24.	HDFC Bank Ltd.	1.02	1.35	1.25	1.27	1.20	1.29	1.18
25.	ICICI Bank Ltd.	0.87	0.82	0.25	1.13	1.31	1.20	1.01
26.	IndusInd Bank Ltd.	0.70	0.47	0.50	0.91	1.74	1.35	0.21
27.	Kotak Mahindra Bank Ltd.	–	–	–	2.09	1.35	1.30	1.16
28.	UTI Bank Ltd.	0.76	0.80	0.93	0.98	1.15	0.89	0.98
29.	Yes Bank Ltd.	–	–	–	–	–	-0.29	1.33

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**1.17**	**0.93**	**1.32**	**1.56**	**1.65**	**1.29**	**1.52**
1.	ABN-AMRO Bank N.V.	1.58	0.40	1.72	1.56	1.84	1.27	1.03
2.	Abu Dhabi Commercial Bank Ltd.	0.52	0.44	0.47	0.17	0.49	-2.57	0.66
3.	American Express Bank Ltd.	1.02	-0.62	0.27	-0.90	-0.69	0.55	1.45
4.	Antwerp Diamond Bank	–	–	–	0.36	1.18	1.00	1.21
5.	Arab Bangladesh Bank Ltd.	2.80	3.50	2.82	2.73	4.08	3.61	4.26
6.	Bank Internasional Indonesia	-8.10	-2.95	0.24	2.11	-0.22	-0.67	-0.98
7.	Bank of America NA	2.70	1.25	1.72	1.74	1.26	1.46	2.41
8.	Bank of Bahrain and Kuwait B.S.C.	0.90	0.81	1.25	1.06	0.12	-3.77	-1.61
9.	Bank of Ceylon	2.62	0.95	0.02	0.27	0.36	1.19	0.25
10.	Bank of Nova Scotia	1.46	1.06	1.00	0.78	0.57	-0.35	0.86
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	4.87	7.57	4.08	3.27	6.96	0.93	0.02
12.	Barclays Bank PLC	-2.10	1.35	1.78	2.87	9.37	6.68	6.49
13.	BNP Paribas	0.94	0.33	-0.94	-0.53	-0.44	0.50	0.51
14.	Chinatrust Commercial Bank	0.25	0.63	1.00	2.12	1.15	-7.68	-1.71
15.	Chohung Bank	0.50	3.15	3.42	2.47	2.21	2.07	1.35
16.	Citibank N.A.	1.44	1.46	1.51	1.55	1.93	1.77	1.55
17.	Calyon Bank	-9.83	-1.62	0.99	0.36	0.51	-0.84	4.06
18.	Deutsche Bank AG	1.10	1.71	2.24	2.92	3.17	0.72	1.04
19.	DBS Bank Ltd.	1.44	1.58	2.02	2.01	-1.31	0.64	0.50
20.	HSBC Ltd.	0.96	1.26	0.87	0.72	1.55	1.21	1.37
21.	ING Bank N.V.	-4.00	-3.97	-0.44	-12.92	-0.05	-4.38	–
22.	JPMorgan Chase Bank	2.87	5.06	3.18	3.10	2.34	3.58	2.53
23.	Krung Thai Bank Public Co. Ltd.	0.26	2.22	0.02	-0.72	1.38	0.03	5.37
24.	Mashreqbank psc	-3.60	-3.10	1.59	3.25	1.76	1.10	4.23
25.	Mizuho Corporate Bank Ltd.	-2.85	-3.30	-1.45	0.31	2.41	2.13	0.88
26.	Oman International Bank S.A.O.G.	-8.98	-4.41	-4.47	-1.83	-0.39	-3.14	-0.89
27.	Societe Generale	0.02	0.04	-2.29	-1.58	2.04	1.71	0.95
28.	Sonali Bank	2.14	3.05	1.41	1.23	3.36	4.32	1.69
29.	Standard Chartered Bank	1.81	1.51	2.02	2.92	1.74	1.62	1.88
30.	State Bank of Mauritius Ltd.	1.48	1.05	0.85	1.05	1.33	1.20	0.68
31.	UFJ Bank Ltd.	0.14	0.25	0.05	0.31	1.88	2.10	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**8.97**	**8.88**	**8.26**	**8.28**	**7.31**	**6.61**	**6.62**
	Public Sector Banks	**8.92**	**8.85**	**8.72**	**8.34**	**7.45**	**6.79**	**6.83**
	Nationalised Banks	**9.06**	**9.09**	**8.78**	**8.39**	**7.44**	**6.91**	**6.73**
1.	Allahabad Bank	9.36	9.39	9.18	9.16	7.69	7.06	6.81
2.	Andhra Bank	9.16	9.20	9.69	8.89	8.25	6.97	6.58
3.	Bank of Baroda	8.83	9.09	8.40	7.98	7.22	6.79	6.26
4.	Bank of India	8.51	8.93	8.01	7.77	6.83	6.35	6.26
5.	Bank of Maharashtra	9.64	8.96	9.31	8.36	6.83	7.20	7.53
6.	Canara Bank	8.91	8.45	8.83	8.16	7.11	6.86	6.56
7.	Central Bank of India	9.06	9.03	8.85	8.88	7.99	7.59	7.21
8.	Corporation Bank	9.57	9.16	8.24	8.00	7.55	6.63	6.48
9.	Dena Bank	9.40	9.58	9.07	8.79	7.83	7.18	6.63
10.	Indian Bank	8.07	7.91	7.58	7.16	6.81	6.54	7.06
11.	Indian Overseas Bank	9.07	9.22	8.95	8.47	7.93	7.78	7.42
12.	Oriental Bank of Commerce	10.02	10.19	9.43	9.72	8.05	6.61	6.99
13.	Punjab and Sind Bank	9.50	9.23	9.20	8.86	8.52	7.94	6.82
14.	Punjab National Bank	9.52	9.23	9.12	8.68	7.60	6.70	6.60
15.	Syndicate Bank	8.97	9.89	9.08	8.35	6.53	7.21	6.63
16.	UCO Bank	8.39	8.32	8.10	8.00	7.07	6.50	7.04
17.	Union Bank of India	9.47	9.58	9.05	8.43	7.74	6.86	6.58
18.	United Bank of India	8.70	8.99	8.93	8.73	8.02	7.33	7.10
19.	Vijaya Bank	9.36	9.51	9.53	8.76	8.06	7.15	7.33
	State Bank Group	**8.67**	**8.47**	**8.62**	**8.26**	**7.46**	**7.02**	**7.10**
20.	State Bank of India	8.49	8.28	8.56	8.27	7.47	7.05	7.25
21.	State Bank of Bikaner and Jaipur	8.95	9.12	8.76	8.00	7.82	7.43	7.14
22.	State Bank of Hyderabad	9.56	9.19	8.67	7.91	7.22	6.66	6.77
23.	State Bank of Indore	8.92	8.63	9.02	8.68	8.02	6.57	6.39
24.	State Bank of Mysore	9.66	9.72	9.38	9.15	7.68	7.09	6.96
25.	State Bank of Patiala	9.40	9.38	8.66	8.26	7.02	6.77	5.94
26.	State Bank of Saurashtra	9.25	8.95	8.99	7.90	7.62	7.52	7.12
27.	State Bank of Travancore	9.32	9.08	8.82	8.32	7.25	6.96	7.21
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	3.26	6.08

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**8.74**	**8.87**	**6.18**	**8.26**	**6.99**	**6.14**	**6.07**
	Old Private Sector Banks	**9.66**	**9.53**	**9.36**	**8.50**	**7.56**	**6.95**	**6.92**
1.	Bank of Rajasthan Ltd.	10.04	10.20	9.41	7.71	5.95	5.71	5.47
2.	Bharat Overseas Bank Ltd.	8.63	8.54	7.94	7.21	7.05	6.80	6.76
3.	Catholic Syrian Bank Ltd.	10.53	10.48	9.68	8.98	8.29	8.30	7.65
4.	City Union Bank Ltd.	11.40	10.08	9.51	8.91	8.65	8.32	7.91
5.	Dhanalakshmi Bank Ltd.	10.24	10.45	9.59	8.98	7.82	7.27	7.37
6.	Federal Bank Ltd.	11.60	10.42	10.28	9.11	7.89	7.08	6.96
7.	Ganesh Bank of Kurundwad Ltd.	10.95	10.61	10.04	9.39	8.29	7.76	–
8.	ING Vysya Bank Ltd.	8.88	8.76	8.61	7.89	6.99	6.44	7.29
9.	Jammu and Kashmir Bank Ltd.	8.38	8.46	9.21	8.50	7.17	6.34	6.45
10.	Karnataka Bank Ltd.	10.07	9.79	9.57	8.76	8.02	6.71	6.81
11.	Karur Vysya Bank Ltd.	11.16	10.88	9.44	8.35	9.11	7.49	7.23
12.	Lakshmi Vilas Bank Ltd.	9.62	9.61	9.53	8.48	7.48	7.36	6.55
13.	Lord Krishna Bank Ltd.	9.37	8.75	8.36	8.37	6.39	7.79	7.09
14.	Nainital Bank Ltd.	9.54	9.72	9.55	8.78	8.20	7.00	6.97
15.	Ratnakar Bank Ltd.	9.91	10.18	9.39	8.79	7.99	7.54	7.18
16.	Sangli Bank Ltd.	8.36	9.11	8.00	7.65	6.77	6.48	6.09
17.	SBI Commercial and International Bank Ltd.	9.40	10.17	8.07	8.30	8.08	5.42	6.85
18.	South Indian Bank Ltd.	10.55	10.36	9.39	8.62	7.36	7.48	7.03
19.	Tamilnad Mercantile Bank Ltd.	10.14	10.24	10.12	9.99	10.56	9.13	8.98
20.	United Western Bank Ltd.	8.70	8.29	9.59	7.99	6.48	6.87	6.78
	New Private Sector Banks	**7.60**	**8.17**	**4.48**	**8.13**	**6.71**	**5.77**	**5.76**
21.	Bank of Punjab Ltd.	8.23	9.11	9.35	8.24	7.02	6.70	–
22.	Centurion Bank of Punjab Ltd.	8.50	9.29	11.57	10.97	9.41	7.50	7.09
23.	Development Credit Bank Ltd.	8.02	9.84	9.01	8.14	6.54	6.51	7.41
24.	HDFC Bank Ltd.	5.80	8.06	7.16	6.62	6.02	6.02	6.09
25.	ICICI Bank Ltd.	7.06	6.29	2.07	8.77	7.19	5.61	5.48
26.	IndusInd Bank Ltd.	7.97	8.42	6.96	7.50	6.54	7.26	6.74
27.	Kotak Mahindra Bank Ltd.	–	–	–	8.42	4.96	6.45	6.82
28.	UTI Bank Ltd.	7.25	8.26	8.20	7.47	6.62	5.10	5.81
29.	Yes Bank Ltd.	–	–	–	–	–	2.35	4.57

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**9.93**	**9.27**	**8.56**	**7.68**	**6.74**	**5.97**	**6.07**
1.	ABN-AMRO Bank N.V.	8.05	10.18	10.16	7.92	7.18	5.89	5.74
2.	Abu Dhabi Commercial Bank Ltd.	10.98	6.54	10.03	9.65	8.47	7.68	16.16
3.	American Express Bank Ltd.	11.11	8.39	8.60	10.05	8.99	8.93	7.09
4.	Antwerp Diamond Bank	–	–	–	4.61	4.06	3.95	5.71
5.	Arab Bangladesh Bank Ltd.	7.23	7.77	6.19	4.65	4.78	4.37	5.55
6.	Bank Internasional Indonesia	9.87	5.16	4.27	4.48	3.61	2.87	3.38
7.	Bank of America NA	11.76	10.31	9.13	6.99	5.48	4.68	5.45
8.	Bank of Bahrain and Kuwait B.S.C.	10.15	9.96	8.55	8.12	5.77	5.71	6.91
9.	Bank of Ceylon	8.60	8.45	8.32	6.86	5.14	4.68	5.48
10.	Bank of Nova Scotia	8.07	8.79	8.73	9.67	4.52	4.75	4.72
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	13.02	10.53	8.62	9.70	6.55	5.02	4.15
12.	Barclays Bank PLC	11.20	7.31	4.60	2.83	3.95	3.35	3.50
13.	BNP Paribas	9.60	9.68	7.54	9.11	5.93	5.99	5.98
14.	Chinatrust Commercial Bank	12.44	10.70	13.35	11.17	10.01	7.82	5.22
15.	Chohung Bank	8.80	9.86	7.11	10.38	5.44	4.53	4.25
16.	Citibank N.A.	10.53	9.00	8.89	7.84	7.70	6.52	6.74
17.	Calyon Bank	11.46	7.02	5.95	8.28	8.42	6.22	6.93
18.	Deutsche Bank AG	10.13	9.77	8.17	5.67	3.50	3.63	5.01
19.	DBS Bank Ltd.	8.34	8.92	7.92	10.58	4.86	2.45	4.86
20.	HSBC Ltd.	7.84	8.29	7.83	7.08	6.15	5.83	5.88
21.	ING Bank N.V.	16.88	4.84	4.65	9.82	1.77	2.41	0.00
22.	JPMorgan Chase Bank	5.17	8.43	6.32	4.78	5.43	3.06	4.37
23.	Krung Thai Bank Public Co. Ltd.	9.20	9.46	8.71	6.90	5.77	4.91	5.81
24.	Mashreqbank psc	9.90	8.36	11.18	12.19	10.02	8.57	23.06
25.	Mizuho Corporate Bank Ltd.	7.75	10.64	8.39	8.40	6.84	3.79	4.41
26.	Oman International Bank S.A.O.G.	8.39	6.36	4.42	4.11	4.00	4.05	3.95
27.	Societe Generale	9.94	7.38	7.57	5.62	4.03	4.16	5.12
28.	Sonali Bank	1.84	3.71	3.54	4.00	3.92	4.40	4.43
29.	Standard Chartered Bank	10.51	9.12	8.12	7.80	7.35	6.70	6.34
30.	State Bank of Mauritius Ltd.	8.08	9.03	9.27	6.10	6.78	7.94	8.84
31.	UFJ Bank Ltd.	9.05	8.38	9.62	6.11	5.25	5.02	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**6.25**	**6.03**	**5.70**	**5.51**	**4.44**	**3.78**	**3.84**
	Public Sector Banks	**6.22**	**5.99**	**5.99**	**5.43**	**4.47**	**3.88**	**3.98**
	Nationalised Banks	**6.40**	**6.19**	**6.03**	**5.39**	**4.38**	**3.89**	**3.84**
1.	Allahabad Bank	6.50	6.29	6.23	5.92	4.56	4.03	3.96
2.	Andhra Bank	6.49	6.74	6.95	5.84	4.87	3.71	3.70
3.	Bank of Baroda	5.98	6.03	5.75	5.23	4.20	3.65	3.42
4.	Bank of India	6.19	6.15	5.40	5.10	4.24	4.00	3.92
5.	Bank of Maharashtra	6.57	6.03	6.57	5.64	4.44	4.52	4.81
6.	Canara Bank	6.27	5.62	6.31	5.39	4.35	4.01	3.86
7.	Central Bank of India	6.09	5.96	5.93	5.56	4.64	4.13	4.02
8.	Corporation Bank	6.84	6.21	5.59	4.99	4.24	3.30	3.46
9.	Dena Bank	6.94	7.08	6.72	5.97	5.16	4.32	3.91
10.	Indian Bank	6.45	6.05	5.83	4.84	3.96	3.57	3.89
11.	Indian Overseas Bank	6.61	6.31	6.21	5.50	4.55	4.12	3.94
12.	Oriental Bank of Commerce	7.11	7.27	6.42	6.15	4.50	3.79	4.27
13.	Punjab and Sind Bank	7.15	6.72	6.90	6.20	5.23	4.30	3.51
14.	Punjab National Bank	6.54	6.02	5.97	5.06	4.06	3.53	3.39
15.	Syndicate Bank	5.94	6.01	5.59	4.84	3.51	3.96	3.55
16.	UCO Bank	6.05	5.90	5.77	5.47	4.34	3.92	4.51
17.	Union Bank of India	6.73	6.45	6.04	5.50	4.77	4.01	3.92
18.	United Bank of India	6.59	6.60	6.29	5.77	5.00	4.18	4.03
19.	Vijaya Bank	6.33	6.28	6.52	5.39	4.58	3.78	4.25
	State Bank Group	**5.91**	**5.68**	**5.91**	**5.50**	**4.62**	**3.96**	**4.02**
20.	State Bank of India	5.84	5.63	5.95	5.62	4.73	4.02	4.08
21.	State Bank of Bikaner and Jaipur	5.95	5.84	5.59	4.93	4.26	3.72	3.54
22.	State Bank of Hyderabad	6.21	5.88	5.74	5.05	4.48	3.90	4.07
23.	State Bank of Indore	5.93	5.79	6.05	5.45	4.54	3.60	3.77
24.	State Bank of Mysore	6.26	6.39	6.33	5.74	4.38	3.76	3.80
25.	State Bank of Patiala	5.62	5.16	4.88	4.58	3.96	3.67	3.54
26.	State Bank of Saurashtra	6.05	6.02	6.01	5.11	4.47	4.15	4.22
27.	State Bank of Travancore	7.06	6.35	6.24	5.58	4.40	3.85	4.22
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	3.03	5.65

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**6.58**	**6.54**	**4.60**	**6.29**	**4.77**	**3.80**	**3.76**
	Old Private Sector Banks	**7.33**	**7.02**	**6.97**	**6.03**	**4.96**	**4.25**	**4.16**
1.	Bank of Rajasthan Ltd.	7.69	7.13	6.73	4.76	3.70	3.37	3.22
2.	Bharat Overseas Bank Ltd.	6.48	5.74	5.59	4.73	4.02	3.54	3.90
3.	Catholic Syrian Bank Ltd.	8.18	7.75	7.36	6.67	5.45	5.01	4.57
4.	City Union Bank Ltd.	8.38	7.17	7.06	6.37	5.64	5.14	4.52
5.	Dhanalakshmi Bank Ltd.	7.74	8.10	7.34	6.46	4.98	4.50	4.45
6.	Federal Bank Ltd.	9.23	7.73	7.55	6.33	5.10	4.09	4.05
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	4.12	4.42
9.	Jammu and Kashmir Bank Ltd.	5.66	5.66	6.23	5.36	4.25	3.90	3.94
10.	Karnataka Bank Ltd.	8.08	7.52	7.76	7.09	6.00	4.18	4.36
11.	Karur Vysya Bank Ltd.	7.50	7.21	6.22	5.61	4.93	4.24	4.08
12.	Lakshmi Vilas Bank Ltd.	7.03	7.07	7.36	6.34	5.30	4.73	4.40
13.	Lord Krishna Bank Ltd.	7.97	7.31	7.59	6.95	5.09	5.52	4.99
14.	Nainital Bank Ltd.	5.71	5.91	5.68	5.08	4.33	3.47	3.05
15.	Ratnakar Bank Ltd.	7.09	7.11	6.50	6.10	5.26	4.45	4.11
16.	Sangli Bank Ltd.	5.79	5.96	5.58	5.46	4.14	4.09	3.77
17.	SBI Commercial and International Bank Ltd.	7.42	8.95	7.30	6.16	5.33	3.47	3.59
18.	South Indian Bank Ltd.	7.88	7.49	7.02	6.28	5.19	4.77	4.17
19.	Tamilnad Mercantile Bank Ltd.	7.26	6.95	6.77	6.40	6.33	5.01	4.95
20.	United Western Bank Ltd.	6.32	6.33	7.62	6.00	4.77	4.80	4.48
	New Private Sector Banks	**5.64**	**6.03**	**3.33**	**6.43**	**4.68**	**3.60**	**3.62**
21.	Bank of Punjab Ltd.	5.92	6.09	7.03	5.94	4.38	3.95	–
22.	Centurion Bank of Punjab Ltd.	6.96	7.56	9.09	7.95	5.74	3.65	3.57
23.	Development Credit Bank Ltd.	6.21	7.64	6.87	6.52	4.76	5.01	5.40
24.	HDFC Bank Ltd.	3.19	4.83	4.51	3.92	2.86	2.56	2.62
25.	ICICI Bank Ltd.	5.52	4.24	1.50	7.44	5.60	3.92	3.82
26.	IndusInd Bank Ltd.	6.27	6.58	5.36	5.64	4.44	4.60	4.95
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.03	2.02	2.99	3.33
28.	UTI Bank Ltd.	5.89	7.35	6.81	5.82	4.23	3.16	3.64
29.	Yes Bank Ltd.	–	–	–	–	–	0.93	2.52

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**6.01**	**5.64**	**5.34**	**4.33**	**3.15**	**2.63**	**2.55**
1.	ABN-AMRO Bank N.V.	4.83	6.24	5.49	4.01	2.94	2.17	2.80
2.	Abu Dhabi Commercial Bank Ltd.	8.88	5.56	9.11	8.78	7.51	7.07	14.66
3.	American Express Bank Ltd.	7.20	5.77	5.78	6.62	5.25	5.00	4.23
4.	Antwerp Diamond Bank	–	–	–	1.24	1.06	1.48	3.32
5.	Arab Bangladesh Bank Ltd.	1.41	1.16	0.69	0.77	0.77	0.50	0.56
6.	Bank Internasional Indonesia	7.10	2.35	1.70	1.06	0.72	0.55	0.78
7.	Bank of America NA	7.11	7.03	6.20	4.47	3.18	2.32	2.45
8.	Bank of Bahrain and Kuwait B.S.C.	8.60	8.32	7.37	6.40	4.71	3.63	4.76
9.	Bank of Ceylon	3.61	4.58	3.90	3.80	3.11	2.93	2.31
10.	Bank of Nova Scotia	5.48	6.57	6.32	6.83	3.11	3.21	3.50
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	6.68	4.30	3.92	4.45	1.73	1.39	1.56
12.	Barclays Bank PLC	8.83	5.77	3.67	2.00	0.95	0.92	1.50
13.	BNP Paribas	6.90	7.07	5.66	6.26	3.32	3.08	3.03
14.	Chinatrust Commercial Bank	8.50	6.48	7.14	4.20	3.16	2.85	1.71
15.	Chohung Bank	0.92	1.65	0.97	3.24	1.14	1.03	1.81
16.	Citibank N.A.	5.97	5.02	5.13	4.08	3.12	2.22	2.21
17.	Calyon Bank	8.99	5.56	4.96	5.98	5.55	5.20	5.58
18.	Deutsche Bank AG	5.12	4.63	4.41	3.03	2.66	2.84	3.06
19.	DBS Bank Ltd.	5.02	6.06	4.83	5.11	2.23	0.60	1.90
20.	HSBC Ltd.	5.09	5.33	5.21	4.20	2.85	2.31	2.21
21.	ING Bank N.V.	10.66	3.34	3.71	7.81	1.31	0.00	0.00
22.	JPMorgan Chase Bank	4.40	5.48	3.01	1.25	1.32	1.24	1.79
23.	Krung Thai Bank Public Co. Ltd.	1.41	1.18	0.68	0.34	0.49	0.75	0.86
24.	Mashreqbank psc	7.67	7.26	8.96	8.76	7.61	7.32	20.88
25.	Mizuho Corporate Bank Ltd.	6.00	7.65	6.18	5.74	2.32	1.28	2.09
26.	Oman International Bank S.A.O.G.	8.85	6.87	6.38	5.83	4.36	3.36	3.22
27.	Societe Generale	8.85	6.09	6.38	3.66	2.15	2.42	2.86
28.	Sonali Bank	0.90	1.42	2.00	2.90	2.48	2.48	2.64
29.	Standard Chartered Bank	6.27	5.38	4.61	3.93	3.12	2.98	2.47
30.	State Bank of Mauritius Ltd.	4.96	5.95	6.57	3.61	3.80	4.98	5.50
31.	UFJ Bank Ltd.	4.81	4.49	5.36	2.73	0.71	0.61	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.73**	**2.85**	**2.57**	**2.77**	**2.88**	**2.83**	**2.78**
	Public Sector Banks	**2.70**	**2.86**	**2.73**	**2.91**	**2.98**	**2.91**	**2.85**
	Nationalised Banks	**2.66**	**2.90**	**2.74**	**3.00**	**3.06**	**3.02**	**2.89**
1.	Allahabad Bank	2.86	3.10	2.95	3.24	3.13	3.02	2.85
2.	Andhra Bank	2.68	2.45	2.75	3.05	3.37	3.27	2.87
3.	Bank of Baroda	2.85	3.06	2.65	2.75	3.02	3.15	2.84
4.	Bank of India	2.33	2.78	2.62	2.67	2.59	2.36	2.34
5.	Bank of Maharashtra	3.07	2.93	2.73	2.72	2.38	2.68	2.71
6.	Canara Bank	2.64	2.83	2.52	2.76	2.76	2.86	2.70
7.	Central Bank of India	2.96	3.07	2.92	3.32	3.35	3.46	3.19
8.	Corporation Bank	2.73	2.95	2.65	3.02	3.31	3.33	3.03
9.	Dena Bank	2.46	2.51	2.35	2.82	2.67	2.86	2.72
10.	Indian Bank	1.61	1.86	1.75	2.32	2.85	2.97	3.17
11.	Indian Overseas Bank	2.46	2.91	2.74	2.97	3.38	3.65	3.48
12.	Oriental Bank of Commerce	2.90	2.92	3.02	3.57	3.55	2.82	2.72
13.	Punjab and Sind Bank	2.35	2.51	2.30	2.67	3.29	3.64	3.31
14.	Punjab National Bank	2.99	3.21	3.15	3.62	3.54	3.17	3.21
15.	Syndicate Bank	3.04	3.87	3.49	3.51	3.03	3.25	3.08
16.	UCO Bank	2.35	2.42	2.33	2.53	2.73	2.58	2.53
17.	Union Bank of India	2.73	3.13	3.01	2.93	2.98	2.85	2.66
18.	United Bank of India	2.10	2.39	2.64	2.97	3.02	3.15	3.07
19.	Vijaya Bank	3.03	3.23	3.01	3.37	3.48	3.36	3.08
	State Bank Group	**2.76**	**2.79**	**2.71**	**2.76**	**2.83**	**3.06**	**3.08**
20.	State Bank of India	2.65	2.66	2.61	2.65	2.74	3.03	3.17
21.	State Bank of Bikaner and Jaipur	3.00	3.28	3.16	3.07	3.56	3.71	3.61
22.	State Bank of Hyderabad	3.35	3.32	2.94	2.86	2.75	2.76	2.69
23.	State Bank of Indore	2.99	2.84	2.97	3.23	3.48	2.97	2.61
24.	State Bank of Mysore	3.39	3.33	3.04	3.41	3.30	3.33	3.16
25.	State Bank of Patiala	3.78	4.22	3.78	3.69	3.06	3.10	2.41
26.	State Bank of Saurashtra	3.20	2.93	2.99	2.79	3.15	3.37	2.90
27.	State Bank of Travancore	2.27	2.73	2.57	2.75	2.85	3.10	3.00
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	**0.23**	**0.43**

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**2.16**	**2.33**	**1.58**	**1.97**	**2.21**	**2.34**	**2.30**
	Old Private Sector Banks	**2.33**	**2.51**	**2.39**	**2.47**	**2.60**	**2.70**	**2.75**
1.	Bank of Rajasthan Ltd.	2.35	3.07	2.69	2.95	2.25	2.33	2.26
2.	Bharat Overseas Bank Ltd.	2.15	2.80	2.34	2.48	3.03	3.27	2.86
3.	Catholic Syrian Bank Ltd.	2.34	2.72	2.32	2.32	2.84	3.30	3.08
4.	City Union Bank Ltd.	3.03	2.91	2.45	2.53	3.02	3.17	3.39
5.	Dhanalakshmi Bank Ltd.	2.49	2.34	2.25	2.53	2.84	2.76	2.91
6.	Federal Bank Ltd.	2.37	2.69	2.72	2.78	2.79	2.99	2.91
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	2.87
9.	Jammu and Kashmir Bank Ltd.	2.71	2.81	2.98	3.13	2.92	2.44	2.51
10.	Karnataka Bank Ltd.	1.99	2.28	1.81	1.67	2.02	2.53	2.45
11.	Karur Vysya Bank Ltd.	3.66	3.67	3.22	2.74	4.18	3.26	3.14
12.	Lakshmi Vilas Bank Ltd.	2.59	2.55	2.17	2.13	2.18	2.63	2.14
13.	Lord Krishna Bank Ltd.	1.41	1.44	0.77	1.42	1.30	2.26	2.10
14.	Nainital Bank Ltd.	3.83	3.81	3.87	3.70	3.87	3.53	3.92
15.	Ratnakar Bank Ltd.	2.82	3.07	2.89	2.70	2.73	3.08	3.07
16.	Sangli Bank Ltd.	2.57	3.14	2.42	2.19	2.63	2.40	2.33
17.	SBI Commercial and International Bank Ltd.	1.98	1.22	0.78	2.15	2.76	1.95	3.26
18.	South Indian Bank Ltd.	2.66	2.87	2.37	2.33	2.17	2.71	2.86
19.	Tamilnad Mercantile Bank Ltd.	2.88	3.29	3.35	3.58	4.24	4.12	4.03
20.	United Western Bank Ltd.	2.38	1.96	1.97	1.99	1.71	2.07	2.30
	New Private Sector Banks	**1.95**	**2.14**	**1.15**	**1.70**	**2.03**	**2.17**	**2.14**
21.	Bank of Punjab Ltd.	2.31	3.03	2.32	2.30	2.65	2.75	–
22.	Centurion Bank of Punjab Ltd.	1.54	1.73	2.48	3.01	3.66	3.86	3.52
23.	Development Credit Bank Ltd.	1.81	2.20	2.14	1.62	1.77	1.50	2.01
24.	HDFC Bank Ltd.	2.60	3.24	2.65	2.70	3.16	3.46	3.46
25.	ICICI Bank Ltd.	1.54	2.05	0.57	1.33	1.59	1.69	1.67
26.	IndusInd Bank Ltd.	1.70	1.84	1.60	1.86	2.10	2.66	1.79
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.38	2.94	3.46	3.49
28.	UTI Bank Ltd.	1.36	0.91	1.38	1.64	2.39	1.94	2.17
29.	Yes Bank Ltd.	–	–	–	–	–	1.42	2.05

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.92**	**3.63**	**3.22**	**3.35**	**3.59**	**3.34**	**3.52**
1.	ABN-AMRO Bank N.V.	3.22	3.94	4.67	3.90	4.23	3.73	2.94
2.	Abu Dhabi Commercial Bank Ltd.	2.09	0.98	0.92	0.87	0.96	0.61	1.49
3.	American Express Bank Ltd.	3.91	2.61	2.82	3.43	3.74	3.92	2.87
4.	Antwerp Diamond Bank	–	–	–	3.36	2.99	2.47	2.40
5.	Arab Bangladesh Bank Ltd.	5.82	6.61	5.50	3.89	4.01	3.87	4.99
6.	Bank Internasional Indonesia	2.77	2.81	2.57	3.42	2.88	2.32	2.60
7.	Bank of America NA	4.65	3.28	2.93	2.52	2.30	2.36	2.99
8.	Bank of Bahrain and Kuwait B.S.C.	1.55	1.64	1.18	1.72	1.06	2.09	2.15
9.	Bank of Ceylon	4.98	3.87	4.43	3.06	2.03	1.75	3.17
10.	Bank of Nova Scotia	2.60	2.21	2.41	2.84	1.41	1.54	1.21
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	6.34	6.23	4.70	5.25	4.82	3.63	2.58
12.	Barclays Bank PLC	2.37	1.55	0.94	0.83	3.00	2.43	2.00
13.	BNP Paribas	2.70	2.61	1.88	2.85	2.61	2.91	2.95
14.	Chinatrust Commercial Bank	3.93	4.22	6.21	6.97	6.85	4.97	3.51
15.	Chohung Bank	7.87	8.21	6.14	7.15	4.30	3.50	2.44
16.	Citibank N.A.	4.55	3.98	3.76	3.76	4.58	4.29	4.53
17.	Calyon Bank	2.48	1.46	0.99	2.30	2.87	1.02	1.35
18.	Deutsche Bank AG	5.00	5.14	3.76	2.65	0.84	0.80	1.95
19.	DBS Bank Ltd.	3.33	2.85	3.10	5.47	2.64	1.85	2.96
20.	HSBC Ltd.	2.75	2.96	2.63	2.88	3.29	3.52	3.67
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	2.58
23.	Krung Thai Bank Public Co. Ltd.	7.79	8.28	8.03	6.56	5.28	4.16	4.95
24.	Mashreqbank psc	2.23	1.11	2.22	3.43	2.41	1.26	2.18
25.	Mizuho Corporate Bank Ltd.	1.76	2.98	2.21	2.66	4.52	2.51	2.32
26.	Oman International Bank S.A.O.G.	-0.47	-0.51	-1.96	-1.72	-0.36	0.69	0.73
27.	Societe Generale	1.09	1.29	1.19	1.96	1.88	1.74	2.27
28.	Sonali Bank	0.94	2.29	1.55	1.10	1.44	1.93	1.79
29.	Standard Chartered Bank	4.24	3.74	3.51	3.87	4.23	3.72	3.87
30.	State Bank of Mauritius Ltd.	3.12	3.08	2.70	2.50	2.98	2.97	3.34
31.	UFJ Bank Ltd.	4.24	3.89	4.27	3.37	4.55	4.41	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.00**	**1.03**	**1.19**	**1.39**	**1.54**	**1.28**	**1.15**
	Public Sector Banks	**0.89**	**0.92**	**1.16**	**1.36**	**1.55**	**1.31**	**1.12**
	Nationalised Banks	**0.86**	**0.95**	**1.15**	**1.35**	**1.52**	**1.28**	**1.05**
1.	Allahabad Bank	0.93	1.03	1.32	1.25	1.19	0.87	0.58
2.	Andhra Bank	1.07	0.63	1.07	1.43	1.73	1.44	0.70
3.	Bank of Baroda	0.94	1.20	1.08	1.23	1.78	1.73	1.06
4.	Bank of India	0.92	0.87	1.29	1.55	1.45	1.18	0.89
5.	Bank of Maharashtra	0.93	1.02	1.26	1.20	1.15	1.12	1.01
6.	Canara Bank	1.26	1.27	1.27	1.19	1.53	1.34	0.96
7.	Central Bank of India	0.65	0.90	1.03	1.08	1.44	1.82	1.26
8.	Corporation Bank	1.15	1.37	1.33	1.66	1.38	1.84	1.50
9.	Dena Bank	0.99	1.92	1.72	1.88	2.17	1.34	2.06
10.	Indian Bank	1.92	1.26	0.91	1.13	1.01	1.25	0.82
11.	Indian Overseas Bank	0.54	0.63	1.09	0.92	1.72	1.66	1.26
12.	Oriental Bank of Commerce	0.93	1.22	1.85	2.08	2.07	0.94	1.08
13.	Punjab and Sind Bank	0.31	0.67	1.02	1.91	0.94	2.09	1.00
14.	Punjab National Bank	0.76	0.76	1.25	1.71	1.97	0.79	0.99
15.	Syndicate Bank	0.24	0.22	0.33	0.80	1.24	1.18	0.82
16.	UCO Bank	0.60	0.66	0.99	1.19	0.83	0.90	1.06
17.	Union Bank of India	0.83	0.91	1.25	1.47	1.32	1.18	1.03
18.	United Bank of India	0.27	0.55	0.52	1.03	1.15	1.34	1.32
19.	Vijaya Bank	0.57	0.76	0.75	1.24	1.89	1.43	1.88
	State Bank Group	**0.94**	**0.87**	**1.17**	**1.36**	**1.59**	**1.53**	**1.35**
20.	State Bank of India	0.82	0.75	1.04	1.24	1.44	1.45	1.40
21.	State Bank of Bikaner and Jaipur	0.94	1.17	1.46	1.32	1.89	2.24	1.63
22.	State Bank of Hyderabad	1.83	1.62	1.69	1.75	2.07	1.32	1.09
23.	State Bank of Indore	1.34	1.32	2.21	1.94	2.35	1.30	1.36
24.	State Bank of Mysore	1.38	1.19	1.63	2.09	1.81	1.48	1.14
25.	State Bank of Patiala	1.78	1.66	1.91	1.96	2.13	1.80	1.04
26.	State Bank of Saurashtra	0.98	1.20	1.49	1.71	2.15	2.30	1.49
27.	State Bank of Travancore	0.93	0.92	1.21	1.49	1.90	1.92	1.30
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	0.07	0.27

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.07**	**1.04**	**1.07**	**1.44**	**1.32**	**0.97**	**1.01**
	Old Private Sector Banks	**1.01**	**1.15**	**1.62**	**1.50**	**1.45**	**1.35**	**1.00**
1.	Bank of Rajasthan Ltd.	0.16	0.59	0.86	1.31	1.38	0.52	0.14
2.	Bharat Overseas Bank Ltd.	1.20	1.02	1.45	0.85	0.77	1.07	1.07
3.	Catholic Syrian Bank Ltd.	0.70	1.25	1.53	1.72	1.55	1.53	0.65
4.	City Union Bank Ltd.	1.88	1.54	1.64	1.79	1.90	1.01	1.28
5.	Dhanalakshmi Bank Ltd.	1.18	1.06	2.15	2.30	2.02	1.51	0.66
6.	Federal Bank Ltd.	1.17	1.43	2.20	2.02	1.99	1.84	1.10
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	0.89	0.86
9.	Jammu and Kashmir Bank Ltd.	1.06	0.83	1.37	1.29	1.05	1.04	1.04
10.	Karnataka Bank Ltd.	0.70	1.36	2.06	1.55	1.86	1.55	1.02
11.	Karur Vysya Bank Ltd.	1.01	0.91	1.04	1.17	0.75	1.19	1.04
12.	Lakshmi Vilas Bank Ltd.	1.26	1.28	1.65	1.44	1.20	1.27	0.35
13.	Lord Krishna Bank Ltd.	0.79	0.72	1.79	1.52	0.84	0.93	0.33
14.	Nainital Bank Ltd.	0.83	1.04	0.91	0.52	0.98	0.93	1.19
15.	Ratnakar Bank Ltd.	0.76	1.07	2.69	1.43	0.67	2.18	1.27
16.	Sangli Bank Ltd.	0.81	0.70	0.93	0.46	0.80	1.77	1.26
17.	SBI Commercial and International Bank Ltd.	1.48	7.99	1.40	4.23	1.64	4.39	2.70
18.	South Indian Bank Ltd.	1.23	1.26	1.69	1.89	1.70	1.73	0.97
19.	Tamilnad Mercantile Bank Ltd.	1.04	1.41	1.52	1.52	1.75	1.64	1.60
20.	United Western Bank Ltd.	1.80	1.16	2.49	1.85	1.43	2.41	2.05
	New Private Sector Banks	**1.14**	**0.93**	**0.78**	**1.41**	**1.26**	**0.80**	**1.01**
21.	Bank of Punjab Ltd.	0.65	0.80	1.54	1.79	1.36	1.65	–
22.	Centurion Bank of Punjab Ltd.	0.59	0.86	2.60	1.39	3.30	0.13	1.08
23.	Development Credit Bank Ltd.	1.02	0.86	1.66	0.57	0.68	3.41	1.75
24.	HDFC Bank Ltd.	1.19	1.10	1.04	1.06	1.18	1.32	1.51
25.	ICICI Bank Ltd.	1.01	0.65	0.28	1.28	0.67	0.57	0.86
26.	IndusInd Bank Ltd.	1.69	1.53	1.98	2.36	1.21	1.22	1.07
27.	Kotak Mahindra Bank Ltd.	–	–	–	2.07	0.82	0.75	0.91
28.	UTI Bank Ltd.	0.98	0.43	1.90	1.11	1.74	0.61	1.02
29.	Yes Bank Ltd.	–	–	–	–	–	0.01	1.05

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**2.08**	**2.12**	**1.78**	**1.63**	**2.02**	**1.69**	**1.78**
1.	ABN-AMRO Bank N.V.	1.47	3.11	1.96	1.57	1.54	1.60	1.45
2.	Abu Dhabi Commercial Bank Ltd.	1.98	0.91	0.43	0.52	0.21	2.83	0.24
3.	American Express Bank Ltd.	1.73	2.42	3.53	4.26	3.64	2.01	1.49
4.	Antwerp Diamond Bank	–	–	–	0.73	1.11	0.98	0.84
5.	Arab Bangladesh Bank Ltd.	3.28	3.58	3.58	2.53	2.85	2.62	3.35
6.	Bank Internasional Indonesia	-1.65	-3.93	-0.01	-5.03	0.26	0.44	1.94
7.	Bank of America NA	2.32	2.12	1.84	0.97	1.08	1.40	2.36
8.	Bank of Bahrain and Kuwait B.S.C.	0.84	0.68	1.48	1.17	1.11	4.08	2.09
9.	Bank of Ceylon	3.73	3.95	5.48	2.30	2.62	2.44	3.92
10.	Bank of Nova Scotia	1.65	1.13	1.71	2.41	1.38	2.41	1.01
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	-7.78	1.64	-1.03	-0.08	1.09	4.76	2.18
12.	Barclays Bank PLC	1.55	-1.43	2.73	5.55	5.79	5.92	5.20
13.	BNP Paribas	1.32	1.02	0.35	0.59	1.61	1.42	1.60
14.	Chinatrust Commercial Bank	0.86	1.40	3.21	2.11	3.43	10.01	3.55
15.	Chohung Bank	6.73	5.23	3.02	4.97	2.45	1.62	1.02
16.	Citibank N.A.	1.98	2.09	2.45	1.89	2.24	1.69	1.92
17.	Calyon Bank	9.69	1.64	-0.49	0.87	-0.78	0.23	0.18
18.	Deutsche Bank AG	4.09	4.02	2.15	3.01	2.71	1.32	1.65
19.	DBS Bank Ltd.	1.58	1.35	1.47	2.44	3.27	0.15	0.95
20.	HSBC Ltd.	1.45	1.58	1.63	1.53	1.49	2.18	2.03
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	2.07
23.	Krung Thai Bank Public Co. Ltd.	3.31	2.73	4.35	3.47	0.28	1.29	3.33
24.	Mashreqbank psc	4.02	3.52	1.67	0.76	0.08	0.16	1.20
25.	Mizuho Corporate Bank Ltd.	2.59	4.92	2.55	0.92	0.55	-0.04	1.21
26.	Oman International Bank S.A.O.G.	8.78	3.76	2.41	0.48	0.23	3.04	0.54
27.	Societe Generale	0.71	0.57	2.24	2.16	0.57	-0.44	0.94
28.	Sonali Bank	1.97	2.82	2.25	0.91	2.99	3.28	1.62
29.	Standard Chartered Bank	1.64	1.64	1.82	0.89	2.27	1.26	1.70
30.	State Bank of Mauritius Ltd.	2.31	2.75	3.72	3.07	3.89	1.21	1.98
31.	UFJ Bank Ltd.	2.88	1.70	3.29	2.20	1.99	2.05	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

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	2005-06
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.50**	**2.64**	**2.19**	**2.24**	**2.21**	**2.13**	**2.11**
	Public Sector Banks	**2.53**	**2.72**	**2.29**	**2.25**	**2.21**	**2.09**	**2.06**
	Nationalised Banks	**2.57**	**2.76**	**2.40**	**2.33**	**2.21**	**2.18**	**2.02**
1.	Allahabad Bank	2.89	2.98	2.86	3.27	2.76	2.37	2.10
2.	Andhra Bank	2.27	2.24	2.17	2.44	2.44	2.53	2.11
3.	Bank of Baroda	2.22	2.54	2.20	2.16	2.12	2.09	2.10
4.	Bank of India	2.51	2.93	2.19	2.16	2.06	2.03	1.88
5.	Bank of Maharashtra	2.76	2.84	2.23	2.07	1.74	2.19	2.11
6.	Canara Bank	2.48	2.51	2.21	2.13	1.91	1.91	1.77
7.	Central Bank of India	3.00	3.06	2.72	2.67	2.46	2.46	2.30
8.	Corporation Bank	1.81	1.73	1.63	1.79	1.97	1.97	1.84
9.	Dena Bank	2.44	3.19	2.44	2.54	2.25	2.56	2.11
10.	Indian Bank	2.68	2.79	2.40	2.13	2.71	2.08	2.41
11.	Indian Overseas Bank	2.74	2.89	2.50	2.30	2.14	2.28	2.13
12.	Oriental Bank of Commerce	1.74	1.94	1.64	1.71	1.57	1.47	1.64
13.	Punjab and Sind Bank	2.82	2.98	2.77	2.85	3.99	3.63	2.54
14.	Punjab National Bank	2.82	2.95	2.47	2.39	2.32	2.60	2.08
15.	Syndicate Bank	3.13	3.81	3.24	3.15	2.51	2.43	2.35
16.	UCO Bank	2.65	2.73	2.67	2.48	2.33	1.99	1.90
17.	Union Bank of India	2.47	2.62	2.18	1.99	1.86	1.74	1.57
18.	United Bank of India	2.39	2.52	3.33	2.44	2.60	2.42	2.51
19.	Vijaya Bank	2.97	3.07	2.61	2.92	2.07	1.84	1.98
	State Bank Group	**2.46**	**2.66**	**2.11**	**2.11**	**2.21**	**2.14**	**2.28**
20.	State Bank of India	2.41	2.63	2.07	2.11	2.27	2.19	2.37
21.	State Bank of Bikaner and Jaipur	2.85	3.07	2.58	2.50	2.62	2.66	2.76
22.	State Bank of Hyderabad	2.42	2.45	1.88	1.73	1.74	1.92	2.01
23.	State Bank of Indore	3.07	2.72	2.28	2.18	2.16	1.94	1.92
24.	State Bank of Mysore	3.41	3.68	3.03	2.89	2.69	2.89	2.69
25.	State Bank of Patiala	2.34	2.62	2.05	1.86	1.67	1.52	1.48
26.	State Bank of Saurashtra	2.56	2.88	2.48	2.15	2.00	1.69	1.87
27.	State Bank of Travancore	2.37	2.48	2.02	1.93	1.88	1.74	1.98
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	–	0.56	0.97

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	2005-06
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.83**	**1.87**	**1.44**	**1.99**	**2.02**	**2.03**	**2.03**
	Old Private Sector Banks	**2.17**	**1.99**	**2.07**	**2.05**	**1.97**	**1.96**	**2.09**
1.	Bank of Rajasthan Ltd.	3.23	3.04	3.02	2.59	2.15	2.13	2.59
2.	Bharat Overseas Bank Ltd.	2.12	2.21	2.16	1.93	2.13	2.18	2.33
3.	Catholic Syrian Bank Ltd.	2.96	2.71	2.56	2.66	2.73	2.57	3.15
4.	City Union Bank Ltd.	1.99	1.80	1.68	1.52	1.41	1.79	1.82
5.	Dhanalakshmi Bank Ltd.	2.15	2.42	2.68	2.84	2.48	2.62	2.87
6.	Federal Bank Ltd.	2.33	1.98	1.89	1.82	1.87	1.87	1.77
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	2.47	3.09
9.	Jammu and Kashmir Bank Ltd.	1.51	1.30	1.59	1.55	1.38	1.32	1.31
10.	Karnataka Bank Ltd.	1.84	1.58	1.68	1.52	1.46	1.58	1.37
11.	Karur Vysya Bank Ltd.	2.29	2.33	2.10	1.69	2.21	2.16	2.19
12.	Lakshmi Vilas Bank Ltd.	2.78	2.50	2.47	2.26	2.19	2.23	2.27
13.	Lord Krishna Bank Ltd.	1.82	1.85	2.21	2.28	2.06	2.35	2.66
14.	Nainital Bank Ltd.	2.67	2.65	2.55	2.81	2.99	2.42	2.77
15.	Ratnakar Bank Ltd.	3.23	2.84	3.12	2.58	2.48	2.56	2.39
16.	Sangli Bank Ltd.	2.80	2.92	2.87	2.82	2.75	2.53	2.75
17.	SBI Commercial and International Bank Ltd.	1.14	1.45	1.20	1.50	1.63	1.61	1.45
18.	South Indian Bank Ltd.	2.53	2.21	1.84	1.86	2.09	1.97	2.09
19.	Tamilnad Mercantile Bank Ltd.	2.14	1.90	1.99	1.97	2.31	2.22	2.13
20.	United Western Bank Ltd.	1.94	1.83	1.96	2.10	1.71	1.98	2.52
	New Private Sector Banks	**1.42**	**1.75**	**1.10**	**1.96**	**2.04**	**2.06**	**2.00**
21.	Bank of Punjab Ltd.	2.07	2.45	2.88	2.92	3.26	3.76	–
22.	Centurion Bank of Punjab Ltd.	2.00	2.42	3.84	4.68	5.10	4.75	4.41
23.	Development Credit Bank Ltd.	1.82	1.82	1.95	2.23	2.41	3.54	4.68
24.	HDFC Bank Ltd.	1.46	1.98	1.76	1.90	1.91	2.11	2.30
25.	ICICI Bank Ltd.	1.27	1.70	0.60	1.88	2.05	1.97	1.78
26.	IndusInd Bank Ltd.	1.13	1.19	0.93	1.19	1.44	1.70	1.80
27.	Kotak Mahindra Bank Ltd.	–	–	–	3.57	2.39	3.45	3.81
28.	UTI Bank Ltd.	0.98	1.20	1.44	1.65	1.74	1.54	1.64
29.	Yes Bank Ltd.	–	–	–	–	–	3.12	2.07

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	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.22**	**3.05**	**3.00**	**2.79**	**2.77**	**2.88**	**2.79**
1.	ABN-AMRO Bank N.V.	1.83	2.58	3.62	3.47	4.43	3.68	3.18
2.	Abu Dhabi Commercial Bank Ltd.	1.10	0.44	0.49	0.79	0.56	2.43	2.03
3.	American Express Bank Ltd.	6.38	6.58	5.49	6.33	7.27	9.66	8.24
4.	Antwerp Diamond Bank	–	–	–	2.60	1.39	1.14	1.12
5.	Arab Bangladesh Bank Ltd.	2.08	2.40	1.89	2.23	2.30	3.02	3.39
6.	Bank Internasional Indonesia	15.03	11.49	3.85	7.27	2.97	2.27	2.27
7.	Bank of America NA	3.26	1.60	1.76	1.42	1.55	1.66	1.88
8.	Bank of Bahrain and Kuwait B.S.C.	1.75	1.75	1.39	1.71	1.92	2.20	2.84
9.	Bank of Ceylon	1.54	1.58	1.29	1.55	1.54	1.33	1.43
10.	Bank of Nova Scotia	1.43	0.96	1.07	1.36	1.03	1.03	0.91
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	14.70	4.45	4.88	4.70	3.46	2.98	2.29
12.	Barclays Bank PLC	3.67	2.81	1.87	1.94	3.24	3.36	2.76
13.	BNP Paribas	2.32	2.82	3.59	4.01	2.92	3.28	2.79
14.	Chinatrust Commercial Bank	3.30	2.79	3.34	3.72	3.33	3.87	2.24
15.	Chohung Bank	2.43	2.30	1.75	2.43	2.00	1.58	1.25
16.	Citibank N.A.	3.88	3.15	3.52	3.32	3.41	3.62	3.36
17.	Calyon Bank	3.78	2.27	1.62	1.96	2.20	2.82	2.82
18.	Deutsche Bank AG	3.89	3.90	3.43	2.89	2.00	2.56	3.91
19.	DBS Bank Ltd.	1.70	1.58	1.53	2.36	1.15	1.31	1.23
20.	HSBC Ltd.	2.35	2.61	2.63	2.94	2.47	2.50	2.74
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	1.48
23.	Krung Thai Bank Public Co. Ltd.	4.65	4.41	4.33	4.25	3.90	3.19	4.20
24.	Mashreqbank psc	3.39	2.05	1.88	2.05	1.28	1.09	4.24
25.	Mizuho Corporate Bank Ltd.	2.63	2.58	2.14	2.65	2.61	1.79	1.67
26.	Oman International Bank S.A.O.G.	1.25	1.25	1.18	1.36	1.07	1.18	1.30
27.	Societe Generale	2.83	2.81	2.83	2.99	2.01	1.86	1.69
28.	Sonali Bank	3.28	5.13	6.66	6.06	7.17	9.24	11.00
29.	Standard Chartered Bank	3.29	3.04	2.22	1.98	2.26	2.26	2.00
30.	State Bank of Mauritius Ltd.	0.92	0.84	1.19	1.21	1.08	1.01	1.09
31.	UFJ Bank Ltd.	2.41	3.27	1.85	1.66	1.89	1.83	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.24: Operating 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	
		2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10
1.	Allahabad Bank	933.79	1024.15	541.80	706.13	863.77	955.29	471.78	637.26
2.	Andhra Bank	992.93	769.11	520.10	485.50	949.00	724.40	476.17	440.79
3.	Bank of Baroda	2301.91	2031.85	676.84	826.96	2290.86	2021.19	665.79	816.30
4.	Bank of India	1460.36	1701.22	340.05	701.44	1309.67	1542.01	189.36	542.22
5.	Bank of Maharashtra	546.46	365.08	177.13	50.79	494.03	297.26	124.70	-17.03
6.	Canara Bank	2585.33	2611.88	1109.51	1343.22	2507.90	2540.27	1032.08	1271.60
7.	Central Bank of India	1609.17	1194.67	357.41	257.42	1437.18	1018.80	185.42	81.55
8.	Corporation Bank	1026.99	1051.52	402.16	444.46	1021.97	892.31	397.14	285.25
9.	Dena Bank	382.18	620.32	61.00	72.99	357.28	599.30	36.10	51.97
10.	Indian Bank	958.07	893.65	408.49	504.48	544.71	479.13	-4.87	89.96
11.	Indian Overseas Bank	1496.55	1533.82	651.36	783.34	1427.40	1409.79	582.21	659.32
12.	Oriental Bank of Commerce	1233.15	1191.98	760.81	557.16	1223.74	1183.34	751.40	548.53
13.	Punjab and Sind Bank	257.87	298.58	-71.07	108.33	158.68	204.43	-170.26	14.17
14.	Punjab National Bank	2404.46	2874.78	1410.12	1439.31	2353.28	2833.57	1358.94	1398.11
15.	Syndicate Bank	1020.04	1037.63	402.89	536.49	902.06	913.06	284.91	411.92
16.	UCO Bank	838.49	852.11	345.65	196.65	623.91	637.52	131.07	-17.93
17.	Union Bank of India	1573.17	1596.96	719.05	675.18	1552.61	1574.85	698.49	653.08
18.	United Bank of India	689.64	643.85	300.17	204.57	516.94	471.15	127.47	31.86
19.	Vijaya Bank	789.03	718.23	380.57	126.88	740.87	672.00	332.41	80.65
	Total	**23099.57**	**23011.37**	**9494.04**	**10021.29**	**21275.84**	**20969.67**	**7670.31**	**7979.59**

+ : 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	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**4.60**	**4.00**	**3.30**	**2.52**	**1.86**	**2.30**	**1.90**	**1.20**	**0.92**	**0.66**
	Public Sector Banks	**4.89**	**4.21**	**3.50**	**2.73**	**2.09**	**2.42**	**1.93**	**1.28**	**0.95**	**0.72**
	Nationalised Banks	**5.21**	**4.66**	**3.86**	**2.96**	**2.24**	**2.69**	**2.16**	**1.40**	**0.91**	**0.64**
1.	Allahabad Bank	8.08	6.56	4.09	2.84	2.14	4.68	3.16	1.05	0.60	0.45
2.	Andhra Bank	2.50	2.35	2.28	1.35	1.07	1.13	0.84	0.44	0.15	0.13
3.	Bank of Baroda	6.33	5.45	4.68	3.51	2.11	2.70	2.22	2.07	0.65	0.46
4.	Bank of India	5.33	4.99	4.40	3.32	2.21	3.30	3.00	2.43	1.64	0.86
5.	Bank of Maharashtra	4.22	3.84	2.96	2.93	3.02	2.23	1.84	0.89	0.85	1.07
6.	Canara Bank	2.93	3.02	3.15	2.15	1.35	1.79	1.77	1.39	1.02	0.66
7.	Central Bank of India	6.42	5.68	4.88	3.82	3.59	3.23	2.74	2.01	1.19	1.30
8.	Corporation Bank	2.49	2.50	2.48	1.91	1.54	1.07	0.76	0.86	0.61	0.38
9.	Dena Bank	10.59	8.02	6.70	4.78	3.58	6.51	4.95	3.99	2.46	1.63
10.	Indian Bank	7.19	4.61	3.04	1.71	1.40	2.99	2.13	0.98	0.56	0.37
11.	Indian Overseas Bank	5.13	4.61	3.33	2.73	2.07	2.70	2.22	1.22	0.63	0.38
12.	Oriental Bank of Commerce	2.95	3.37	2.95	4.61	3.59	1.41	0.66	–	0.61	0.28
13.	Punjab and Sind Bank	7.94	8.60	8.02	7.62	4.94	4.73	4.41	3.85	3.24	1.16
14.	Punjab National Bank	5.68	5.78	4.56	2.96	2.16	2.48	1.77	0.44	0.09	0.14
15.	Syndicate Bank	4.08	4.12	3.37	2.75	2.47	2.12	2.03	1.13	0.82	0.51
16.	UCO Bank	4.25	3.91	3.38	2.56	2.00	2.31	2.00	1.72	1.49	1.27
17.	Union Bank of India	5.46	4.68	4.02	2.84	2.35	3.02	2.45	1.45	1.46	0.94
18.	United Bank of India	5.34	3.95	2.96	2.50	2.24	2.38	1.67	1.16	0.95	0.91
19.	Vijaya Bank	3.73	2.65	1.62	1.47	1.71	2.31	1.08	0.42	0.29	0.45
	State Bank Group	**4.39**	**3.48**	**2.91**	**2.49**	**1.92**	**2.00**	**1.58**	**1.09**	**1.01**	**0.88**
20.	State Bank of India	4.45	3.59	3.11	2.71	2.10	1.96	1.64	1.33	1.16	0.99
21.	State Bank of Bikaner and Jaipur	3.77	3.23	2.40	1.71	1.41	2.21	1.57	0.53	0.83	0.68
22.	State Bank of Hyderabad	4.06	2.83	2.26	1.58	1.12	1.89	1.21	0.25	0.27	0.19
23.	State Bank of Indore	3.25	2.60	2.04	1.80	1.75	1.56	1.21	–	0.54	1.05
24.	State Bank of Mysore	6.03	4.96	3.74	2.51	2.06	3.49	2.41	1.35	0.49	0.45
25.	State Bank of Patiala	3.62	2.51	1.87	2.07	1.31	1.47	0.75	–	0.60	0.53
26.	State Bank of Saurashtra	4.73	3.09	1.56	1.22	0.95	2.17	1.43	–	0.63	0.59
27.	State Bank of Travancore	4.41	3.34	2.76	2.26	1.91	2.58	1.47	0.64	0.93	0.87
	Other Public Sector Bank										
28.	IDBI Ltd.	–	–	–	1.49	1.26	–	–	–	1.04	0.64

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	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**4.36**	**3.97**	**2.82**	**2.05**	**1.36**	**2.49**	**2.32**	**1.32**	**0.98**	**0.55**
	Old Private Sector Banks	**5.20**	**4.34**	**3.64**	**3.15**	**2.50**	**3.23**	**2.61**	**1.77**	**1.39**	**0.91**
1.	Bank of Rajasthan Ltd.	6.92	4.34	2.81	1.74	1.38	3.61	2.46	0.86	0.79	0.41
2.	Bharat Overseas Bank Ltd.	3.91	3.30	2.53	1.80	1.79	1.87	1.56	1.12	0.80	1.03
3.	Catholic Syrian Bank Ltd.	5.47	5.24	4.07	3.83	3.35	3.45	3.01	2.05	1.96	1.57
4.	City Union Bank Ltd.	6.31	5.92	5.25	3.48	2.73	3.72	3.78	3.09	1.94	1.21
5.	Dhanalakshmi Bank Ltd.	7.73	7.03	5.59	4.75	3.91	5.80	4.98	3.27	2.28	1.61
6.	Federal Bank Ltd.	6.29	4.33	3.97	4.03	2.73	4.39	2.52	1.47	1.16	0.54
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	1.26	1.08	1.89	6.27	1.39	1.26	1.08
9.	Jammu and Kashmir Bank Ltd.	1.61	1.51	1.35	1.30	1.40	0.82	0.76	0.65	0.67	0.51
10.	Karnataka Bank Ltd.	4.81	5.81	5.66	4.01	2.78	2.59	3.09	2.19	1.14	0.61
11.	Karur Vysya Bank Ltd.	4.42	4.14	3.37	3.07	2.48	3.03	2.25	1.29	0.96	0.50
12.	Lakshmi Vilas Bank Ltd.	7.71	6.60	5.67	4.62	2.54	5.00	3.93	2.86	2.84	1.13
13.	Lord Krishna Bank Ltd.	6.07	4.54	3.66	3.62	2.72	4.72	3.12	2.60	2.33	1.70
14.	Nainital Bank Ltd.	1.81	1.43	1.13	0.90	0.88	–	–	–	–	–
15.	Ratnakar Bank Ltd.	5.34	5.31	4.76	5.29	4.02	3.40	3.13	2.37	2.70	1.31
16.	Sangli Bank Ltd.	4.07	4.13	4.05	3.60	2.88	1.93	2.15	2.13	1.65	0.97
17.	SBI Commercial and International Bank Ltd.	12.94	14.76	14.16	14.16	8.27	8.14	6.23	4.51	3.70	1.83
18.	South Indian Bank Ltd.	5.12	4.53	3.55	3.86	3.03	3.38	2.83	2.06	2.15	1.09
19.	Tamilnad Mercantile Bank Ltd.	7.59	7.21	6.28	5.72	3.78	2.75	3.59	2.06	1.37	1.11
20.	United Western Bank Ltd.	7.58	7.50	7.23	6.36	6.85	5.55	5.01	4.70	3.35	3.17
	New Private Sector Banks	**3.90**	**3.76**	**2.42**	**1.56**	**0.96**	**2.10**	**2.16**	**1.10**	**0.80**	**0.43**
21.	Bank of Punjab Ltd.	2.36	3.96	3.06	5.00	–	1.22	3.01	2.28	2.29	–
22.	Centurion Bank of Punjab Ltd.	5.56	6.75	6.24	3.39	2.78	2.44	3.07	1.94	1.19	0.65
23.	Development Credit Bank Ltd.	5.14	5.89	3.92	6.67	8.42	3.57	4.37	2.20	3.09	2.24
24.	HDFC Bank Ltd.	0.94	0.87	0.79	0.85	0.69	0.14	0.14	0.07	0.12	0.21
25.	ICICI Bank Ltd.	4.82	4.71	2.43	1.65	0.88	2.48	2.60	1.10	0.90	0.42
26.	IndusInd Bank Ltd.	4.09	2.69	1.72	2.05	1.53	3.60	2.30	1.41	1.56	1.11
27.	Kotak Mahindra Bank Ltd.	–	0.70	0.31	0.43	0.37	–	0.06	0.06	0.23	0.15
28.	UTI Bank Ltd.	1.96	1.17	1.14	0.82	0.75	1.29	0.83	0.46	0.57	0.44
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	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**2.41**	**2.44**	**2.13**	**1.43**	**0.96**	**0.81**	**0.79**	**0.66**	**0.42**	**0.40**
1.	ABN-AMRO Bank N.V.	2.11	1.92	2.03	1.47	0.22	0.81	0.92	0.56	0.22	0.07
2.	Abu Dhabi Commercial Bank Ltd.	3.28	2.75	3.94	2.11	9.17	2.18	1.39	2.35	0.59	2.75
3.	American Express Bank Ltd.	6.98	8.19	6.90	0.80	0.56	3.35	3.26	2.11	0.49	0.32
4.	Arab Bangladesh Bank Ltd.	1.01	0.84	0.11	0.10	–	0.35	0.28	0.05	0.06	–
5.	Bank Internasional Indonesia	40.44	33.19	30.66	28.50	0.09	6.19	3.25	2.32	1.67	–
6.	Bank of America NA	1.63	0.70	0.51	0.34	0.06	0.46	0.04	–	–	–
7.	Bank of Bahrain and Kuwait B.S.C.	5.80	7.28	10.20	10.87	10.75	4.79	5.75	7.84	2.43	0.52
8.	Bank of Ceylon	19.98	19.76	14.92	14.17	18.48	13.40	12.29	6.83	4.51	6.51
9.	Bank of Nova Scotia	2.34	7.08	7.64	2.91	1.89	1.76	5.41	5.87	1.89	0.66
10.	Bank of Tokyo-Mitsubishi UFJ Ltd.	–	1.12	0.79	0.71	0.42	–	0.05	0.07	0.04	0.06
11.	Barclays Bank PLC	0.42	0.40	0.63	–	–	0.31	–	–	–	–
12.	BNP Paribas	1.59	3.31	3.00	2.13	1.10	0.67	1.97	1.18	0.34	–
13.	Chinatrust Commercial Bank	1.25	0.38	6.78	15.24	2.12	–	–	4.07	3.04	1.06
14.	Chohung Bank	0.46	0.48	0.39	–	–	0.26	0.24	0.19	–	–
15.	Citibank N.A.	0.50	0.98	1.33	1.09	0.86	0.21	0.58	0.72	0.54	0.51
16.	Calyon Bank	10.51	12.55	5.20	1.59	0.50	0.11	0.12	0.02	0.09	0.08
17.	Deutsche Bank AG	1.26	0.70	0.24	0.08	0.07	0.13	–	–	–	–
18.	DBS Bank Ltd.	0.07	7.48	–	–	–	–	5.92	–	–	–
19.	HSBC Ltd.	2.33	2.08	1.65	1.47	0.85	0.93	0.40	0.27	0.23	0.26
20.	ING Bank N.V.	4.82	11.80	1.00	0.60	–	3.62	–	–	–	–
21.	Krung Thai Bank Public Co. Ltd.	8.62	–	–	–	–	7.76	–	–	–	–
22.	Mashreqbank psc	3.81	4.60	3.57	3.65	13.84	–	–	–	–	–
23.	Mizuho Corporate Bank Ltd.	9.44	8.12	8.40	5.25	1.31	3.08	0.46	–	–	0.09
24.	Oman International Bank S.A.O.G.	25.14	30.34	35.20	29.86	33..02	3.04	2.05	2.02	1.59	0.73
25.	Societe Generale	1.92	2.50	2.61	1.32	0.29	0.14	–	0.32	–	–
26.	Sonali Bank	0.79	1.13	1.27	1.53	3.05	–	0.75	0.23	0.35	0.07
27.	Standard Chartered Bank	1.59	1.46	1.41	1.49	1.42	0.18	0.14	0.24	0.60	0.79
28.	State Bank of Mauritius Ltd.	9.19	11.41	4.27	3.87	2.37	7.06	8.80	2.80	–	0.96
29.	UFJ Bank Ltd.	13.51	5.39	–	–	–	6.88	4.15	–	–	–

– : Nil/Negligible.

Source : Balance sheets of 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/Total Advances					Net NPAs/Total Advances				
		2001-02	2002-03	2003-04	2004-05	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**10.40**	**8.80**	**7.20**	**5.20**	**3.30**	**5.50**	**4.40**	**2.90**	**2.00**	**1.20**
	Public Sector Banks	**11.09**	**9.36**	**7.79**	**5.53**	**3.70**	**5.82**	**4.53**	**2.99**	**2.06**	**1.30**
	Nationalised Banks	**11.01**	**9.72**	**8.21**	**5.82**	**3.96**	**6.01**	**4.74**	**3.14**	**1.85**	**1.16**
1.	Allahabad Bank	16.94	13.65	8.66	5.80	3.90	10.55	7.07	2.37	1.28	0.84
2.	Andhra Bank	5.26	4.89	4.60	2.46	1.90	2.45	1.79	0.93	0.28	0.24
3.	Bank of Baroda	12.39	11.02	10.52	7.30	3.90	5.68	4.81	4.95	1.45	0.87
4.	Bank of India	9.37	8.55	7.86	5.45	3.70	6.01	5.36	4.49	2.80	1.49
5.	Bank of Maharashtra	10.44	9.55	7.70	7.00	5.50	5.81	4.83	2.46	2.15	2.03
6.	Canara Bank	6.22	5.96	6.33	3.89	2.30	3.89	3.59	2.89	1.88	1.12
7.	Central Bank of India	14.70	13.06	12.55	9.50	6.80	7.98	6.74	5.57	2.98	2.59
8.	Corporation Bank	5.19	5.27	5.03	3.41	2.60	2.31	1.65	1.80	1.12	0.64
9.	Dena Bank	24.11	17.86	14.82	9.67	6.40	16.31	11.82	9.40	5.23	3.04
10.	Indian Bank	17.86	12.39	7.99	4.19	2.90	8.28	6.15	2.71	1.35	0.79
11.	Indian Overseas Bank	11.35	10.29	7.40	5.28	3.40	6.32	5.23	2.85	1.27	0.65
12.	Oriental Bank of Commerce	6.57	6.94	5.87	9.06	6.00	3.21	1.44	–	1.29	0.49
13.	Punjab and Sind Bank	18.19	19.25	18.16	17.17	9.60	11.68	10.85	9.62	8.11	2.43
14.	Punjab National Bank	11.38	11.58	9.35	5.96	4.10	5.27	3.80	0.98	0.20	0.29
15.	Syndicate Bank	8.35	8.34	7.33	5.17	4.00	4.53	4.29	2.57	1.59	0.86
16.	UCO Bank	9.59	8.24	6.93	4.96	3.30	5.65	4.38	3.65	2.93	2.10
17.	Union Bank of India	10.77	8.96	7.59	5.01	3.80	6.26	4.91	2.87	2.64	1.56
18.	United Bank of India	16.16	12.15	9.07	6.14	4.70	7.94	5.52	3.75	2.43	1.95
19.	Vijaya Bank	9.39	6.18	3.44	2.94	3.20	6.02	2.61	0.91	0.59	0.85
	State Bank Group	**11.23**	**8.68**	**6.98**	**5.32**	**3.51**	**5.45**	**4.12**	**2.70**	**2.23**	**1.63**
20.	State Bank of India	11.95	9.34	7.75	5.96	3.90	5.64	4.49	3.45	2.65	1.87
21.	State Bank of Bikaner and Jaipur	9.36	8.15	5.36	3.26	2.40	5.77	4.16	1.24	1.61	1.18
22.	State Bank of Hyderabad	10.08	7.28	5.60	3.46	2.10	4.96	3.26	0.65	0.61	0.36
23.	State Bank of Indore	7.18	5.53	3.99	3.28	3.00	3.58	2.66	–	1.00	1.83
24.	State Bank of Mysore	12.07	10.14	7.76	4.56	3.30	7.36	5.19	2.96	0.92	0.74
25.	State Bank of Patiala	6.94	4.80	3.71	4.13	2.40	2.94	1.49	–	1.23	0.99
26.	State Bank of Saurashtra	10.18	7.32	3.68	2.70	2.00	4.95	3.53	–	1.40	1.16
27.	State Bank of Travancore	9.41	6.67	5.63	4.29	3.20	5.72	3.05	1.39	1.81	1.47
	Other Public Sector Bank										
28.	IDBI Ltd.	–	–	–	2.92	2.00	–	–	–	1.74	1.01

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/Total Advances					Net NPAs/Total Advances				
		2001-02	2002-03	2003-04	2004-05	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**9.64**	**8.07**	**5.84**	**3.77**	**2.45**	**5.73**	**4.95**	**2.84**	**1.85**	**1.01**
	Old Private Sector Banks	**11.01**	**8.86**	**7.59**	**5.97**	**4.30**	**7.13**	**5.54**	**3.85**	**2.74**	**1.60**
1.	Bank of Rajasthan Ltd.	15.73	11.39	9.14	5.34	3.30	8.86	6.80	2.99	2.50	0.99
2.	Bharat Overseas Bank Ltd.	8.77	6.75	4.99	3.44	3.20	4.38	3.30	2.26	1.56	1.87
3.	Catholic Syrian Bank Ltd.	14.88	13.01	8.84	7.16	5.80	9.91	7.89	4.65	3.80	2.78
4.	City Union Bank Ltd.	13.20	12.11	10.36	5.89	4.30	8.20	8.16	6.37	3.37	1.95
5.	Dhanalakshmi Bank Ltd.	15.29	13.18	11.43	8.51	6.70	11.94	9.71	7.06	3.92	2.44
6.	Federal Bank Ltd.	11.88	8.21	7.44	7.29	4.60	8.59	4.95	2.89	2.21	0.95
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	1.80	4.59	3.55	2.60	2.13	1.76
9.	Jammu and Kashmir Bank Ltd.	3.62	3.11	3.04	2.72	2.50	1.88	1.59	1.49	1.41	0.92
10.	Karnataka Bank Ltd.	10.43	12.99	11.93	7.58	5.10	5.88	7.34	4.98	2.29	1.18
11.	Karur Vysya Bank Ltd.	8.97	7.46	5.83	5.10	3.90	6.30	4.16	2.32	1.66	0.81
12.	Lakshmi Vilas Bank Ltd.	13.42	11.47	10.15	7.88	4.10	9.10	7.11	5.40	4.98	1.89
13.	Lord Krishna Bank Ltd.	12.32	8.96	8.32	6.39	4.90	9.85	6.33	6.05	4.22	3.11
14.	Nainital Bank Ltd.	8.68	6.11	4.00	2.57	1.90	–	–	–	–	–
15.	Ratnakar Bank Ltd.	12.88	11.96	10.63	10.31	7.60	8.60	7.42	5.58	5.54	2.61
16.	Sangli Bank Ltd.	11.80	12.45	11.79	8.95	4.30	5.95	6.87	6.56	4.30	2.34
17.	SBI Commercial and International Bank Ltd.	32.72	38.48	41.28	24.06	15.20	23.38	20.85	18.31	7.65	3.82
18.	South Indian Bank Ltd.	10.05	9.27	7.59	6.64	5.00	6.87	5.96	4.55	3.81	1.86
19.	Tamilnad Mercantile Bank Ltd.	16.47	16.06	13.79	11.26	7.00	6.63	8.66	5.00	2.95	2.17
20.	United Western Bank Ltd.	14.08	13.58	13.14	10.87	11.50	10.72	9.50	8.96	5.83	5.66
	New Private Sector Banks	**8.86**	**7.64**	**4.99**	**3.59**	**1.70**	**4.94**	**4.63**	**2.36**	**1.85**	**0.80**
21.	Bank of Punjab Ltd.	5.49	9.23	6.20	9.43	–	2.93	7.17	4.69	4.64	–
22.	Centurion Bank of Punjab Ltd.	12.66	15.88	12.96	6.81	4.60	6.09	7.92	4.43	2.49	1.13
23.	Development Credit Bank Ltd.	9.29	9.56	8.19	14.19	15.00	6.61	7.76	4.87	6.34	4.50
24.	HDFC Bank Ltd.	3.18	2.22	1.86	1.69	1.40	0.50	0.37	0.16	0.24	0.44
25.	ICICI Bank Ltd.	10.23	8.72	4.70	4.27	1.50	5.48	5.21	2.21	1.65	0.72
26.	IndusInd Bank Ltd.	7.41	4.94	3.30	3.53	2.90	6.59	4.25	2.72	2.71	2.09
27.	Kotak Mahindra Bank Ltd.	–	1.20	0.85	0.69	0.60	–	0.11	0.17	0.37	0.24
28.	UTI Bank Ltd.	5.18	3.16	2.88	1.98	1.70	3.46	2.26	1.20	1.39	0.98
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/Total Advances					Net NPAs/Total Advances				
		2001-02	2002-03	2003-04	2004-05	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**5.38**	**5.25**	**4.62**	**2.85**	**1.90**	**1.89**	**1.76**	**1.48**	**0.86**	**0.80**
1.	ABN-AMRO Bank N.V.	3.43	3.25	3.15	2.26	0.30	1.34	1.59	0.88	0.35	0.11
2.	Abu Dhabi Commercial Bank Ltd.	18.89	17.53	38.78	34.42	38.80	13.43	9.67	27.39	12.73	15.97
3.	American Express Bank Ltd.	14.56	19.29	16.47	1.63	1.00	7.56	8.69	5.68	0.99	0.58
4.	Arab Bangladesh Bank Ltd.	3.91	4.49	0.68	0.32	3.40	1.35	1.50	0.34	0.18	–
5.	Bank Internasional Indonesia	91.23	64.62	97.07	66.55	0.10	61.40	15.18	69.57	10.49	–
6.	Bank of America NA	2.68	1.03	0.84	0.57	21.20	0.80	0.05	–	–	–
7.	Bank of Bahrain and Kuwait B.S.C.	13.23	13.77	21.90	20.77	46.90	11.40	11.26	17.73	5.53	1.29
8.	Bank of Ceylon	31.87	36.08	37.91	33.41	2.80	23.88	25.98	21.85	13.76	23.74
9.	Bank of Nova Scotia	3.58	11.02	11.48	4.66	–	2.72	8.64	9.07	3.08	1.00
10.	Bank of Tokyo-Mitsubishi UFJ Ltd.	–	2.76	2.18	1.43	–	–	0.13	0.21	0.01	–
11.	Barclays Bank PLC	43.58	64.01	65.36	–	2.20	36.06	–	–	–	–
12.	BNP Paribas	3.60	6.17	6.56	3.48	3.50	1.54	3.77	2.70	–	–
13.	Chinatrust Commercial Bank	2.60	0.65	9.25	24.33	–	–	–	5.76	6.02	1.80
14.	Chohung Bank	0.84	0.98	1.60	–	2.10	0.47	0.48	0.81	–	–
15.	Citibank N.A.	0.93	1.94	2.52	2.01	1.00	0.40	1.17	1.40	1.00	0.95
16.	Calyon Bank	25.21	34.89	43.96	4.24	0.30	0.36	0.51	0.26	0.30	0.10
17.	Deutsche Bank AG	3.52	2.49	0.97	0.33	–	0.38	–	–	–	–
18.	DBS Bank Ltd.	0.16	12.65	–	–	1.90	–	10.37	–	–	–
19.	HSBC Ltd.	5.51	5.09	4.20	3.16	–	2.27	1.03	0.70	0.50	0.58
20.	ING Bank N.V.	32.79	44.13	–	–	–	26.82	–	–	–	–
21.	JPMorgan Chase Bank	–	–	–	–	28.50	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	37.82	–	–	–	2.10	35.43	–	–	–	–
23.	Mashreqbank psc	17.87	31.32	41.31	39.51	96.90	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	13.26	11.99	11.93	8.22	1.90	4.75	0.76	–	–	0.15
25.	Oman International Bank S.A.O.G.	85.46	91.50	96.51	95.85	23.60	41.53	42.13	61.39	55.05	41.58
26.	Societe Generale	6.71	13.89	10.21	6.91	2.80	0.52	–	1.36	–	–
27.	Sonali Bank	2.95	6.49	7.49	7.86	4.60	–	4.52	1.42	1.75	0.75
28.	Standard Chartered Bank	3.44	3.17	2.91	2.73	–	0.40	0.31	0.52	1.12	1.57
29.	State Bank of Mauritius Ltd.	17.46	17.67	6.91	7.65	–	14.02	14.20	4.64	4.08	1.91
30.	UFJ Bank Ltd.	22.20	10.88	–	–	–	12.69	8.60	–	–	–

– : Nil/Negligible.

Source : 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 2006)

(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 (3+5+7)	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	(9+13)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Public Sector Banks	**6,202.92**	**14.99**	**6,917.40**	**16.72**	**9,253.43**	**22.36**	**22,373.74**	**54.07**	**340.50**	**0.82**	**18,663.99**	**45.11**	**41,378.23**
	Nationalised Banks*	**3,898.88**	**13.83**	**5,324.83**	**18.89**	**5,900.20**	**20.93**	**15,123.92**	**53.66**	**215.58**	**0.76**	**12,845.35**	**45.58**	**28,184.85**
1.	Allahabad Bank	234.05	19.77	153.88	13.00	353.63	29.87	741.56	62.64	33.62	2.84	408.65	34.52	1,183.83
2.	Andhra Bank	42.34	9.69	65.09	14.90	109.97	25.17	217.40	49.76	9.90	2.27	209.60	47.97	436.90
3.	Bank of Baroda	332.25	14.68	469.75	20.75	348.70	15.40	1,150.70	50.83	–	–	1,113.13	49.17	2,263.83
4.	Bank of India	473.65	21.34	473.07	21.32	402.18	18.12	1,348.90	60.78	43.69	1.97	826.69	37.25	2,219.28
5.	Bank of Maharashtra	148.36	15.71	175.57	18.60	180.60	19.13	504.53	53.44	1.02	0.11	438.53	46.45	944.08
6.	Canara Bank	333.43	18.69	427.86	23.98	324.56	18.19	1,085.85	60.86	9.97	0.56	688.39	38.58	1,784.21
7.	Central Bank of India	413.39	15.40	607.46	22.63	576.83	21.49	1,597.68	59.52	6.47	0.24	1,080.03	40.24	2,684.18
8.	Corporation Bank	45.22	7.23	44.50	7.11	162.32	25.95	252.04	40.29	0.97	0.16	372.56	59.56	625.57
9.	Dena Bank	112.53	11.85	188.66	19.87	166.65	17.55	467.84	49.28	3.00	0.32	478.56	50.41	949.40
10.	IDBI Ltd.	4.50	0.48	8.64	0.92	55.65	5.93	68.79	7.33	0.03	–	869.66	92.67	938.48
11.	Indian Bank	110.39	16.97	238.96	36.74	206.50	31.75	555.85	85.45	1.47	0.23	93.15	14.32	650.47
12.	Indian Overseas Bank	93.58	7.81	328.01	27.38	206.36	17.22	627.95	52.41	16.46	1.37	553.71	46.22	1,198.12
13.	Oriental Bank of Commerce	139.82	6.61	307.36	14.52	239.30	11.31	686.48	32.44	4.99	0.24	1,424.84	67.33	2,116.31
14.	Punjab and Sind Bank	78.41	8.33	198.20	21.05	138.01	14.66	414.62	44.04	–	–	526.88	55.96	941.50
15.	Punjab National Bank	432.12	13.77	796.94	25.39	580.50	18.50	1,809.55	57.66	34.16	1.09	1,294.57	41.25	3,138.29
16.	Syndicate Bank	186.30	12.42	200.38	13.36	442.61	29.50	829.29	55.28	31.20	2.08	639.71	42.64	1,500.20
17.	UCO Bank	180.86	14.73	157.95	12.87	297.98	24.27	636.79	51.87	9.17	0.75	581.74	47.38	1,227.70
18.	Union Bank of India	355.76	16.96	308.73	14.72	607.22	28.94	1,271.71	60.61	–	–	826.34	39.39	2,098.05
19.	United Bank of India	146.55	19.69	142.31	19.12	242.94	32.64	531.80	71.45	–	–	212.50	28.55	744.30
20.	Vijaya Bank	35.39	6.55	31.51	5.83	257.69	47.71	324.59	60.09	9.45	1.75	206.11	38.16	540.15
	State Bank Group	**2,304.03**	**17.46**	**1,592.57**	**12.07**	**3,353.23**	**25.42**	**7,249.83**	**54.95**	**124.92**	**0.95**	**5,818.64**	**44.10**	**13,193.38**
21.	State Bank of India	1,929.21	18.79	1,238.89	12.06	2,738.39	26.67	5,906.49	57.51	33.20	0.32	4,329.83	42.16	10,269.52
22.	State Bank of Bikaner and Jaipur	13.13	3.38	54.86	14.11	96.65	24.86	164.64	42.35	4.26	1.10	219.83	56.55	388.73
23.	State Bank of Hyderabad	25.98	5.73	47.26	10.43	63.74	14.07	136.98	30.23	–	–	316.09	69.77	453.06
24.	State Bank of Indore	62.50	17.22	37.16	10.24	62.17	17.13	161.83	44.59	–	–	201.10	55.41	362.93
25.	State Bank of Mysore	41.35	10.39	48.57	12.20	62.43	15.68	152.35	38.27	22.98	5.77	222.80	55.96	398.13
26.	State Bank of Patiala	177.61	32.71	46.95	8.65	169.67	31.25	394.23	72.61	35.10	6.46	113.62	20.93	542.95
27.	State Bank of Saurashtra	16.20	9.64	18.78	11.17	31.78	18.90	66.76	39.71	9.92	5.90	91.43	54.39	168.11
28.	State Bank of Travancore	38.06	6.24	100.09	16.41	128.40	21.05	266.55	43.70	19.46	3.19	323.94	53.11	609.95

– : Nil/Negligible.

* : Includes IDBI Ltd.

Source : Off-site returns (domestic).

Appendix Table III.27(B) : Non-Performing Assets of Private Sector Banks - Sector-wise

(As at end-March 2006)

(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	10	11	12	13	14	15
	Private Sector Banks	**514.60**	**6.57**	**807.44**	**10.31**	**961.99**	**12.29**	**2,284.03**	**29.17**	**4.02**	**0.05**	**5,541.37**	**70.78**	**7,829.42**
	Old Private Sector Banks	**265.07**	**7.14**	**655.55**	**17.66**	**710.93**	**19.16**	**1,631.55**	**43.96**	**1.23**	**0.03**	**2,078.33**	**56.00**	**3,711.11**
1.	Bank of Rajasthan Ltd.	10.43	7.70	16.01	11.81	14.84	10.95	41.28	30.46	–	–	94.23	69.54	135.51
2.	Bharat Overseas Bank Ltd.	3.17	6.17	12.84	25.02	10.37	20.20	26.37	51.39	–	–	24.94	48.61	51.32
3.	Catholic Syrian Bank Ltd.	5.02	3.14	31.91	19.95	44.15	27.61	81.08	50.70	–	–	78.84	49.30	159.92
4.	City Union Bank Ltd.	4.15	3.68	14.22	12.60	9.02	7.99	27.39	24.28	–	–	85.44	75.72	112.83
5.	Dhanalakshmi Bank Ltd.	0.45	0.40	19.47	17.48	0.83	0.75	20.75	18.63	–	–	90.61	81.37	111.36
6.	Federal Bank Ltd.	28.07	4.99	78.55	13.95	166.44	29.56	273.06	48.50	–	–	289.99	51.50	563.05
7.	Ganesh Bank of Kurundwad Ltd.	2.16	12.64	2.74	16.00	2.89	16.90	7.79	45.55	–	–	9.32	54.45	17.11
8.	ING Vysya Bank Ltd.	30.60	16.91	26.78	14.80	36.33	20.08	93.71	51.79	–	–	87.22	48.21	180.93
9.	Jammu and Kashmir Bank Ltd.	18.88	5.10	58.71	15.86	94.05	25.41	171.64	46.37	–	–	198.55	53.63	370.19
10.	Karnataka Bank Ltd.	43.18	10.40	80.21	19.32	46.32	11.16	169.72	40.88	–	–	245.41	59.12	415.13
11.	Karur Vysya Bank Ltd.	4.47	2.00	61.15	27.40	15.67	7.02	81.28	36.42	–	–	141.87	63.58	223.16
12.	Lakshmi Vilas Bank Ltd.	6.95	5.57	28.34	22.71	29.97	24.03	65.26	52.31	–	–	59.50	47.69	124.76
13.	Lord Krishna Bank Ltd.	0.41	0.58	7.45	10.54	3.09	4.37	10.95	15.49	–	–	59.76	84.51	70.71
14.	Nainital Bank Ltd.	1.89	16.36	0.95	8.24	4.94	42.62	7.79	67.21	–	–	3.80	32.79	11.58
15.	Ratnakar Bank Ltd.	2.63	6.69	10.36	26.38	13.29	33.82	26.28	66.88	–	–	13.01	33.12	39.29
16.	Sangli Bank Ltd.	17.12	27.63	11.14	17.97	4.01	6.47	32.27	52.07	–	–	29.71	47.93	61.98
17.	SBI Commercial and International Bank Ltd.	12.91	100.00	–	–	–	–	12.91	100.00	–	–	–	–	12.91
18.	South Indian Bank Ltd.	11.08	3.38	44.47	13.56	63.02	19.22	118.56	36.17	–	–	209.26	63.83	327.82
19.	Tamilnad Mercantile Bank Ltd.	15.31	6.64	69.62	30.19	30.81	13.36	115.74	50.20	–	–	114.84	49.80	230.58
20.	United Western Bank Ltd.	46.18	9.41	80.64	16.42	120.90	24.62	247.71	50.45	1.23	0.25	242.03	49.30	490.97
	New Private Sector Banks	**249.53**	**6.06**	**151.89**	**3.69**	**251.05**	**6.10**	**652.48**	**15.84**	**2.79**	**0.07**	**3,463.04**	**84.09**	**4,118.30**
21.	Centurion Bank of Punjab Ltd.	10.68	3.39	11.23	3.57	8.99	2.85	30.90	9.81	–	–	284.05	90.19	314.95
22.	Development Credit Bank Ltd.	0.01	–	59.17	18.79	14.28	4.53	73.46	23.33	2.78	0.88	238.68	75.79	314.92
23.	HDFC Bank Ltd.	22.85	3.92	19.15	3.28	174.26	29.88	216.26	37.08	–	–	366.97	62.92	583.23
24.	ICICI Bank Ltd.	45.65	2.05	35.58	1.60	13.06	0.59	94.30	4.24	0.01	–	2,128.28	95.76	2,222.58
25.	IndusInd Bank Ltd.	110.37	41.06	12.92	4.81	24.80	9.23	148.09	55.09	–	–	120.74	44.91	268.83
26.	Kotak Mahindra Bank Ltd.	3.26	8.17	–	–	15.36	38.49	18.62	46.66	–	–	21.29	53.34	39.91
27.	UTI Bank Ltd.	56.71	15.17	13.84	3.70	0.30	0.08	70.85	18.95	–	–	303.03	81.05	373.88
28.	Yes Bank Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–

– : Nil/Negligible.

Source: Off-site returns (domestic).

Appendix Table III.28(A) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Public Sector Banks

(As at end-March 2006)

(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	**59,471.02**	**5,023.22**	**8.45**
	Nationalised Banks	**39,807.43**	**3,250.59**	**8.17**
1.	Allahabad Bank	2,536.14	272.67	10.75
2.	Andhra Bank	2,264.01	56.61	2.50
3.	Bank of Baroda	3,046.30	221.78	7.28
4.	Bank of India	2,326.79	420.90	18.09
5.	Bank of Maharashtra	904.67	105.67	11.68
6.	Canara Bank	4,422.53	263.51	5.96
7.	Central Bank of India	2,027.89	594.91	29.34
8.	Corporation Bank	556.55	23.72	4.26
9.	Dena Bank	644.08	65.25	10.13
10.	Indian Bank	928.35	178.52	19.23
11.	Indian Overseas Bank	3,626.57	17.30	0.48
12.	Oriental Bank of Commerce	1,217.28	52.90	4.35
13.	Punjab and Sind Bank	525.61	–	–
14.	Punjab National Bank	6,444.55	234.63	3.64
15.	Syndicate Bank	3,267.72	212.25	6.50
16.	UCO Bank	1,599.86	150.14	9.38
17.	Union Bank of India	1,323.20	216.80	16.38
18.	United Bank of India	706.00	71.50	10.13
19.	Vijaya Bank	1,439.33	91.53	6.36
	State Bank Group	**19,663.59**	**1,772.63**	**9.01**
20.	State Bank of India	11,939.34	1,296.97	10.86
21.	State Bank of Bikaner and Jaipur	1,526.62	37.74	2.47
22.	State Bank of Hyderabad	585.89	146.15	24.94
23.	State Bank of Indore	672.27	67.37	10.02
24.	State Bank of Mysore	1,151.17	49.15	4.27
25.	State Bank of Patiala	2,219.63	110.55	4.98
26.	State Bank of Saurashtra	419.18	15.92	3.80
27.	State Bank of Travancore	1,149.49	48.78	4.24
	Other Public Sector Bank			
28.	IDBI Ltd.	–	–	–

– : Nil/Negligible.

Source : Off-site Returns (domestic).

Appendix Table III.28(B) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Private Sector Banks

(As at end-March 2006)

(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	**2,932.34**	**276.19**	**9.43**
	Old Private Sector Banks	**2,366.10**	**267.26**	**11.30**
1.	Bank of Rajasthan Ltd.	49.94	11.67	23.34
2.	Bharat Overseas Bank Ltd.	19.48	3.68	18.89
3.	Catholic Syrian Bank Ltd.	18.72	9.59	51.23
4.	City Union Bank Ltd.	32.72	1.53	4.67
5.	Dhanalakshmi Bank Ltd.	48.80	–	–
6.	Federal Bank Ltd.	764.14	51.87	6.79
7.	Ganesh Bank of Kurundwad Ltd.	–	–	–
8.	ING Vysya Bank Ltd.	47.11	1.58	3.36
9.	Jammu and Kashmir Bank Ltd.	352.86	47.08	13.34
10.	Karnataka Bank Ltd.	167.08	7.85	4.70
11.	Karur Vysya Bank Ltd.	254.14	9.54	3.75
12.	Lakshmi Vilas Bank Ltd.	154.29	1.53	0.99
13.	Lord Krishna Bank Ltd.	12.44	–	–
14.	Nainital Bank Ltd.	14.37	0.18	1.27
15.	Ratnakar Bank Ltd.	8.17	1.74	21.33
16.	Sangli Bank Ltd.	18.00	3.00	16.67
17.	SBI Commercial and International Bank Ltd.	–	–	–
18.	South Indian Bank Ltd.	160.89	64.36	40.00
19.	Tamilnad Mercantile Bank Ltd.	23.91	1.07	4.48
20.	United Western Bank	219.00	51.00	23.29
	New Private Sector Banks	**566.24**	**8.93**	**1.58**
21.	Centurion Bank of Punjab Ltd.	50.02	–	–
22.	Development Credit Bank Ltd.	13.81	8.93	64.66
23.	HDFC Bank Ltd.	348.64	–	–
24.	ICICI Bank Ltd.	48.46	–	–
25.	IndusInd Bank Ltd.	2.37	–	–
26.	Kotak Mahindra Bank Ltd.	–	–	–
27.	UTI Bank Ltd.	102.94	–	–
28.	Yes Bank Ltd.	–	–	–

– : Nil/Negligible.

Source : Off-site Returns (domestic).

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 Banks	2004-05				2005-06			
		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	**3,93,801.50**	**1,311.87**	**17,732.38**	**4.49**	**2,78,479.70**	**2,147.02**	**625.02**	**0.22**
	Nationalised Banks	**2,23,260.29**	**672.38**	**10,448.67**	**4.67**	**1,70,922.80**	**679.43**	**625.02**	**0.36**
1.	Allahabad Bank	8,593.22	5.24	429.95	5.00	8,939.99	5.55	–	–
2.	Andhra Bank	3,898.96	86.23	313.00	7.85	4,035.24	239.62	–	–
3.	Bank of Baroda	25,661.39	0.91	1,042.54	4.06	16,843.40	–	–	–
4.	Bank of India	4,974.76	339.79	321.76	6.05	7,897.59	16.42	–	–
5.	Bank of Maharashtra	6,937.91	–	352.75	5.08	4,886.97	–	–	–
6.	Canara Bank	23,584.28	21.00	1,208.15	5.12	22,931.80	53.31	–	–
7.	Central Bank of India	19,390.89	–	780.10	4.02	14,783.55	–	–	–
8.	Corporation Bank	4,074.00	–	444.00	10.90	3,554.78	9.86	–	–
9.	Dena Bank	5,506.23	19.82	42.70	0.77	2,610.99	73.89	–	–
10.	Indian Bank	9,601.85	–	556.99	5.80	7,749.90	67.78	–	–
11.	Indian Overseas Bank	11,431.60	–	601.14	5.26	10,265.14	–	–	–
12.	Oriental Bank of Commerce	13,976.97	71.29	705.50	5.02	12,325.18	–	–	–
13.	Punjab and Sind Bank	2,878.19	42.35	59.02	2.02	2,118.90	–	70.02	3.30
14.	Punjab National Bank	31,031.89	–	1,902.34	6.13	24,001.66	–	–	–
15.	Syndicate Bank	9,765.62	–	419.12	4.29	4,922.35	49.23	–	–
16.	UCO Bank	9,718.04	75.15	391.61	4.00	5,818.44	43.98	–	–
17.	Union Bank of India	13,579.38	–	555.00	4.09	5,917.73	43.53	555.00	9.31
18.	United Bank of India	9,639.11	–	–	–	6,765.43	75.30	–	–
19.	Vijaya Bank	9,016.00	10.60	323.00	3.58	4,553.76	0.96	–	–
	State Bank Group	**1,70,541.21**	**639.49**	**7,283.71**	**4.25**	**99,414.47**	**179.13**	**–**	**–**
20.	State Bank of India	1,33,065.75	414.53	5,253.89	3.94	68,858.58	143.30	–	–
21.	State Bank of Bikaner and Jaipur	4,139.17	–	295.25	7.13	3,187.25	–	–	–
22.	State Bank of Hyderabad	9,187.45	0.35	467.52	5.09	7,396.41	5.56	–	–
23.	State Bank of Indore	4,511.90	170.27	220.47	4.71	3,395.56	7.48	–	–
24.	State Bank of Mysore	3,668.10	–	165.10	4.50	2,465.72	1.35	–	–
25.	State Bank of Patiala	6,793.62	6.66	408.58	6.01	6,760.77	13.62	–	–
26.	State Bank of Saurashtra	3,310.44	47.68	176.90	5.27	2,943.75	0.24	–	–
27.	State Bank of Travancore	5,864.78	–	296.00	5.05	4,406.43	7.58	–	–
	Other Public Sector Bank								
28.	IDBI Ltd.	6,050.29	506.99	392.00	5.98	8,143.32	1,288.46	–	–

– : Nil/Negligible.

AFS : Available for sale, HFT: Held for trading.

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

Appendix Table III.30: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*
(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**11.40**	**12.00**	**12.70**	**12.90**	**12.80**	**12.40**
	Public Sector Banks	**11.20**	**11.80**	**12.60**	**13.20**	**12.90**	**12.20**
	Nationalised Banks	**10.20**	**10.90**	**12.20**	**13.10**	**13.20**	**12.40**
1.	Allahabad Bank	10.50	10.62	11.15	12.52	12.53	13.37
2.	Andhra Bank	13.40	12.59	13.62	13.71	12.11	14.00
3.	Bank of Baroda	12.80	11.32	12.65	13.91	12.61	13.65
4.	Bank of India	12.23	10.68	12.02	13.01	11.52	10.75
5.	Bank of Maharashtra	10.64	11.16	12.05	11.88	12.68	11.27
6.	Canara Bank	9.84	11.88	12.50	12.66	12.78	11.22
7.	Central Bank of India	10.02	9.58	10.51	12.43	12.15	11.03
8.	Corporation Bank	13.30	17.90	18.50	20.12	16.23	13.92
9.	Dena Bank	7.73	7.64	6.02	9.48	11.91	10.62
10.	Indian Bank	Negative	1.70	10.85	12.82	14.14	13.19
11.	Indian Overseas Bank	10.24	10.82	11.30	12.49	14.20	13.04
12.	Oriental Bank of Commerce	11.81	10.99	14.04	14.47	9.21	12.46
13.	Punjab and Sind Bank	11.42	10.70	10.43	11.06	9.46	12.83
14.	Punjab National Bank	10.24	10.70	12.02	13.10	14.78	11.95
15.	Syndicate Bank	11.72	12.12	11.03	11.49	10.70	11.73
16.	UCO Bank	9.05	9.64	10.04	11.88	11.26	11.12
17.	Union Bank of India	10.86	11.07	12.41	12.32	12.09	11.41
18.	United Bank of India	10.40	12.02	15.17	17.04	18.16	13.12
19.	Vijaya Bank	11.50	12.25	12.66	14.11	12.92	11.94
	State Bank Group	**12.70**	**13.30**	**13.40**	**13.40**	**12.40**	**11.90**
20.	State Bank of India	12.79	13.35	13.50	13.53	12.45	11.88
21.	State Bank of Bikaner and Jaipur	12.39	13.42	13.18	12.93	12.60	12.08
22.	State Bank of Hyderabad	12.28	14.03	14.91	14.29	11.74	12.08
23.	State Bank of Indore	12.73	12.78	13.09	12.39	11.61	11.40
24.	State Bank of Mysore	11.16	11.81	11.62	11.53	12.08	11.37
25.	State Bank of Patiala	12.37	12.55	13.57	13.56	14.21	13.55
26.	State Bank of Saurashtra	13.89	13.20	13.68	14.53	11.45	12.03
27.	State Bank of Travancore	11.79	12.54	11.30	11.36	11.05	11.15
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	15.51	14.80

Appendix Table III.30: Capital Adequacy Ratio - Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8
	Old Private Sector Banks	**11.90**	**12.50**	**12.80**	**13.70**	**12.50**	**11.70**
1.	Bank of Rajasthan Ltd.	10.57	12.07	11.29	11.18	12.75	10.60
2.	Bharat Overseas Bank Ltd.	14.43	15.09	13.87	16.25	14.95	11.24
3.	Catholic Syrian Bank Ltd.	6.08	9.57	10.58	11.23	11.35	11.26
4.	City Union Bank Ltd.	13.59	13.97	13.95	13.36	12.18	12.33
5.	Dhanalakshmi Bank Ltd.	9.69	11.23	10.45	13.56	10.16	9.75
6.	Federal Bank Ltd.	10.29	10.63	11.23	11.48	11.27	13.75
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	10.67
9.	Jammu and Kashmir Bank Ltd.	17.44	15.46	16.48	16.88	15.15	12.14
10.	Karnataka Bank Ltd.	11.37	12.96	13.44	13.03	14.16	11.78
11.	Karur Vysya Bank Ltd.	15.56	16.90	17.01	17.11	16.07	14.79
12.	Lakshmi Vilas Bank Ltd.	10.21	11.54	11.35	13.79	11.32	10.79
13.	Lord Krishna Bank Ltd.	12.90	16.50	12.82	16.68	11.74	10.11
14.	Nainital Bank Ltd.	15.81	14.88	20.93	18.54	14.85	13.88
15.	Ratnakar Bank Ltd.	10.00	13.60	14.05	16.65	12.03	10.69
16.	Sangli Bank Ltd.	11.47	11.64	14.94	13.68	9.30	1.64
17.	SBI Commercial and International Bank Ltd.	19.85	22.10	21.19	30.43	23.56	22.29
18.	South Indian Bank Ltd.	11.17	11.20	10.75	11.32	9.89	13.02
19.	Tamilnad Mercantile Bank Ltd.	17.59	18.02	18.54	21.07	19.74	18.33
20.	United Western Bank Ltd.	9.59	9.79	10.17	10.13	4.86	0.99
	New Private Sector Banks	**11.50**	**12.30**	**11.30**	**10.20**	**12.10**	**12.60**
21.	Bank of Punjab Ltd.	11.02	12.82	13.59	12.64	9.23	–
22.	Centurion Bank of Punjab Ltd.	9.61	4.16	1.95	4.41	21.42	12.52
23.	Development Credit Bank Ltd.	11.28	11.49	10.08	14.14	9.88	9.66
24.	HDFC Bank Ltd.	11.09	13.93	11.12	11.66	12.16	11.41
25.	ICICI Bank Ltd.	11.57	11.44	11.10	10.36	11.78	13.35
26.	IndusInd Bank Ltd.	15.00	12.51	12.13	12.75	11.62	10.54
27.	Kotak Mahindra Bank Ltd.	–	–	25.97	15.25	12.80	11.27
28.	UTI Bank Ltd.	9.00	10.65	10.90	11.21	12.66	11.08
29.	Yes Bank Ltd.	–	–	–	–	18.81	16.43

Appendix Table III.30: Capital Adequacy Ratio - Scheduled Commercial Banks *(Concluded)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8
	Foreign Banks in India	**12.60**	**12.90**	**15.20**	**15.00**	**14.00**	**13.00**
1.	ABN-AMRO Bank N.V.	11.42	13.17	12.57	13.48	10.55	10.44
2.	Abu Dhabi Commercial Bank Ltd.	10.05	10.42	10.14	14.22	14.38	36.98
3.	American Express Bank Ltd.	9.59	10.71	10.93	10.74	10.87	10.26
4.	Antwerp Diamond Bank	–	–	92.69	53.22	39.99	39.67
5.	Arab Bangladesh Bank Ltd.	96.34	138.51	105.64	111.34	109.39	86.21
6.	Bank Internasional Indonesia	103.78	123.07	103.99	133.94	92.26	108.87
7.	Bank of America NA	13.03	21.07	21.08	22.92	30.07	23.40
8.	Bank of Bahrain and Kuwait B.S.C.	11.83	17.03	17.19	21.06	11.66	20.01
9.	Bank of Ceylon	36.49	30.94	32.29	45.26	49.40	56.37
10.	Bank of Nova Scotia	9.97	10.12	13.38	13.78	15.27	13.71
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	15.51	15.36	30.40	32.78	32.10	33.38
12.	Barclays Bank PLC	26.97	63.56	45.68	37.16	20.85	22.92
13.	BNP Paribas	9.92	9.66	10.74	21.70	9.41	11.61
14.	Chinatrust Commercial Bank	28.27	40.11	36.96	39.98	59.94	38.56
15.	Chohung Bank	35.00	27.65	37.17	54.43	55.31	81.71
16.	Citibank N.A.	11.24	11.04	11.30	11.11	10.78	11.33
17.	Calyon Bank	11.60	11.23	20.04	24.51	14.40	19.80
18.	Deutsche Bank AG	12.67	14.55	17.35	14.42	16.22	12.74
19.	DBS Bank Ltd.	15.93	13.31	15.98	55.49	35.06	31.33
20.	HSBC Ltd.	12.37	10.92	18.10	14.54	14.03	10.61
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	11.76
23.	Krung Thai Bank Public Co. Ltd.	148.99	167.65	119.88	115.98	99.59	133.53
24.	Mashreqbank psc	10.54	20.54	39.38	54.71	60.14	136.92
25.	Mizuho Corporate Bank Ltd.	18.38	11.14	18.50	36.09	28.76	65.76
26.	Oman International Bank S.A.O.G.	14.21	18.86	14.62	16.48	13.52	9.58
27.	Societe Generale	13.93	12.85	32.63	32.71	64.81	37.40
28.	Sonali Bank	88.14	113.64	46.86	60.55	105.81	93.78
29.	Standard Chartered Bank	9.60	9.28	10.56	10.87	10.46	9.93
30.	State Bank of Mauritius Ltd.	30.78	46.78	31.74	35.08	31.06	35.42
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 2006)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI-Resident	Financial Institutions-Resident	Financial Institutions-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	55.2	7.7	13.0	3.7	–	20.2	0.2	86.9	13.1
2.	Andhra Bank	51.6	6.7	17.3	4.4	–	20.0	0.2	82.6	17.5
3.	Bank of Baroda	53.8	9.5	20.1	2.9	–	12.9	0.8	79.1	20.9
4.	Bank of India	69.5	4.7	13.5	0.9	2.0	8.7	0.9	83.7	16.3
5.	Bank of Maharashtra	76.8	5.7	1.3	2.2	–	13.9	0.1	98.5	1.5
6.	Canara Bank	73.2	1.5	18.4	0.6	–	6.2	0.1	81.5	18.5
7.	Central Bank of India	100.0	–	–	–	–	–	–	100.0	–
8.	Corporation Bank	57.2	29.8	10.1	0.3	–	2.6	0.2	89.8	10.2
9.	Dena Bank	51.2	8.3	–	7.1	–	23.6	9.8	90.2	9.8
10.	Indian Bank	100.0	–	–	–	–	–	–	100.0	–
11.	Indian Overseas Bank	61.2	4.2	17.4	1.4	–	14.9	0.8	81.8	18.2
12.	Oriental Bank of Commerce	51.1	19.1	19.9	3.6	–	6.3	0.1	80.1	19.9
13.	Punjab and Sind Bank	100.0	–	–	–	–	–	–	100.0	–
14.	Punjab National Bank	57.8	13.9	20.2	2.4	–	5.6	–	79.8	20.2
15.	Syndicate Bank	66.5	6.1	12.2	1.1	–	13.9	0.2	87.5	12.5
16.	UCO Bank	75.0	5.1	–	2.5	2.0	15.2	0.2	97.8	2.2
17.	Union Bank of India	55.4	26.5	–	2.6	–	15.4	0.1	99.9	0.1
18.	United Bank of India	100.0	–	–	–	–	–	–	100.0	–
19.	Vijaya Bank	53.9	6.5	16.0	3.3	–	19.7	0.7	83.4	16.6
	State Bank Group									
20.	State Bank of India	59.7	11.5	19.8	2.4	–	6.5	0.1	80.2	19.8
21.	State Bank of Bikaner and Jaipur	–	75.5	–	4.8	2.4	14.7	2.6	95.1	4.9
22.	State Bank of Hyderabad	–	100.0	–	–	–	–	–	100.0	–
23.	State Bank of Indore	–	98.1	–	0.7	–	1.2	–	100.0	–
24.	State Bank of Mysore	–	94.0	–	0.5	–	5.5	–	100.0	–
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	77.3	2.3	3.1	–	12.4	4.0	93.8	6.2
	Old Public Sector Bank									
28.	IDBI Ltd.	52.8	29.2	–	3.4	–	14.0	0.7	99.3	0.7

Appendix Table III.31: Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2006)

(Per cent)

Sr. No.	Name of the Bank	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
	Old Private Sector Banks									
1.	Bank of Rajasthan Ltd.	–	2.8	1.3	56.2	–	39.3	0.5	98.2	1.8
2.	Bharat Overseas Bank Ltd.	–	100.0	–	–	–	–	–	100.0	–
3.	Catholic Syrian Bank Ltd.	–	–	–	3.9	–	95.7	0.5	99.6	0.5
4.	City Union Bank Ltd.	–	2.1	–	19.5	–	77.6	0.8	99.2	0.8
5.	Dhanalakshmi Bank Ltd.	–	0.1	1.0	12.2	–	85.9	0.8	98.2	1.8
6.	Federal Bank Ltd.	–	13.3	44.7	11.7	–	29.2	1.1	54.2	45.8
7.	ING Vysya Bank Ltd.	–	10.5	5.0	2.3	60.8	16.5	5.1	29.2	70.8
8.	Jammu and Kashmir Bank Ltd.	53.2	2.2	29.9	1.5	–	12.8	0.4	69.7	30.3
9.	Karnataka Bank Ltd.	–	7.7	–	5.7	–	86.2	0.4	99.6	0.4
10.	Karur Vysya Bank Ltd.	–	10.6	16.3	9.3	–	59.2	4.6	79.1	20.9
11.	Lakshmi Vilas Bank Ltd.	–	6.1	–	15.7	0.3	77.5	0.4	99.3	0.7
12.	Lord Krishna Bank Ltd.	–	–	–	56.8	0.1	43.1	–	99.9	0.1
13.	Nainital Bank Ltd.	–	98.4	–	–	–	1.6	–	100.0	–
14.	Ratnakar Bank Ltd.	–	0.4	–	4.2	–	95.4	–	100.0	–
15.	Sangli Bank Ltd.	0.5	–	–	32.0	–	67.5	–	100.0	–
16.	SBI Commercial and International Bank Ltd.	–	100.0	–	–	–	–	–	100.0	–
17.	South Indian Bank Ltd.	–	27.9	–	9.8	–	57.7	4.6	95.4	4.6
18.	Tamilnad Mercantile Bank Ltd.	–	–	–	8.7	–	90.9	0.4	99.6	0.4
19.	United Western Bank Ltd.	–	14.7	1.8	25.2	0.3	57.7	0.2	97.6	2.4
	New Private Sector Banks									
20.	Centurion Bank of Punjab Ltd.	–	2.2	19.5	10.6	49.7	16.9	1.1	29.7	70.3
21.	Development Credit Bank Ltd.	–	–	–	5.6	67.8	25.7	0.9	31.3	68.7
22.	HDFC Bank Ltd.	–	5.2	–	29.1	53.4	12.2	0.2	46.4	53.6
23.	ICICI Bank Ltd.	12.6	2.5	73.4	4.7	–	6.4	0.4	26.1	73.9
24.	IndusInd Bank Ltd.	–	2.5	13.4	21.7	33.9	24.8	3.9	48.9	51.1
25.	Kotak Mahindra Bank Ltd.	–	3.7	20.8	6.9	0.7	67.2	0.8	77.7	22.3
26.	UTI Bank Ltd.	–	50.7	–	1.5	42.1	5.6	0.1	57.8	42.2
27.	Yes Bank Ltd.	–	1.9	48.5	19.8	–	28.4	1.5	50.0	50.0

– : Nil/Negligible.

Source : Off-site Returns (domestic).

Appendix III.32: Expenditure Incurred on Computerisation and Development of Communication Networks by Public Sector Banks

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Expenditure incurred during half year ended March 2006	Expenditure incurred between September 1999 and March 2006
1	2	3	4
	Public Sector Banks (I+II)	**1,054.45**	**10,676.12**
I)	**Nationalised Banks**	**613.57**	**6,599.87**
1.	Allahabad Bank	17.98	170.38
2.	Andhra Bank	27.85	316.72
3.	Bank of Baroda	86.72	473.90
4.	Bank of India	97.72	1,008.40
5.	Bank of Maharashtra	25.16	233.86
6.	Canara Bank	59.03	703.92
7.	Central Bank of India	29.41	372.62
8.	Corporation Bank	14.05	286.91
9.	Dena Bank	18.87	146.43
10.	Indian Bank	40.68	309.25
11.	Indian Overseas Bank	3.38	176.72
12.	Oriental Bank of Commerce	30.22	228.67
13.	Punjab and Sind Bank	2.63	50.48
14.	Punjab National Bank	51.44	768.07
15.	Syndicate Bank	30.16	232.27
16.	UCO Bank	25.95	235.19
17.	Union Bank of India	24.11	351.08
18.	United Bank of India	16.45	123.56
19.	Vijaya Bank	11.76	411.44
II)	**State Bank Group**	**440.88**	**4,076.25**
20.	State Bank of India	261.84	2,813.78
21.	State Bank of Bikaner and Jaipur	55.20	253.29
22.	State Bank of Hyderabad	23.81	247.54
23.	State Bank of Indore	24.16	101.62
24.	State Bank of Mysore	30.83	128.57
25.	State Bank of Patiala	7.41	189.01
26.	State Bank of Saurashtra	15.20	139.34
27.	State Bank of Travancore	22.43	203.11

Appendix Table III.33: Computerisation in Public Sector Banks
(As on March 31, 2006)

(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 (I+II)	**48.5**	**28.9**	**77.5**	**18.2**
I)	**Nationalised Bank**	**48.0**	**20.5**	**68.5**	**25.4**
1.	Allahabad Bank	79.5	–	79.5	20.5
2.	Andhra Bank	26.7	73.3	100.0	–
3.	Bank of Baroda	95.3	4.7	100.0	–
4.	Bank of India	75.5	21.2	96.6	3.4
5.	Bank of Maharashtra	57.0	–	57.0	–
6.	Canara Bank	63.4	0.1	63.4	36.6
7.	Central Bank of India	51.1	0.5	51.6	2.0
8.	Corporation Bank	39.9	60.1	100.0	–
9.	Dena Bank	99.4	–	99.4	0.6
10.	Indian Bank	36.8	36.1	72.9	27.1
11.	Indian Overseas Bank	42.8	12.2	55.1	44.9
12.	Oriental Bank of Commerce	6.0	57.3	63.3	38.4
13.	Punjab National Bank	45.8	51.8	97.6	2.4
14.	Punjab and Sind Bank	9.6	–	9.6	90.4
15.	Syndicate Bank	8.7	26.4	35.0	65.5
16.	UCO Bank	27.5	–	27.5	66.2
17.	Union Bank of India	–	33.3	33.3	66.7
18.	United Bank of India	26.6	–	26.6	73.4
19.	Vijaya Bank	69.6	30.3	99.9	0.1
II)	**State Bank Group**	**49.8**	**50.1**	**99.9**	**–**
20.	State Bank of India	70.2	29.8	100.0	–
21.	State Bank of Bikaner and Jaipur	–	100.0	100.0	–
22.	State Bank of Hyderabad	–	100.0	100.0	–
23.	State Bank of Indore	–	98.4	98.4	–
24.	State Bank of Mysore	76.1	23.9	100.0	–
25.	State Bank of Patiala	–	100.0	100.0	–
26.	State Bank of Saurashtra	–	100.0	100.0	–
27.	State Bank of Travancore	–	100.0	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 2006)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs
		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	**12,990**	**7,103**	**6,990**	**6,929**	**34,012**	**4,812**	**2,353**	**7,165**	**32.84**
1.	Allahabad Bank	931	307	370	324	1,932	107	80	187	42.78
2.	Andhra Bank	367	315	276	190	1,148	94	297	391	75.96
3.	Bank of Baroda	1,091	550	466	580	2,687	479	155	634	24.45
4.	Bank of India	1,201	473	417	472	2,563	183	131	314	41.72
5.	Bank of Maharashtra	513	239	228	307	1,287	131	14	145	9.66
6.	Canara Bank	726	647	579	599	2,551	745	70	815	8.59
7.	Central Bank of India	1,324	732	561	526	3,143	170	27	197	13.71
8.	Corporation Bank	172	136	224	262	794	322	579	901	64.26
9.	Dena Bank	354	218	190	277	1,039	198	42	240	17.50
10.	Indian Bank	446	349	341	259	1,395	228	75	303	24.75
11.	Indian Overseas Bank	505	358	340	320	1,523	242	38	280	13.57
12.	Oriental Bank of Commerce	248	269	330	314	1,161	349	175	524	33.40
13.	Punjab and Sind Bank	282	112	195	191	780	5	0	5	–
14.	Punjab National Bank	1,845	786	756	641	4,028	521	179	700	25.57
15.	Syndicate Bank	624	428	439	406	1,897	272	54	326	16.56
16.	UCO Bank	754	325	337	333	1,749	104	2	106	1.89
17.	Union Bank of India	746	462	442	445	2,095	331	142	473	30.02
18.	United Bank of India	615	216	238	247	1,316	89	31	120	25.83
19.	Vijaya Bank	246	181	261	236	924	107	21	128	16.41
	State Bank Group	**5,229**	**4,043**	**2,449**	**2,110**	**13,831**	**1,775**	**3,668**	**5,443**	**67.39**
20.	State Bank of India	3,913	2,480	1,482	1,268	9,143	175	116	291	39.86
21.	State Bank of Bikaner and Jaipur	284	239	141	152	816	270	70	340	20.59
22.	State Bank of Hyderabad	256	298	213	163	930	553	3074	3627	84.75
23.	State Bank of Indore	119	125	77	115	436	121	93	214	43.46
24.	State Bank of Mysore	210	131	139	154	634	177	38	215	17.67
25.	State Bank of Patiala	264	194	188	107	753	228	66	294	22.45
26.	State Bank of Saurashtra	131	131	69	94	425	89	86	175	49.14
27.	State Bank of Travancore	52	445	140	57	694	162	125	287	43.55
	Other Public Sector Bank									
28.	IDBI Ltd.	2	17	66	88	173	135	241	376	64.10

Appendix Table III.34: Branches and ATMs of Scheduled Commercial Banks *(Continued)*
(As at end-March 2006)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs
		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	**936**	**1,447**	**1,236**	**947**	**4,566**	**1,054**	**493**	**1,547**	**31.87**
1.	Bank of Rajasthan Ltd.	97	77	108	101	383	54	7	61	11.48
2.	Bharat Overseas Bank Ltd.	8	6	46	43	103	32	0	32	–
3.	Catholic Syrian Bank Ltd.	36	162	78	36	312	52	19	71	26.76
4.	City Union Bank Ltd.	30	37	46	28	141	33	0	33	–
5.	Dhanalakshmi Bank Ltd.	23	77	50	28	178	50	11	61	18.03
6.	Federal Bank Ltd.	33	258	101	74	466	153	167	320	52.19
7.	ING Vysya Bank	79	75	116	99	369	89	25	114	21.93
8.	Jammu and Kashmir Bank Ltd.	204	67	107	57	435	113	60	173	34.68
9.	Karnataka Bank Ltd.	93	82	117	108	400	56	19	75	25.33
10.	Karur Vysya Bank Ltd.	28	74	86	55	243	133	47	180	26.11
11.	Lakshmi Vilas Bank Ltd.	36	79	69	39	223	16	0	16	–
12.	Lord Krishna Bank Ltd.	12	43	28	29	112	42	2	44	4.55
13.	Nainital Bank Ltd.	18	17	23	21	79	0	0	0	–
14.	Ratnakar Bank Ltd.	23	23	16	15	77	8	1	9	11.11
15.	Sangli Bank Ltd.	47	49	44	46	186	0	0	0	–
16.	SBI Commercial and International Bank Ltd.	–	–	–	2	2	2	0	2	–
17.	South Indian Bank Ltd.	66	199	91	68	424	75	70	145	48.28
18.	Tamilnad Mercantile Bank Ltd.	49	50	49	26	174	15	19	34	55.88
19.	United Western Bank Ltd.	47	58	53	70	228	72	3	75	4.00
	New Private Sector Banks	**97**	**322**	**674**	**857**	**1,950**	**2,255**	**3,857**	**6,112**	**63.11**
20.	Centurion Bank of Punjab Ltd.	2	52	86	97	237	241	153	394	38.83
21.	Development Credit Bank Ltd.	3	10	12	43	68	59	43	102	42.16
22.	HDFC Bank Ltd.	10	74	168	263	515	658	665	1,323	50.26
23.	ICICI Bank Ltd.	75	99	171	212	557	703	1,506	2,209	68.18
24.	IndusInd Bank Ltd.	2	16	74	45	137	131	83	214	38.79
25.	Kotak Mahindra Ltd.	–	15	17	46	78	456	1,435	1,891	75.89
26.	UTI Bank Ltd.	5	56	145	143	349	63	14	77	18.18
27.	Yes Bank Ltd.	–	–	1	8	9	3	1	4	25.00

Appendix Table III.34: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2006)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs
		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	**–**	**1**	**37**	**221**	**259**	**232**	**648**	**880**	**73.64**
1.	ABN-AMRO Bank N.V.	–	–	6	17	23	24	54	78	69.23
2.	Abu Dhabi Commercial Bank Ltd.	–	–	–	2	2	1	2	3	66.67
3.	American Express Bank Ltd.	–	–	–	8	8	9	1	10	10.00
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	66.67
9.	Bank of Ceylon	–	–	–	1	1	–	–	–	–
10.	Bank of Nova Scotia	–	–	1	4	5	–	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	–	–	–	3	3	–	–	–	–
12.	Barclays Bank PLC	–	–	–	1	1	–	–	–	–
13.	BNP Paribas	–	–	–	9	9	–	–	–	–
14.	Calyon Bank	–	–	–	6	6	–	–	–	–
15.	Chinatrust Commercial Bank	–	–	–	1	1	–	–	–	–
16.	Chohung Bank	–	–	–	1	1	–	–	–	–
17.	Citibank N.A.	–	1	10	28	39	39	349	388	89.95
18.	DBS Bank Ltd.	–	–	–	2	2	–	–	–	–
19.	Deutsche Bank AG	–	–	2	6	8	8	14	22	63.64
20.	HSBC Ltd.	7	–	7	36	43	62	103	165	62.42
21.	JPMorgan Chase Bank	–	–	–	1	1	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	1	1	–	–	–	–
23.	Mashreqbank psc	–	–	–	2	2	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	–	–	–	1	1	–	–	–	–
25.	Oman International Bank S.A.O.G.	–	–	1	1	2	1	–	1	–
26.	Societe Generale	–	–	–	2	2	–	–	–	–
27.	Sonali Bank	–	–	–	1	1	–	–	–	–
28.	Standard Chartered Bank	–	–	10	75	85	81	101	182	55.49
29.	State Bank of Mauritius Ltd.	–	–	–	3	3	–	–	–	–

– : Nil/Negligible.

Source : Updated Master Office File.

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, 2005@					As on June 30, 2006@				
		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 and Associates	8	5,223	4,011	2,408	2,090	13,732	5,231	4,045	2,452	2,116	13,844
		(38.0)	(29.2)	(17.5)	(15.2)	(100.0)	(37.8)	(29.2)	(17.7)	(15.3)	(100.0)
2. Nationalised Banks	19	12,975	7,020	6,877	6,848	33,720	12,996	7,103	7,022	6,952	34,073
		(38.5)	(20.8)	(20.4)	(20.3)	(100.0)	(38.1)	(20.8)	(20.6)	(20.4)	(100.0)
3. Other Public Sector Bank	1	2	17	65	75	159	2	19	67	93	181
		(1.3)	(10.7)	(40.9)	(47.2)	(100.0)	(1.1)	(10.5)	(37.0)	(51.4)	(100.0)
4. Indian Private Sector Banks	28	1,701	1,701	1,794	1,661	6,183	1,034	1,768	1,914	1,827	6,543
		(27.5)	(27.5)	(29.0)	(26.9)	(100.0)	(15.8)	(27.0)	(29.3)	(27.9)	(100.0)
5. Foreign Banks in India	29	–	1	31	219	251	–	1	37	224	262
		–	(0.4)	(12.4)	(87.3)	(100.0)	–	(0.4)	(14.1)	(85.5)	(100.0)
6. Regional Rural Banks	130**	11,525	2,414	493	49	14,481	11,509	2,422	506	51	14,488
		(79.6)	(16.7)	(3.4)	(0.3)	(100.0)	(79.4)	(16.7)	(3.5)	(0.4)	(100.0)
7. Non-Scheduled Commercial Banks (Local Area Banks)	4	3	10	10	–	23	4	12	10	–	26
		(13.0)	(43.5)	(43.5)	–	(100.0)	(15.4)	(46.2)	(38.5)	–	(100.0)
TOTAL	**219**	**30,755**	**15,174**	**11,678**	**10,942**	**68,549**	**30,776**	**15,370**	**12,008**	**11,263**	**69,417**
		(44.9)	**(22.1)**	**(17.0)**	**(16.0)**	**(100.0)**	**(44.3)**	**(22.1)**	**(17.3)**	**(16.2)**	**(100.0)**

– : Nil/Negligible.
\# : as on June 30, 2006.
@ : Population group wise classification of branches is based on 2001 Census.
** : Number of Regional Rural Banks as on June 30, 2006 was 106, after amalgamation of 36 RRBs into 12 RRBs between April 1, to June 30, 2006.

Note : 1. Number of branches excludes administrative office.
2. Data for June 2005 are revised.
3. Figures in brackets indicate percentages to the total in each group.

Source : Updated Master Office File.

Appendix Table III.36 : Distribution of Commercial Bank Branches - Region/State/Union Territory

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	
		2005	2006	July 2004 to June 2005	*of which:* at unbanked centres	July 2005 to June 2006	*of which:* at unbanked centres	2005	2006
1	2	3	4	5	6	7	8	9	10
	ALL INDIA	**68,549**	**69,417**	**1,250**	**15**	**933**	**2**	**16**	**16**
1.	**NORTHERN REGION**	**11,359**	**11,634**	**310**	**2**	**286**	**–**	**13**	**13**
	Chandigarh	199	212	5	–	13	–	5	5
	Delhi	1,662	1,739	98	–	83	–	9	9
	Haryana	1,690	1,759	63	–	67	–	13	13
	Himachal Pradesh	806	820	14	–	14	–	8	8
	Jammu and Kashmir	867	872	18	1	8	–	13	13
	Punjab	2,722	2,787	56	1	67	–	9	9
	Rajasthan	3,413	3,445	56	–	34	–	18	18
2.	**NORTH-EARSTERN REGION**	**1,897**	**1,913**	**14**	**–**	**18**	**–**	**22**	**22**
	Arunachal Pradesh	67	69	–	–	2	–	17	17
	Assam	1,235	1,243	12	–	10	–	23	23
	Manipur	77	77	1	–	–	–	33	33
	Meghalaya	185	189	1	–	4	–	13	13
	Mizoram	79	79	–	–	–	–	12	12
	Nagaland	73	74	–	–	1	–	29	29
	Tripura	181	182	–	–	1	–	19	19
3.	**EASTERN REGION**	**11,984**	**12,074**	**139**	**1**	**94**	**–**	**20**	**20**
	Andaman and Nicobar Islands	33	34	1	–	1	–	12	12
	Bihar	3,580	3,591	20	1	12	–	25	25
	Jharkhand	1,494	1,502	16	–	9	–	19	20
	Orissa	2,286	2,310	33	–	24	–	17	17
	Sikkim	56	56	7	–	–	–	10	10
	West Bengal	4,535	4,581	62	–	48	–	19	19
4.	**CENTRAL REGION**	**13,765**	**13,879**	**163**	**–**	**138**	**–**	**20**	**20**
	Chhatisgarh	1,042	1,045	10	–	7	–	22	22
	Madhya Pradesh	3,494	3,505	35	–	22	–	19	19
	Uttar Pradesh	8,339	8,418	97	–	87	–	22	22
	Uttaranchal	890	911	21	–	22	–	10	10
5.	**WESTERN REGION**	**10,606**	**10,738**	**232**	**2**	**145**	**–**	**15**	**15**
	Dadra and Nagar Haveli	12	13	–	–	1	–	20	19
	Daman and Diu	16	16	–	–	–	–	11	11
	Goa	342	349	7	–	7	–	4	4
	Gujarat	3,733	3,771	66	1	46	–	15	15
	Maharashtra	6,503	6,589	159	1	91	–	16	16
6.	**SOUTHERN REGION**	**18,938**	**19,179**	**392**	**10**	**252**	**2**	**12**	**12**
	Andhra Pradesh	5,437	5,494	118	1	58	–	15	15
	Karnataka	4,985	5,061	107	5	80	–	11	11
	Kerala	3,533	3,588	65	3	57	2	9	9
	Lakshadweep	10	10	1	–	–	–	7	7
	Pondicherry	90	90	6	–	–	–	11	12
	Tamil Nadu	4,883	4,936	95	1	57	–	13	13

– : Nil/Negligible.
@ : Including the branches of non-scheduled commercial banks (Local Area Banks)

Note: 1. Average population per bank branch is based on estimated mid-year population of respective year received from the Office of Registrar General and Census Commissioner. Government of India.
2. Bank branches exclude administrative offices.
3. Data for June 2005 are revised.
4. Data for June 2006 are provisional.

Source: Updated Master Office File.

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 @			
		March 2003		March 2004		March 2005		March 2006	March 2004		March 2005	
		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	**59.2**	**59.2**	**58.2**	**58.2**	**66.0**	**66.0**	**72.5**	**66.5**	**66.5**	**73.4**	**73.4**
1.	**NORTHERN REGION**	**56.0**	**55.5**	**54.8**	**56.8**	**59.5**	**62.2**	**65.5**	**60.6**	**62.6**	**64.7**	**67.4**
	Haryana	44.0	58.3	47.6	59.6	51.4	63.2	57.4	57.3	69.3	60.4	72.1
	Himachal Pradesh	24.8	37.7	29.7	42.7	36.3	50.9	40.5	50.2	63.2	56.5	71.1
	Jammu and Kashmir	36.5	39.0	37.4	41.7	46.7	50.9	44.9	48.0	52.4	55.9	60.0
	Punjab	41.5	43.4	43.1	45.7	50.1	49.7	Feb-00	50.3	52.9	57.6	57.2
	Rajasthan	50.8	55.3	55.7	62.8	68.7	76.5	78.4	78.9	86.0	89.6	97.4
	Chandigarh	109.7	107.6	105.3	107.0	88.9	97.0	80.2	105.3	107.0	88.9	97.0
	Delhi	65.8	59.2	59.9	57.9	62.4	62.5	68.9	59.9	58.0	62.5	62.6
2.	**NORTH-EASTERN REGION**	**27.4**	**48.2**	**29.8**	**33.7**	**35.0**	**44.6**	**39.3**	**51.2**	**55.1**	**53.1**	**62.7**
	Arunachal Pradesh	16.6	22.1	16.1	25.2	22.0	30.0	25.1	29.3	38.5	34.3	42.4
	Assam	29.3	61.6	31.8	35.7	35.3	41.9	42.0	50.6	54.6	50.2	56.9
	Manipur	29.8	30.0	31.6	31.8	42.4	42.6	50.6	74.8	75.0	76.6	76.8
	Meghalaya	29.0	31.8	34.6	42.6	43.6	85.7	39.3	52.1	60.0	59.4	101.5
	Mizoram	27.5	30.5	34.8	39.7	47.8	59.1	51.4	71.1	75.9	83.0	94.3
	Nagaland	13.2	13.3	15.0	15.2	22.9	23.2	22.3	60.7	60.9	71.8	72.1
	Tripura	26.1	23.7	25.2	24.7	28.6	29.0	31.6	44.8	44.4	46.6	46.9
3.	**EASTERN REGION**	**39.6**	**42.8**	**41.8**	**45.2**	**45.5**	**50.4**	**49.7**	**54.6**	**58.0**	**57.5**	**62.4**
	Bihar	23.1	23.7	24.9	26.9	27.7	31.4	30.2	41.7	43.6	42.7	46.3
	Jharkhand	25.1	30.9	26.3	26.9	29.6	30.6	33.7	31.1	31.7	34.8	35.8
	Orissa	48.2	56.9	53.7	58.6	61.8	74.7	65.2	77.8	82.8	80.2	93.2
	Sikkim	17.1	19.3	22.4	23.0	29.5	29.3	45.3	36.3	37.0	44.3	44.1
	West Bengal	47.9	50.0	49.5	53.8	52.3	56.8	57.2	60.2	64.4	63.4	67.8
	Andaman and Nicobar Islands	20.3	49.7	26.1	42.2	26.8	43.8	27.9	26.1	42.2	26.8	43.8
4.	**CENTRAL REGION**	**33.3**	**38.6**	**35.6**	**39.9**	**40.8**	**45.8**	**45.2**	**48.3**	**52.6**	**52.6**	**57.5**
	Chhattisgarh	35.1	43.8	40.0	44.9	43.6	49.9	50.2	46.4	51.2	50.2	56.6
	Madhya Pradesh	46.6	51.7	46.9	50.1	54.7	61.2	60.0	61.7	65.0	68.2	74.8
	Uttar Pradesh	30.6	36.0	33.1	38.0	37.9	42.2	42.0	46.1	50.9	49.9	54.2
	Uttaranchal	19.4	21.4	21.1	23.4	24.3	29.1	25.8	31.7	34.0	34.3	39.0
5.	**WESTERN REGION**	**81.0**	**71.5**	**72.0**	**63.2**	**83.5**	**71.8**	**91.5**	**76.6**	**67.8**	**87.6**	**75.9**
	Goa	24.2	27.8	21.7	27.3	25.1	30.3	23.0	27.4	32.9	30.6	35.8
	Gujarat	44.8	56.0	42.2	54.8	46.5	60.9	56.4	51.5	64.1	55.2	69.6
	Maharashtra	93.7	77.4	81.8	66.5	94.9	75.9	101.5	85.1	69.9	97.8	78.8
	Dadra and Nagar Haveli	22.9	168.7	15.6	118.8	34.8	110.8	49.8	15.6	118.8	34.8	110.8
	Daman and Diu	9.2	66.1	11.6	49.8	11.5	48.3	11.1	11.6	49.8	11.5	48.3
6.	**SOUTHERN REGION**	**66.3**	**71.2**	**68.5**	**72.7**	**78.1**	**83.9**	**83.6**	**77.7**	**81.9**	**86.3**	**92.1**
	Andhra Pradesh	62.4	69.3	65.9	70.9	74.8	83.3	82.0	79.6	84.7	85.8	94.4
	Karnataka	62.3	71.1	63.1	69.0	73.8	80.5	76.8	70.0	75.9	80.3	86.9
	Kerala	42.8	43.6	45.5	47.8	54.6	57.5	61.7	54.5	56.8	63.6	66.5
	Tamil Nadu	90.7	93.1	93.1	96.1	101.2	105.4	105.9	100.8	103.9	108.4	112.7
	Lakshadweep	4.6	5.9	8.0	10.0	9.7	23.7	11.5	8.0	10.0	9.7	23.7
	Pondicherry	32.0	39.6	34.5	42.6	38.3	43.9	44.8	34.5	42.6	38.6	44.2

@ : Banks State-wise investment represent their holdings of State-level securities, such as, State Government loans and shares, bonds, debentures, *etc.* of regional rural banks, co-operative institutions, state electricity boards, municipal corporations, municipalities and port trusts, state financial corporations, housing boards, state industrial development corporations, road transport corporations and other Government and quasi-Government bodies. All-India investment *plus* credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

Note: 1. Deposits and Credit (as per place of sanction and utilisation) data for 2003, 2004 and 2005 are based on BSR-1 and 2 Surveys as on March 31.

2. The investment data are based on BSR-5 Survey as on March 31, 2004 and 2005. Revised investment data of March 31, 2004 have been considered.

3. Data on C-D ratio for 2005 and 2006 (as per sanction) are based on BSR 7 Survey.

Appendix Table III.38 : Statement of Complaints received against Public/Private Sector Banks *(Continued)*

(For the period from 01.07.2005 to 30.06.2006)

Sr. No.	Name of the Bank	Total No. of complaints received during the period	No. of Branches	Complaints per branch	Category-wise break up 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	95	2027	0.05	22	8	24	–	–	–	4	37
2.	Andhra Bank	28	1164	0.02	8	4	6	–	–	–	1	9
3.	Bank of Baroda	173	2776	0.06	36	11	26	3	10	–	5	82
4.	Bank of India	142	2678	0.05	28	12	27	7	2	–	9	57
5.	Bank of Maharashtra	52	1336	0.04	11	1	12	–	3	–	3	22
6.	Canara Bank	144	2644	0.05	27	10	22	2	1	–	7	75
7.	Central Bank of India	190	3250	0.06	56	6	34	8	3	–	7	76
8.	Corporation Bank	60	824	0.07	9	10	4	4	–	–	1	32
9.	Dena Bank	70	1064	0.07	15	9	8	5	–	–	3	30
10.	Indian Bank	102	1435	0.07	13	1	36	6	–	–	4	42
11.	Indian Overseas Bank	61	1586	0.04	5	9	4	7	1	–	–	35
12.	Oriental Bank of Commerce	99	1184	0.08	22	10	18	7	–	–	7	35
13.	Punjab National Bank	293	4142	0.07	76	32	51	14	3	1	10	106
14.	Punjab and Sind Bank	56	786	0.07	7	5	17	5	–	–	4	18
15.	Syndicate Bank	75	1974	0.04	12	8	18	1	1	–	1	34
16.	UCO Bank	57	1815	0.03	9	7	12	2	–	–	1	26
17.	Union Bank of India	109	2169	0.05	18	16	24	6	–	–	3	42
18.	United Bank of India	35	1350	0.03	6	1	10	–	–	–	5	13
19.	Vijaya Bank	39	979	0.04	8	2	11	–	1	–	1	16
	State Bank Group											
20.	State Bank of India	1100	9241	0.12	200	140	174	34	151	25	42	334
21.	State Bank of Bikaner and Jaipur	62	836	0.07	11	7	18	2	–	–	1	23
22.	State Bank of Hyderabad	22	959	0.02	5	2	3	1	–	–	–	11
23.	State Bank of Indore	24	453	0.05	5	2	–	1	–	–	–	16
24.	State Bank of Mysore	46	646	0.07	5	12	5	–	–	–	4	20
25.	State Bank of Patiala	89	762	0.12	17	9	18	14	6	–	5	20
26.	State Bank of Saurashtra	66	439	0.15	9	11	11	–	3	–	11	21
27.	State Bank of Travancore	27	703	0.04	3	5	6	1	–	–	–	12
	Other Public Sector Bank											
28.	IDBI Ltd.	85	173	0.49	27	4	6	9	4	–	–	35

Appendix Table III.38 : Statement of Complaints received against Public/Private Sector Banks *(Continued)*

(For the period from 01.07.2005 to 30.06.2006)

Sr. No.	Name of the Bank	Total No. of complaints received during the period	No. of Branches	Complaints per branch	Category-wise break up complaints							
					Deposit Accounts related	Remittance/ collection facilities	Loans /Advances General	Loans /Advances Housing Loan	Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ others
1	2	3	4	5	6	7	8	9	10	11	12	13
	Old Private Sector Banks											
1.	Bank of Rajastan Ltd.	19	402	0.05	8	–	2	–	–	–	–	9
2.	Bharat Overseas Bank Ltd.	4	103	0.04	–	–	1	–	–	–	–	3
3.	Catholic Syrian Bank Ltd.	5	325	0.02	–	1	3	–	–	–	–	1
4.	City Union Bank Ltd.	9	142	0.06	1	1	1	–	–	–	–	6
5.	Dhanalakshmi Bank Ltd.	3	185	0.02	2	1	–	–	–	–	–	–
6.	Federal Bank Ltd.	8	482	0.02	1	–	5	–	–	–	–	2
7.	Ganesh Bank of Kurundwad Ltd.	5	31	0.16	–	–	–	–	2	–	–	3
8.	ING Vysya Bank Ltd.	22	387	0.06	6	3	1	–	1	–	–	11
9.	Jammu and Kashmir Bank Ltd.	11	450	0.02	1	2	–	1	–	–	1	6
10.	Karnataka Bank Ltd.	9	412	0.02	2	–	2	–	–	–	–	5
11.	Karur Vysya Bank Ltd.	13	263	0.05	1	–	1	–	–	–	–	11
12.	Laxmi Vilas Bank Ltd.	7	240	0.03	–	–	2	–	–	–	–	5
13.	Lord Krishna Bank Ltd.	4	118	0.03	2	1	–	–	–	–	–	1
14.	Nainital Bank Ltd.	2	81	0.02	1	–	–	–	–	–	–	1
15.	Ratnakar Bank Ltd.	1	78	0.01	–	–	–	–	–	–	–	1
16.	Sangli Bank Ltd.	12	194	0.06	1	–	5	–	1	–	–	5
17.	SBI Commercial and International Bank Ltd.	0	3	–	–	–	–	–	–	–	–	–
18.	South Indian Bank Ltd.	8	440	0.02	1	1	2	–	1	–	–	3
19.	Tamilnad Mercantile Bank Ltd.	22	184	0.12	5	–	3	1	–	–	–	13
20.	United Western Bank Ltd.	14	237	0.06	1	1	–	–	2	–	–	10
	New Private Sector Banks											
21.	Centurian Bank of Punjab Ltd.	37	242	0.15	11	3	5	1	–	–	1	16
22.	Development Credit Bank Ltd.	11	91	0.12	2	2	1	2	1	–	–	3
23.	HDFC Bank Ltd.	374	515	0.73	66	30	36	20	83	5	12	122
24.	ICICI Bank Ltd.	783	563	1.39	95	35	92	38	296	17	24	186
25.	IndusInd Bank Ltd.	24	146	0.16	3	3	3	–	–	–	–	15
26.	Kotak Mahindra Bank Ltd.	23	78	0.29	2	1	9	1	1	–	2	7
27.	UTI Bank Ltd.	61	348	0.18	17	12	6	3	1	–	2	20
28.	Yes Bank Ltd.	1	6	0.17	–	1	–	–	–	–	–	–

Appendix Table III.38 : Statement of Complaints received against Public/Private Sector Banks *(Concluded)*

(For the period from 01.07.2005 to 30.06.2006)

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											
1.	ABN Amro Bank Ltd	147	23	6.39	10	2	7	4	94	2	5	23
2.	Abu Dhabi Commercial Bank Ltd.	1	2	0.50	–	–	–	–	–	–	–	1
3.	American Express Bank Ltd.	26	8	3.25	2	–	1	–	15	4	–	4
4.	Antwerp Bank Ltd.	–	1	–	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	–	1	–	–	–	–	–	–	–	–	–
6.	Bank of America NA	1	5	0.20	–	1	–	–	–	–	–	–
7.	Bank of International Indonesia	–	1	–	–	–	–	–	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	–	2	–	–	–	–	–	–	–	–	–
9.	Bank of Ceylon	–	1	–	–	–	–	–	–	–	–	–
10.	Bank of Nova Scotia	–	5	–	–	–	–	–	–	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	1	3	0.33	–	1	–	–	–	–	–	–
12.	Barclays Bank PLC	–	1	–	–	–	–	–	–	–	–	–
13.	BNP Paribas	1	9	0.11	–	–	–	–	–	–	–	1
14.	Caylon Bank	1	6	0.17	–	–	–	–	–	–	–	1
15.	Chinatrust Commercial Bank	–	1	–	–	–	–	–	–	–	–	0
16.	Chohung Bank	–	1	–	–	–	–	–	–	–	–	0
17.	Citibank N.A.	335	39	8.59	18	14	33	15	147	62	10	36
18.	DBS Bank Ltd.	–	2	–	–	–	–	–	–	–	–	–
19.	Deutsche Bank AG	2	8	0.25	–	–	–	–	–	–	–	2
20.	HSBC Ltd.	79	42	1.88	7	2	7	5	37	7	4	10
21.	J P Morgan Chase Bank	–	1	–	–	–	–	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	–	1	–	–	–	–	–	–	–	–	–
23.	Mashreqbank PSC	–	2	–	–	–	–	–	–	–	–	–
24.	Mauritious Bank	–	3	–	–	–	–	–	–	–	–	–
25.	Mizuhho Corporate Bank Ltd.	–	1	–	–	–	–	–	–	–	–	–
26.	Oman International Bank S.A.O.G.	–	2	–	–	–	–	–	–	–	–	–
27.	Societe Generale	–	2	–	–	–	–	–	–	–	–	–
28.	Sonali Bank	–	1	–	–	–	–	–	–	–	–	–
29.	Standard Chartered Bank Ltd.	285	87	3.28	10	6	24	20	122	32	16	55

– : Nil/Negligible.

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
I.	**AHMEDABAD**			
1.	Apex Co-operative Bank Ltd., Ahmedabad			
2.	Bharuch Taluka Teachers and 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	19.09.2005
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	01.08.2000		05.02.2001
15.	Shri Dhrangadhra Nagarik Sahakari Bank Ltd., Dhrangadhra	#		
16.	Shri Jamnagar Nagarik Sahakari Bank Ltd., Jamnagar		27.12.2002	21.07.2004
17.	Shri Sarvodaya Co-operative Bank Ltd., Ahmedabad		10.04.1999	15.04.1999
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	27.12.2001		
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		26.04.1999	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	11.02.2002
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		11.05.2001
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		
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	04.06.2004		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-operative Bank Ltd., Baroda	27.07.2004		02.08.2004
42.	Suryapur Co-operative Bank Ltd., Surat	17.08.2004		19.08.2004
43.	Petlad Commercial Co-operative Bank Ltd., Petlad	24.08.2004		26.08.2004
44.	Shri Vikas Co-operative Bank Ltd., Surat	01.09.2004		
45.	Sabarmati Co-operative Bank Ltd., Ahmedabad	01.09.2004		01.09.2004
46.	Nadiad Mercantile Co-operative Bank Ltd., Nadiad	15.09.2004		16.09.2004
47.	Shree Vitthal Co-operative Bank Ltd., Dehgam	21.09.2004		22.09.2004
48.	Pragati Co-operative 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-operative Bank Ltd., Ahmedabad		08.11.2004	16.11.2004
51.	Navsari People's Co-op. Bank Ltd., Navasari	08.11.2004		04.08.2005

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
52.	Sheth B.B.Shroff Bulsar Peoples Co-op. Bank Ltd., Valsad	11.11.2004		17.08.2005
53.	Shreenathji Co-operative Bank Ltd., Nadiad	06.12.2004		06.12.2004
54.	Royale Co-operative Bank Ltd., Surat	02.06.2005		08.06.2005
55.	Shree Swaminarayan Co-operative Bank Ltd., Vadodara	02.06.2005		08.06.2005
56.	Century Co-operative Bank Ltd., Surat	07.06.2005		10.06.2005
57.	Shri Vitrag Co-operative Bank Ltd., Surat	06.09.2005		07.09.2005
58.	Metro Co-operative Bank Ltd., Surat	16.09.2005		19.09.2005
59.	Anand Peoples Co-operative Bank Ltd., Anand	26.10.2005		27.10.2005
60.	Natpur Co-operative Bank Ltd., Nadiad	22.11.2005		23.11.2005
61.	Janata Co-operative Bank Ltd., Nadiad	09.12.2005		12.12.2005
62.	Dhansura Peoples Co-operative Bank Ltd., Dhansura	15.02.2006		16.02.2006
63.	Dabhoi Nagarik Sahakri Bank Ltd., Dabhoi	07.03.2006		08.03.2006
II.	**BANGALORE**			
1.	Robertsonpet Co-operative Society Ltd., Robertsonpet	Unlicensed	N.A.	10.01.1972
2.	Hubli Muslim Co-operative Bank Ltd., Hubli	14.05.1976	N.A.	11.10.1976
3.	Ron Urban Co-operative Bank Ltd., Ron	Unlicensed	N.A.	27.11.1976
4.	Ramdurga Urban Co-operative Bank Ltd., Ramdurga	22.04.1981	N.A.	22.04.1981
5.	Adarsha Co-operative Bank Ltd., Mysore	Unlicensed	N.A.	28.01.1985
6.	Gadag Urban Co-operative Bank Ltd., Gadag	27.05.1985	N.A.	27.05.1985
7.	Shri Fakereshwara Urban Co-operative Bank Ltd., Shirhatti	Unlicensed	N.A.	16.01.1986
8.	Manihal Urban Co-operative Bank Ltd., Manihal	19.11.1987	N.A.	24.07.1987
9.	Mundargi Urban Co-operative Bank Ltd., Mundargi	18.04.1988	N.A.	18.04.1988
10.	Manoli Shri Panchalingeshwara Urban Co-operative Bank Ltd.	28.05.1991	N.A.	28.05.1991
11.	Bellatti Urban Co-operative Bank Ltd., Bellatti	Unlicensed	N.A.	05.10.1993
12.	Bijapur Industrial Co-operative Bank Ltd., Bagalkot	Unlicensed	N.A.	30.08.1994
13.	Dharwad Industrial Co-operative Bank Ltd., Hubli	Unlicensed	N.A.	31.08.1994
14.	Sri Chamaraja Co-operative Bank Ltd., Chamaraja	N.A.	N.A.	16.05.1995
15.	Karnataka Kurubara Co-operative Bank Ltd., Gadag	N.A.	N.A.	17.06.1995
16.	Bannikop Urban Co-operative Bank Ltd., Bannikop	Unlicensed	N.A.	19.06.1995
17.	Srirampura Co-operative Bank Ltd., Bangalore	Unlicensed	N.A.	25.03.1996
18.	Hubli Dharwad Urban Co-operative Bank Ltd., Hubli	24.11.1999	N.A.	04.12.1999
19.	Navodaya Sahakara Bank Ltd., Bangalore	16.03.2000	N.A.	18.03.2000
20.	Jyothirlinga Sahakari Bank, Niyamitha Jalageri	N.A.	N.A.	28.09.2000
21.	Gulbarga Urban Co-operative Bank Ltd.	01.11.2002	N.A.	01.11.2002
22.	Sri Mouneshwar Co-operative Bank Ltd.	23.04.2003	N.A.	23.04.2003
23.	Raibag Urban Co-operative Bank Ltd.	Unlicensed	N.A.	14.07.2004
24.	Cauvery Urban Co-operative Bank Ltd.	11.02.2004	N.A.	11.02.2004
25.	Karnataka Contractors Co-operative Bank Ltd., Bangalore	08.02.2004	N.A.	12.02.2004
III.	**BHOPAL**			
1.	Jabalpur Nagrik Sahakari Bank Ltd., Jabalpur	09.12.1999		05.06.2000
2.	Citizen Urban Co-op Bank Indore	23.04.1993		26.04.1993
3.	Sagar Nagrik Sahakari Bank Ltd., Sagar	07.07.1999		21.12.1999
4.	Nagrik Sahakari Bank Ltd., Jhabua	N.A.		N.A.
5.	Janata Nagrik Sahakari Bank Ltd., Dewas		14.03.2002	
6.	Datia Nagrik Sahakari Bank Ltd., Datia	15.05.2002		26.06.2002
7.	Mandsaur Comm. Co-operative Bank Ltd., Mandsaur	12.12.2002		21.03.2003
8.	Citizen Co-operative Bank Damoh	16.09.2003		05.12.2003
9.	Shree Co-operative Bank Indore	10.02.2004		28.02.2004
10.	Mitra Mandal Nagrik Sahakari Bank Ltd., Indore	18.06.2004		11.10.2004
11.	Maharashtra Brahman Sahakari Bank Ltd., Indore	21.09.2004		14.07.2005
12.	Sanskardhani Mahila Nagrik Sahakari Bank Ltd., Jabalpur	27.08.2004		01.12.2004
13.	Sarvodaya Mahila Coperative Bank Ltd., Burhanpur	09.11.2005		17.11.2005

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
14.	Nagrik Sahakari Bank Ltd., Ratlam	25.11.2005		24.01.2006
15.	Nagarik Comm. Co-operative Bank, Bilaspur		14.09.2000	
16.	Nagrik Sahakari Bank Ltd., Dhamtari	28.06.2004		19.05.2004
IV.	**BHUBANESHWAR**			
1.	The Rourkela Urban Co-operative Bank Ltd.	Not issued		Sept-1969
2.	The Bhanjanagar Urban Co-operative Bank Ltd.	16.07.1999		20.05.2003
3.	The Aska Co-operative Urban Bank Ltd.	13.03.2000		06.03.2002
4.	The Rayagada Urban Co-operative Bank Ltd.	Not issued		07.03.1983
5.	The Bhubaneswar Urban Co-operative Bank Ltd.	05.11.1969		05.11.1969
6.	The Cuttack Urban Co-operative Bank Ltd.	Not issued		23.10.1989
V.	**CHANDIGARH**			
1.	The Yamuna Nagar Urban Co-operative Bank Ltd., Yamunanagar	Unlicensed	13.08.2002	14.08.2002
VI.	**CHENNAI**			
1.	Theni Urban Co-operative Bank Ltd.	Unlicenced	20.05.2002	03.06.2002
2.	Thiruvanaikoil Co-operative Urban Bank Ltd.	Unlicenced	23.05.2002	03.06.2002
3.	Madurai Urban Co-operative Bank Ltd.	22.08.2003	–	07.01.2005
4.	Kotagiri Co-operative Urban Bank Ltd.	Unlicenced	10.11.2005	18.11.2005
VII.	**GUWAHATI**			
1.	Manipur Industrial Co-op. Bank Ltd.	25.09.1999	N.A.	23.09.2000
2.	Gauhati Co-op.Town Bank Ltd.	08.12.1999	N.A.	07.06.2000
3.	Silchar Co-op. Urban Bank Ltd.	NA	16.02.2000	^
4.	Urban Industrial Co-op. Bank Ltd., Dibrugarh	07.02.2000	N.A.	21.03.2006
5.	Lamka Urban Co-op. Bank Ltd.	25.02.2003	N.A.	05.06.2003
6.	Nagaon Urban Co-op. Bank Ltd.	24.06.2004	N.A.	17.02.2006
VIII.	**HYDERABAD**			
1.	Armoor Urban Co-operative Bank Ltd.	26.08.2002		01.10.2002
2.	Aryan Urban Co-operative Bank Ltd.	15.01.2002		05.09.2002
3.	Bellampalli Urban Co-operative Bank Ltd.	10.08.2004		10.08.2004
4.	Bhagyanagar Urban Co-operative Bank Ltd.	18.07.2000		18.07.2000
5.	Chodavaram Urban Co-operative Bank Ltd.	26.02.2001		24.09.2001
6.	Dhana Urban Co-operative Bank Ltd.	08.04.2002		16.04.2003
7.	First City Urban Co-operative Bank Ltd.	05.04.2002		18.04.2002
8.	Gudur Urban Co-operative Bank Ltd.	16.10.1998		28.12.1998
9.	Hindpur Urban Co-operative Bank Ltd.	31.05.1989		31.05.1989
10.	Jawahar Urban Co-operative Bank Ltd.	08.05.2002		08.05.2002
11.	Kalyan Urban Co-operative Bank Ltd.	13.01.2001		16.02.2004
12.	Kollur Parvathi Urban Co-operative Bank Ltd.	04.02.1980		16.04.1980
13.	Krushi Urban Co-operative Bank Ltd.	16.10.2001		16.11.2001
14.	Kurnool Urban Co-operative Bank Ltd.	08.03.2001		27.02.2002
15.	Mahalakshmi Urban Co-operative Bank Ltd.	12.01.2004		19.01.2004
16.	Manikanta Urban Co-operative Bank Ltd.	07.07.2003		30.04.2003
17.	Mega City Urban Co-operative Bank Ltd.	02.08.2002		13.09.2002
18.	Mother Theresa Urban Co-operative Bank Ltd.	14.10.2002		19.12.2002
19.	Narasaraopet Urban Co-operative Bank Ltd.	24.05.2003		16.09.2003
20.	Neelagiri Urban Co-operative Bank Ltd.	26.09.2003		16.10.2003
21.	Nizamabad Urban Co-operative Bank Ltd.	16.09.1999		25.07.2002
22.	Pithapuram Urban Co-operative Bank Ltd.	07.11.2002		01.07.2003
23.	Praja Urban Co-operative Bank Ltd.	01.07.2002		28.08.2002
24.	Prudential Urban Co-operative Bank Ltd.	03.11.2004		07.12.2004
25.	Rajampet Urban Co-operative Bank Ltd.	03.07.2002		30.07.2002

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
26.	Sai Urban Co-operative Bank Ltd.	22.05.2004		14.06.2004
27.	Sitara Urban Co-operative Bank Ltd.	06.09.2001		24.10.2002
28.	Sravya Urban Co-operative Bank Ltd.	30.05.2002		30.05.2002
29.	Sree Swamy Gnananda Mahila Urban Co-operative Bank Ltd.	23.02.2004		06.03.2004
30.	Sri Krishna Urban Co-operative Bank Ltd.			
31.	Sri Lakshmi Mahila Urban Co-operative Bank Ltd.	01.07.2000		09.10.2000
32.	Sri Satya Sai Urban Co-operative Bank Ltd.	19.06.2004		07.01.2005
33.	Star Urban Co-operative Bank Ltd.	27.12.2002		19.04.2003
34.	Trinity Urban Co-operative Bank Ltd.	28.11.2003		18.12.2003
35.	Vasundhara Urban Co-operative Bank Ltd.	01.09.2003		27.09.2003
36.	Vijaya Mahila Urban Co-operative Bank Ltd.	20.01.2004		28.01.2004
37.	Nizamabad Mahila Urban Co-operative Bank Ltd.	20.01.2005		24.01.2005
38.	Greater Telangana Urban Co-operative Bank Ltd.	03.12.2004		03.12.2004
39.	Vasundhara Mahila Urban Co-operative Bank Ltd.	07.05.2005		07.05.2005
40.	Hyderabad Urban Co-operative Bank Ltd.	07.03.2006		
IX.	**JAIPUR**			
1.	Union Co-operative 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.	Lok Vikas Urban Co-operative Bank Ltd., Jaipur	28.09.2004		11.10.2004
X.	**JAMMU**	**Nil**		
XI.	**KOLKATA**			
1.	Assansol People's Co-operative Bank Ltd.		12.08.1999	16.03.2004
2.	Pranabananda Co-operative Bank Ltd.		25.01.2001	@
3.	Jhargram People's Co-operative Bank Ltd.		03.08.1999 & 05.08.2002	
XII.	**LUCKNOW**			
1.	Hind Urban Co-operative Bank Ltd., Lucknow	Unlicensed	N.A.	29.10.1986
2.	Firozabad Urban Co-operative Bank Ltd., Firozabad	N.A	N.A.	06.01.2000
3.	Oudh Sahkari Bank Ltd., Lucknow	Unlicensed	01.07.1999	20.07.1999. 15.02.2003
4.	Federal Co-operative Bank Ltd., Ghatampur, Kanpur	25.08.2000	N.A.	28.09.2000
5.	Urban Co-operative Bank Ltd., Allahabad	19.12.2001	N.A.	24.08.2002
6.	Urban Co-operative Bank Ltd., Tehri	30.03.2002	N.A.	21.04.2002
7.	Indian Co-operative Development Bank Ltd., Meerut	08.06.2004	N.A.	12.06.2004
8.	Nagariya Sahkari Bank Ltd., Varanasi	11.06.2004	N.A.	18.08.2004
9.	City Co-operative Bank Ltd., Lucknow	23.10.2004	N.A.	
XIII.	**MUMBAI**			
1.	Metropolitan Co-operative Bank Ltd., Mumbai	19.06.1992	19.06.1992	20.06.1992
2.	Chetna Co-operative Bank Ltd., Mumbai	15.11.1994	15.11.1994	01.12.1994
3.	Swastik Janata Sahakari Bank Ltd., Mumbai	30.09.1994	30.09.1994	14.12.1994
4.	The Peoples Co-operative Bank Ltd., Ichalkaranji	22.09.1994	22.09.1994	19.12.1994
5.	Kolhapur Zilla Janata Sahakri 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	31.03.1997
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 Co-operative Bank Ltd., 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

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Concluded)*

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
12.	Nandgaon Merchants' Co-operative Bank Ltd., Nashik	20.02.1999	20.02.1999	09.06.1999
13.	Sidharth Sahakari Bank Ltd., Jalgaon	04.08.1999	04.08.1999	27.09.1999
14.	Sholapur Zilla Mahila Sahakari Bank Ltd., Sholapur	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.	Meera 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	30.10.2001	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., Sholapur	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.	Yashwant Sahakari Bank Ltd., Mumbai	04.02.2003	04.02.2003	07.03.2003
28.	Sholapur Merchants Co-operative Bank Ltd., Sholapur	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
XIV.	**NAGPUR**			
1.	Ahilya-devi Mahila Sahakari Bank Ltd., Kalamnuri Dist. Hingoli	27.04.2000**		
2.	Indira Sahakari Bank Ltd., Aurangabad	08.06.2000**		
3.	Latur Peoples' Co-operative Bank Ltd., Latur	23.11.2000**		
4.	Maa Sharda Mahila Nagari Sahakari Bank Maryadit, Akola	30.10.2002		
5.	Partur Peoples' Co-op. Bank Ltd., Partur	06.12.2004**		
6.	Aurangabad Peoples' Co-operative Bank Ltd., Aurangabad	15.01.2005**		
XV.	**NEW DELHI**			
1.	The Parishad Co-operative Bank Ltd.	29.07.1999		16.8.1999
2.	The Farmers' Co-operative Bank Ltd.		7.2.2000	8.3.2000
3.	Jai Laxmi Co-operative Bank Ltd.	15.10.2004		1.11.2004
XVI.	**PATNA**			
1.	Patna Urban Co-operative Bank Ltd.	15.04.1976+		19.04.1976
2.	The Begusarai Urban Development Co-operative Bank Ltd.	22.04.2002		27.05.2002
3.	The People's Co-operative Bank Ltd., Muzaffarpur	22.04.2002		27.05.2002
4.	The Madhepura Urban Development Co-operative Bank Ltd.	22.04.2002		27.05.2002
5.	Nalanda Urban Co-operative Bank Ltd.		10.06.2002	22.07.2002
XVII.	**THIRUVANANTHAPURAM**			
1.	Kundara Urban Co-operative Bank Ltd.	29.11.1990		28.04.1991
2.	Panur Urban Co-operative Bank Ltd.	26.09.1975		29.07.1976
3.	Punalur Urban Co-operative Bank Ltd.	26.09.1975		30.12.1976

N.A. : Not Available.
: Registration cancelled.
* : Taken to liquidation in 1970.
^ : The bank is being managed by an *ad-hoc* committee headed by Deputy Commissioner, Cachar.
@ : Order for liquidation passed by Registrar of Co-operative Societies, Government of West Bengal on August 6, 2002. Order set aside by the Hon'ble Co-operative Tribunal, Government of West Bengal vide its order dated July 7, 2006.
** : Date of Appointment of Liquidator.
+ : As indicated in Official Liquidator's Statement No. 7.

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	
		2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8
1.	Abhyudaya Co-operative Bank Ltd.	0.66	1.42	0.05	1.25	2.08	2.15
2.	Ahmedabad Mercantile Co-op Bank Ltd.	1.91	2.06	0.52	0.55	7.07	6.34
3.	Amanath Co-operative Bank Ltd.	-2.57	-1.22	-6.94	-1.22	4.58	4.79
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	1.37	1.50	0.78	0.95	8.54	8.67
5.	The Akola Janata Commercial Co-operative Bank Ltd.	1.31	0.81	0.34	0.28	8.55	7.71
6.	The Akola Urban Co-operative Bank Ltd.	0.46	0.58	0.27	0.46	8.16	7.39
7.	Bassein Catholic Co-operative Bank Ltd.	2.51	2.22	2.06	1.98	8.87	8.00
8.	Bharat Co-Operative Bank (Mumbai) Ltd.	1.96	1.56	1.06	1.15	8.62	8.19
9.	Bharati Sahakari Bank Ltd.	1.18	1.25	0.26	0.48	8.50	7.43
10.	Bombay Mercantile Co-operative Bank Ltd.	0.64	0.05	0.08	0.05	3.75	3.23
11.	Charminar Co-operative Urban Bank Ltd.	N.A.	-2.66	N.A.	-2.66	N.A.	0.21
12.	Citizen Credit Co-operative Bank Ltd.	1.57	1.38	1.49	1.32	7.49	6.82
13.	Co-operative Bank of Ahmedabad Ltd.*	0.53	N.A.	0.53	N.A.	7.30	N.A.
14.	Cosmos Co-operative Urban Bank Ltd.	1.53	1.94	1.10	1.16	7.39	7.09
15.	Dombivli Nagari Sahakari Bank Ltd.	2.23	1.87	0.88	0.83	7.79	6.93
16.	Goa Urban Co-operative Bank Ltd.	0.64	0.69	0.60	0.62	7.88	7.48
17.	Greater Bombay Co-operative Bank Ltd.	1.30	0.98	0.60	0.09	7.09	6.56
18.	Ichalkaranji Janata Sahakari Bank Ltd.	0.61	0.49	0.27	0.22	8.17	7.78
19.	Indian Mercantile Co-operative Bank Ltd.	3.41	1.38	2.96	1.38	9.22	5.94
20.	Jalgaon Janata Sahakari Bank Ltd.	0.25	0.73	0.03	0.11	8.43	7.08
21.	Janakalyan Sahakari Bank Ltd.	-0.96	-0.98	-2.87	-5.00	7.11	7.82
22.	Janalaxmi Co-operative Bank Ltd.	4.41	1.42	0.74	0.25	12.07	8.15
23.	Janata Sahakari Bank Ltd.	1.16	0.61	0.02	0.36	7.36	6.65
24.	Kalupur Commercial Coop.Bank Ltd.	1.28	2.13	1.08	0.98	5.40	5.03
25.	Kalyan Janata Sahakari Bank Ltd.	1.63	1.59	0.85	1.05	6.96	6.95
26.	Kapole Co-operative Bank Ltd.	2.96	0.53	0.32	0.20	7.03	6.63
27.	Karad Urban Co-operative Bank Ltd.	0.27	0.46	0.07	0.26	7.97	7.36
28.	The Khamgaon Urban Co-operative Bank Ltd.	0.93	0.15	-0.30	-0.53	7.93	7.51
29.	Madhavpura Mercantile Co-operative Bank Ltd.	0.89	5.32	0.88	5.29	1.43	1.52
30.	Mahanagar Co-operative Bank Ltd.	0.84	1.09	0.59	0.95	8.68	7.48
31.	Mandvi Co-operative Bank Ltd.	0.69	0.73	0.27	0.26	7.99	7.57
32.	Mapusa Urban Co-operative Bank of Goa Ltd.	-4.06	0.65	-4.95	0.65	2.79	6.11
33.	Mehsana Urban Co-operative Bank Ltd.	1.07	1.63	0.92	0.75	8.66	9.27
34.	Nagar Urban Co-operative Bank Ltd.	0.90	2.75	0.23	0.59	9.01	9.82
35.	Nagpur Nagrik Sahakari Bank Ltd.	0.52	1.72	0.21	0.32	7.29	7.57
36.	Nasik Merchant's Coop. Bank Ltd.	3.13	3.04	1.09	1.07	9.20	7.87
37.	New India Co-operative Bank Ltd., Bombay	1.54	1.47	1.37	1.46	8.01	7.89
38.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	1.99	1.65	1.06	0.96	7.85	7.55
39.	Nutan Nagarik Sahakari Bank Ltd.	1.54	3.37	0.91	1.19	7.07	6.52
40.	Parsik Janata Sahakari Bank Ltd.	2.25	2.18	1.13	1.37	7.79	7.26
41.	Pravara Sahakari Bank Ltd.	0.99	0.83	–	0.11	10.21	13.79
42.	Punjab and Maharashtra Co-operative Bank Ltd.	1.35	1.22	0.96	0.83	8.89	8.82
43.	Rajkot Nagrik Sahakari Bank Ltd.	0.61	0.66	0.57	0.56	5.55	5.43
44.	Rupee Co-operative Bank Ltd.	-1.82	-0.77	-2.34	-1.20	4.30	4.52
45.	Sangli Urban Co-operative Bank Ltd.	-0.93	-0.32	-1.06	-0.90	7.64	7.22
46.	Saraswat Co-operative Bank Ltd.	0.40	0.40	0.07	0.33	1.40	1.33
47.	Sardar Bhiladwala Pardi Peoples Co-op Bank Ltd.	2.55	1.50	0.63	0.26	8.31	6.84
48.	Shamrao Vithal Co-operative Bank Ltd.	1.62	1.48	0.84	0.71	8.73	7.82
49.	Shikshak Sahakari Bank Ltd.	0.66	0.31	-0.77	-0.95	7.89	7.36
50.	Solapur Janata Sahakari Bank Ltd.	0.71	0.60	0.33	0.27	9.04	8.78
51.	Surat Peoples Co-operative Bank Ltd.	2.57	2.92	0.94	0.96	9.01	7.91
52.	Thane Bharat Sahakari Bank Ltd	1.84	1.23	0.84	0.42	8.88	7.80
53.	Thane Janata Sahakari Bank Ltd.	2.00	2.06	1.35	1.91	8.41	8.02
54.	Vasavi Co-operative Urban Bank Ltd.	N.A.	10.28	N.A.	-4.20	N.A.	14.50
55.	Zoroastrian Cooperative Bank Ltd.	2.33	1.81	1.02	0.65	8.34	7.60
	Total	**0.97**	**1.21**	**0.29**	**0.63**	**6.11**	**5.69**

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	
		2004-05	2005-06	2004-05	2005-06
1	2	9	10	11	12
1.	Abhyudaya Co-operative Bank Ltd.	0.91	0.88	0.60	0.13
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	3.45	2.90	1.40	1.51
3.	Amanath Co-operative Bank Ltd.	4.79	3.74	4.38	–
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	5.26	4.50	0.59	0.55
5.	Akola Janata Commercial Co-operative Bank Ltd.	6.58	5.64	0.96	0.53
6.	Akola Urban Co-operative Bank Ltd.	6.70	5.77	0.20	0.12
7.	Bassein Catholic Co-operative Bank Ltd.	5.20	4.50	0.45	0.24
8.	Bharat Co-operative Bank (Mumbai) Ltd.	4.54	4.33	0.90	0.40
9.	Bharati Sahakari Bank Ltd.	6.61	5.30	0.92	0.77
10.	Bombay Mercantile Co-operative Bank Ltd.	2.70	2.30	0.56	–
11.	Charminar Co-operative Urban Bank Ltd.	N.A.	3.99	N.A.	–
12.	Citizen Credit Co-operative Bank Ltd.	4.63	4.03	0.07	0.05
13.	Co-operative Bank of Ahmedabad Ltd.*	4.06	N.A.	–	N.A.
14.	Cosmos Co-operative Urban Bank Ltd.	4.81	4.50	0.43	0.77
15.	Dombivli Nagari Sahakari Bank Ltd.	4.47	3.93	1.35	1.04
16.	Goa Urban Co-operative Bank Ltd.	4.52	4.25	0.02	0.07
17.	Greater Bombay Co-operative bank Ltd.	4.88	4.68	0.71	0.89
18.	Ichalkaranji Janata Sahakari Bank Ltd.	6.37	5.55	0.34	0.27
19.	Indian Mercantile Co-operative Bank Ltd.	4.78	3.31	0.45	–
20.	Jalgaon Janata Sahakari Bank Ltd.	5.78	4.99	0.20	0.61
21.	Janakalyan Sahakari Bank Ltd.	6.83	6.26	1.90	4.02
22.	Janalaxmi Co-operative Bank Ltd.	6.98	5.52	3.67	1.17
23.	Janata Sahakari Bank Ltd.	5.87	4.87	0.46	–
24.	Kalupur Commercial Co-operative Bank Ltd.	3.33	3.01	0.20	0.33
25.	Kalyan Janata Sahakari Bank Ltd.	4.33	3.81	0.78	0.54
26.	Kapole Cooperative Bank Ltd.	4.88	4.42	2.64	0.33
27.	Karad Urban Co-operative Bank Ltd.	5.33	4.95	0.15	0.19
28.	Khamgaon Urban Co-operative Bank Ltd.	5.83	5.73	1.23	0.68
29.	Madhavpura Mercantile Co-Op Bank Ltd.	2.76	1.99	–	–
30.	Mahanagar Co-Operative Bank Ltd.	4.80	3.92	0.25	0.14
31.	Mandvi Co-operative Bank Ltd.	5.61	4.98	0.39	0.45
32.	Mapusa Urban Co-operative Bank of Goa Ltd.	5.01	4.29	0.89	–
33.	Mehsana Urban Co-operative Bank Ltd.	7.13	6.72	0.15	0.89
34.	Nagar Urban Co-operative Bank Ltd.	6.41	5.65	0.67	2.16
35.	Nagpur Nagrik Sahakari Bank Ltd.	5.25	4.48	0.12	1.40
36.	Nasik Merchant's Co-operative Bank Ltd.	5.02	3.72	2.03	1.97
37.	New India Co-operative Bank Ltd., Bombay	3.76	3.89	0.17	–
38.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	4.87	4.89	0.40	0.47
39.	Nutan Nagarik Sahakari Bank Ltd.	4.16	3.65	0.63	2.18
40.	Parsik Janata Sahakari Bank Ltd.	3.96	3.33	0.84	0.48
41.	Pravara Sahakari Bank Ltd.	7.66	11.02	0.87	0.72
42.	Punjab and Maharashtra Co-operative Bank Ltd.	5.95	5.61	0.39	0.39
43.	Rajkot Nagrik Sahakari Bank Ltd.	3.89	4.00	0.04	0.09
44.	Rupee Co-operative Bank Ltd.	4.90	4.13	0.49	0.39
45.	Sangli Urban Co-operative Bank Ltd.	6.00	5.40	0.14	0.58
46.	Saraswat Co-operative Bank Ltd.	0.92	0.89	0.33	0.07
47.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	4.63	3.80	1.91	1.24
48.	Shamrao Vithal Co-operative Bank Ltd.	5.20	4.67	0.78	0.77
49.	Shikshak Sahakari Bank Ltd.	5.96	5.36	1.42	1.26
50.	Solapur Janata Sahakari Bank Ltd.	6.70	6.11	0.38	0.33
51.	Surat Peoples Co-operative Bank Ltd.	4.49	3.79	1.60	1.93
52.	Thane Bharat Sahakari Bank Ltd	5.39	4.97	0.99	0.81
53.	Thane Janata Sahakari Bank Ltd.	4.62	4.46	0.52	–
54.	Vasavi Co-operative Urban Bank LImited.	N.A.	2.70	N.A.	14.40
55.	Zoroastrian Co-operative Bank Ltd.	4.66	4.57	1.29	1.15
	Total	**4.18**	**3.67**	**0.64**	**0.53**

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	
		2004-05	2005-06	2004-05	2005-06
1	2	13	14	15	16
1.	Abhyudaya Co-operative Bank Ltd.	1.56	1.44	1.17	1.27
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	5.41	4.71	3.62	3.44
3.	Amanath Co-operative Bank Ltd.	7.54	6.41	-0.20	1.05
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	7.95	7.14	3.28	4.17
5.	Akola Janata Commercial Co-operative Bank Ltd.	8.36	7.35	1.97	2.06
6.	Akola Urban Co-operative Bank Ltd.	8.08	7.22	1.46	1.62
7.	Bassein Catholic Co-operative Bank Ltd.	6.82	6.11	3.67	3.51
8.	Bharat Co-operative Bank (Mumbai) Ltd.	7.21	7.17	4.08	3.86
9.	Bharati Sahakari Bank Ltd.	8.23	7.06	1.89	2.14
10.	Bombay Mercantile Co-operative Bank Ltd.	4.84	4.18	1.05	0.93
11.	Charminar Co-operative Urban Bank Ltd.	N.A.	4.80	N.A.	-3.79
12.	Citizen Credit Co-operative Bank Ltd.	6.38	5.88	2.86	2.79
13.	Co-operative Bank of Ahmedabad Ltd.*	6.96	N.A.	3.24	N.A.
14.	Cosmos Co-operative Urban Bank Ltd.	6.48	6.01	2.58	2.59
15.	Dombivli Nagari Sahakari Bank Ltd.	6.21	5.59	3.32	3.00
16.	Goa Urban Co-operative Bank Ltd.	7.69	7.03	3.37	3.23
17.	Greater Bombay Co-operative Bank Ltd.	7.03	6.98	2.21	1.88
18.	Ichalkaranji Janata Sahakari Bank Ltd.	8.49	7.81	1.81	2.23
19.	Indian Mercantile Co-operative Bank Ltd.	6.84	4.94	4.44	2.63
20.	Jalgaon Janata Sahakari Bank Ltd.	8.42	6.82	2.65	2.10
21.	Janakalyan Sahakari Bank Ltd.	8.99	9.05	0.28	1.56
22.	Janalaxmi Co-operative Bank Ltd.	8.45	7.03	5.09	2.63
23.	Janata Sahakari Bank Ltd.	7.79	6.62	1.49	1.78
24.	Kalupur Commercial Co-operative Bank Ltd.	5.65	4.00	2.07	2.01
25.	Kalyan Janata Sahakari Bank Ltd.	6.13	5.89	2.63	3.14
26.	Kapole Co-operative Bank Ltd.	7.95	7.40	2.15	2.21
27.	Karad Urban Co-operative Bank Ltd.	8.05	7.44	2.64	2.41
28.	Khamgaon Urban Co-operative Bank Ltd.	7.51	7.81	2.10	1.78
29.	Madhavpura Mercantile Co-operative Bank Ltd.	3.09	2.24	-1.33	-0.47
30.	Mahanagar Co-operative Bank Ltd.	8.27	6.72	3.88	3.56
31.	Mandvi Co-operative Bank Ltd.	7.88	7.28	2.38	2.59
32.	Mapusa Urban Co-operative Bank of Goa Ltd.	7.14	6.20	-2.22	1.82
33.	Mehsana Urban Co-operative Bank Ltd.	8.13	7.98	1.53	2.55
34.	Nagar Urban Co-operative Bank Ltd.	8.57	8.01	2.60	4.18
35.	Nagpur Nagrik Sahakari Bank Ltd.	7.61	7.05	2.04	3.10
36.	Nasik Merchant's Co-operative Bank Ltd.	7.25	5.84	4.17	4.16
37.	New India Co-operative Bank Ltd., Bombay	6.88	6.82	4.25	4.00
38.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	6.47	6.35	2.98	2.66
39.	Nutan Nagarik Sahakari Bank Ltd.	6.83	6.10	2.91	2.87
40.	Parsik Janata Sahakari Bank Ltd.	5.99	5.36	3.83	3.93
41.	Pravara Sahakari Bank Ltd.	9.65	13.17	2.54	2.78
42.	Punjab and Maharashtra Co-operative Bank Ltd.	8.31	7.92	2.94	3.21
43.	Rajkot Nagrik Sahakari Bank Ltd.	4.94	5.11	1.66	1.43
44.	Rupee Co-operative Bank Ltd.	6.33	5.49	-0.61	0.39
45.	Sangli Urban Co-operative Bank Ltd.	8.95	8.24	1.64	1.82
46.	Saraswat Co-operative Bank Ltd.	1.45	1.44	0.48	0.44
47.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	6.67	5.63	3.68	3.04
48.	Shamrao Vithal Co-operative Bank Ltd.	7.82	6.89	3.53	3.15
49.	Shikshak Sahakari Bank Ltd.	7.50	7.09	1.93	1.99
50.	Solapur Janata Sahakari Bank Ltd.	8.64	8.45	2.34	2.67
51.	Surat Peoples Co-operative Bank Ltd.	6.98	5.96	4.53	4.11
52.	Thane Bharat Sahakari Bank Ltd	7.48	7.03	3.49	2.83
53.	Thane Janata Sahakari Bank Ltd.	6.79	6.47	3.79	3.56
54.	Vasavi Co-operative Urban Bank LImited.	N.A.	4.23	N.A.	11.80
55.	Zoroastrian Co-operative Bank Ltd.	6.19	6.01	3.68	3.04
	Total	**5.92**	**5.28**	**1.92**	**2.02**

* : The Co-operative Bank of Ahmedabad was merged with Cosmos Co-operative Urban Bank Ltd. in Pune with effect from May 11,2006.
N.A. : Not Available.

Appendix Table IV.5: Select Financial Parameters of Scheduled Urban Co-operative Banks

(At end-March 2006)

(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
1	2	3	4	5	6	7	8	9	10
1.	Abhyudaya Co-operative Bank Ltd.	39.65	1.42	0.84	1.59	1.25	1.22	210.78	2.46
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	60.13	4.05	0.50	2.43	0.55	5.31	157.31	1.11
3.	Amanath Co-operative Bank Ltd.	5.55	1.50	0.57	-1.75	-1.22	5.39	136.40	-1.52
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	39.73	4.44	0.51	1.60	0.95	6.43	127.41	1.16
5.	Bassein Catholic Co-operative Bank Ltd.	30.93	3.71	0.34	2.35	1.98	5.55	362.38	5.81
6.	Bharat Co-operative Bank (Mumbai) Ltd.	17.16	4.19	0.58	1.69	1.15	5.29	313.40	2.67
7.	Bharati Sahakari Bank Ltd.	14.55	2.38	0.98	1.39	0.48	6.45	186.82	0.69
8.	Bombay Mercantile Co-operative Bank Ltd.	-15.81	1.22	1.71	0.27	0.03	4.22	102.34	0.04
9.	Charminar Co-operative Urban Bank Ltd.		-10.49	5.35	-7.37	-2.66	8.03	416.61	-10.05
10.	Citizen Credit Co-operative Bank Ltd.	18.17	2.89	0.45	1.43	1.32	4.45	300.81	3.47
11.	Co-operative Bank of Ahmedabad Ltd.*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
12.	Cosmos Co-operative Urban Bank Ltd.	17.04	2.92	0.96	2.18	1.16	5.75	421.58	3.96
13.	Dombivli Nagari Sahakari Bank Ltd.	14.85	3.54	0.63	2.21	0.83	5.13	289.15	1.91
14.	Goa Urban Co-operative Bank Ltd.	16.69	3.65	0.28	0.78	0.62	5.36	198.94	1.05
15.	Greater Bombay Co-operative bank Ltd.	14.62	2.18	1.62	1.13	0.09	6.35	251.53	0.21
16.	Ichalkaranji Janata Sahakari Bank Ltd.	11.73	2.42	0.61	0.53	0.22	6.60	200.90	0.33
17.	Indian Mercantile Co-operative Bank Ltd.	16.98	2.63	0.38	1.38	1.38	4.33	149.63	1.61
18.	Jalgaon Janata sahakari Bank Ltd.	10.23	2.29	0.51	0.80	0.11	6.92	168.87	0.16
19.	Janakalyan Sahakari Bank Ltd.	-6.72	1.95	0.75	-1.23	-5.00	7.37	291.23	-10.43
20.	Janalaxmi Cooperative Bank Ltd.	14.28	2.85	0.33	1.54	0.25	7.07	111.56	0.24
21.	Janata Sahakari Bank Ltd.	-9.60	2.04	0.66	0.69	0.36	5.50	273.07	0.70
22.	Kalupur Commercial Co-operative Bank Ltd.	61.88	2.51	1.38	2.66	0.98	5.23	362.35	4.05
23.	Kalyan Janata Sahakari Bank Ltd.	13.45	3.66	0.68	1.85	1.05	5.12	265.81	2.17
24.	Kapole Co-operative Bank Ltd.	14.77	2.31	1.36	0.56	0.20	5.16	154.62	0.30
25.	Karad Urban Co-operative Bank Ltd.	11.05	2.53	0.55	0.48	0.26	5.86	147.62	0.28
26.	Madhavpura Mercantile Co-operative Bank Ltd.	-1,098.79	-2.24	28.57	25.16	5.29	3.92	2,396.48	113.95
27.	Mahanagar Co-operative Bank Ltd.	17.13	3.75	0.35	1.15	0.95	5.11	182.38	1.42
28.	Mandvi Co-operative Bank Ltd.	12.00	2.72	0.46	0.76	0.26	5.68	379.09	0.74
29.	Mapusa Urban Co-operative Bank of Goa Ltd.	-46.92	3.21	1.30	1.15	0.65	5.51	119.43	0.75
30.	Mehsana Urban Co-operative Bank Ltd.	20.89	2.58	0.34	1.65	0.75	10.17	253.74	1.66
31.	Nagar Urban Co-operative Bank Ltd.	12.69	4.76	1.07	3.13	0.59	7.40	175.36	0.82
32.	Nagpur Nagrik Sahakari Bank Ltd.	13.86	3.39	1.31	1.89	0.32	5.35	161.56	0.39
33.	Nasik Merchant's Co-operative Bank Ltd.	39.11	4.62	1.11	3.37	1.07	5.67	102.94	1.11
34.	New India Co-operative Bank Ltd., Bombay	38.95	4.10	0.41	1.51	1.46	4.77	223.39	2.99
35.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	15.39	2.84	0.59	1.76	0.96	5.71	405.59	2.99
36.	Nutan Nagarik Sahakari Bank Ltd.	47.61	3.01	3.08	3.52	1.19	4.88	175.81	2.07
37.	Parsik Janata Sahakari Bank Ltd.	26.34	4.05	0.29	2.24	1.37	4.22	216.58	2.60
38.	Pravara Sahakari Bank Ltd.	11.34	3.06	0.28	0.91	0.11	13.25	157.04	0.12
39.	Punjab and Maharashtra Co-operative Bank Ltd.	13.97	3.17	0.31	1.20	0.83	6.37	319.22	1.91
40.	Rajkot Nagrik Sahakari Bank Ltd.	30.19	2.00	0.58	0.92	0.56	6.82	264.21	1.71
41.	Rupee Co-operative Bank Ltd.	-67.92	1.29	0.67	-2.56	-1.20	6.62	211.48	-2.46
42.	Sangli Urban Co-operative Bank Ltd.	6.46	2.17	0.85	-0.38	-0.90	6.81	83.18	-0.57
43.	Saraswat Co-operative Bank Ltd.	12.13	0.54	0.63	0.50	0.33	1.23	538.51	1.50
44.	Sardar Bhiladwala Pardi Peoples Co-op Bank Ltd.	40.16	3.99	0.38	1.97	0.26	6.01	161.78	0.46
45.	Shamrao Vithal Co-operative Bank Ltd.	12.34	3.44	0.61	1.62	0.71	5.63	537.82	2.77
46.	Shikshak Sahakari Bank Ltd.	2.39	2.50	0.44	0.39	-0.95	6.93	204.18	-1.54
47.	Solapur Janata Sahakari Bank Ltd.	11.09	2.95	0.30	0.66	0.27	7.50	190.31	0.39
48.	Surat Peoples Co-operative Bank Ltd.	31.27	4.76	1.11	3.37	0.96	5.33	235.14	2.12
49.	Thane Bharat Sahakari Bank Ltd	13.20	2.94	0.48	1.28	0.42	5.82	220.82	0.73
50.	Thane Janata Sahakari Bank Ltd.	20.23	3.81	0.55	2.21	1.91	5.48	408.74	5.99
51.	The Akola Janata Commercial Co-operative Bank Ltd.	9.61	2.22	0.49	0.87	0.28	6.82	170.89	0.35
52.	The Akola Urban Co-operative Bank Ltd.	10.69	1.67	0.43	0.60	0.46	6.40	265.31	0.83
53.	The Khamgaon Urban Co-operative Bank Ltd.	7.09	2.00	0.51	0.17	-0.53	6.77	209.69	-0.79
54.	Vasavi Co-operative Urban Bank Ltd.	-236.40	-86.20	-0.03	-75.10	-4.20	3.76	149.38	-5.95
55.	Zoroastrian Co-operative Bank Ltd.	19.56	3.19	0.23	1.90	0.65	5.40	389.05	1.94

* : The Co-operative Bank of Ahmedabad was merged with Cosmos Co-operative Urban Bank Ltd. In Pune with effect from May 11, 2006.
N.A. : Not Available

Appendix Table IV.6: Working Results of State Co-operative Banks – State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	State/Region	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)	
		2003-04	2004-05	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9	10
	NORTHERN REGION	**117.21**	**134.35**	**216.58**	**210.87**	**3.50**	**2.99**	**95.21**	**97.28**
1.	Chandigarh	1.60	1.00	3.88	3.87	37.18	30.24	58.08	58.90
2.	Delhi	12.95	15.93	29.09	27.57	17.70	14.98	52.31	81.05
3.	Haryana	29.29	35.01	10.83	5.21	0.59	0.25	99.63	99.82
4.	Himachal Pradesh	19.89	28.91	69.87	71.95	11.22	9.34	71.93	79.08
5.	Jammu and Kashmir	4.58	4.58	15.36	15.89	23.44	21.87	38.22	43.53
6.	Punjab	31.35	29.58	60.56	60.01	2.68	2.51	96.38	96.30
7.	Rajasthan	17.55	19.34	26.98	26.37	2.20	1.73	83.37	97.01
	NORTH-EASTERN REGION	**-17.65**	**-22.82**	**382.62**	**438.93**	**51.26**	**52.60**	**40.85**	**43.32**
8.	Arunachal Pradesh	-3.43	-	56.89	107.98	55.91	70.80	29.82	36.90
9.	Assam	-13.99	-17.50	199.07	207.47	67.51	69.93	31.55	39.08
10.	Manipur	0.47	0.47	13.09	13.09	55.35	55.35	26.65	26.65
11.	Meghalaya	0.70	0.81	22.36	23.04	24.14	23.58	36.83	37.26
12.	Mizoram	0.69	1.67	16.91	14.11	25.55	16.32	54.13	60.33
13.	Nagaland	-1.77	-2.53	21.40	22.28	55.42	50.29	55.11	59.05
14.	Sikkim	0.70	0.80	0.54	0.51	7.23	4.88	54.93	69.83
15.	Tripura	-1.02	-6.54	52.35	50.44	43.19	41.31	44.87	40.74
	EASTERN REGION	**164.73**	**96.09**	**516.22**	**387.93**	**17.15**	**10.74**	**76.26**	**71.80**
16.	Andaman and Nicobar Island	1.74	1.22	16.32	17.74	25.96	25.72	87.87	83.29
17.	Bihar	114.02	68.41	252.66	161.23	51.57	28.67	50.85	43.27
18.	Orissa	13.47	17.44	155.83	121.14	14.18	9.47	84.82	89.84
19.	West Bengal	35.50	9.02	91.41	87.82	6.73	5.16	86.85	86.85
	CENTRAL REGION	**33.69**	**37.06**	**568.07**	**560.96**	**12.35**	**11.61**	**81.49**	**80.98**
20.	Chhattisgarh	4.45	-10.31	25.89	41.83	27.31	32.39	78.95	70.60
21.	Madhya Pradesh	1.84	14.82	195.66	181.34	11.56	10.67	91.62	90.04
22.	Uttaranchal	0.04	2.75	-	-	-	-	-	100.00
23.	Uttar Pradesh	27.36	29.80	346.52	337.79	12.37	11.48	71.81	71.46
	WESTERN REGION	**41.90**	**29.26**	**2,971.81**	**3,048.20**	**27.77**	**30.70**	**73.37**	**73.95**
24.	Goa	5.16	0.28	112.84	112.37	35.08	32.05	65.94	61.36
25.	Gujarat	4.81	5.01	125.75	125.11	6.45	6.46	85.60	80.21
26.	Maharashtra	31.93	23.97	2,733.22	2,810.72	32.41	36.78	68.59	72.59
	SOUTHERN REGION	**33.36**	**17.27**	**1,892.43**	**1,424.71**	**19.21**	**12.83**	**84.79**	**82.75**
27.	Andhra Pradesh	4.16	4.84	1,374.84	762.31	30.67	14.77	73.82	72.54
28.	Karnataka	2.78	5.96	206.36	236.12	11.93	14.39	82.79	63.64
29.	Kerala	5.05	4.19	155.65	210.18	13.93	15.32	95.49	94.60
30.	Pondicherry	1.96	2.03	20.02	13.72	20.98	13.00	79.17	83.75
31.	Tamil Nadu	19.41	0.25	135.55	202.38	5.58	7.17	92.16	93.48
	ALL-INDIA TOTAL	**373.24**	**291.21**	**6,547.73**	**6,071.60**	**18.65**	**16.25**	**83.32**	**83.47**

– : Nil/Negilible.

Note : 1. Data are provisional and are based on reporting banks.

2. Profitability data for Manipur and Jammu and Kashmir StCBs repeated from 2003-04.

Source : NABARD.

Appendix Table IV.7: Working Results of District Central Co-operative Banks – State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	State/Region	2003-04					2004-2005					2004			2005		
		DCCBs (Number)	Profit		Loss		DCCBs (Number)	Profit		Loss		Total NPAs	NPAs as Percent-age to Loans Outstan-ding	Recovery Percent-age to Demand (As at end-June)	Total NPAs	NPAs as Percent-age to Loans Outstan-ding	Recovery Percent-age 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	17	18
	NORTHERN REGION	**69.00**	**64.00**	**296.47**	**5.00**	**6.42**	**70.00**	**66.00**	**267.55**	**4.00**	**8.36**	**932.59**	**8.04**	**81.18**	**985.63**	**7.75**	**83.71**
1.	Haryana	19.00	19.00	57.96	–	–	19.00	19.00	49.64	–	–	210.30	5.45	77.11	213.73	5.16	80.69
2.	Himachal Pradesh	2.00	2.00	86.70	–	–	2.00	2.00	63.27	–	–	44.10	5.33	85.92	54.79	5.78	77.17
3.	Jammu and Kashmir	3.00	–	–	3.00	5.28	3.00	–	–	3.00	5.28	69.47	26.55	41.33	76.50	25.82	38.33
4.	Punjab	19.00	19.00	104.83	–	–	19.00	19.00	103.49	–	–	307.47	7.00	90.11	340.78	7.48	90.43
5.	Rajasthan	26.00	24.00	46.98	2.00	1.14	27.00	26.00	51.15	1.00	3.08	301.25	13.30	76.32	299.83	10.77	81.84
	EASTERN REGION	**64.00**	**45.00**	**59.78**	**19.00**	**26.76**	**64.00**	**54.00**	**118.47**	**10.00**	**16.92**	**1,188.86**	**28.12**	**56.56**	**1,162.20**	**24.16**	**62.20**
6.	Bihar	22.00	11.00	10.85	11.00	12.72	22.00	15.00	21.61	7.00	12.02	386.58	63.79	37.43	377.89	56.99	40.17
7.	Jharkhand	8.00	3.00	3.04	5.00	10.48	8.00	7.00	29.72	1.00	2.20	130.98	68.69	19.27	130.36	69.19	35.50
8.	Orissa	17.00	15.00	13.74	2.00	3.38	17.00	16.00	46.29	1.00	1.83	428.39	21.67	56.87	372.23	15.85	65.01
9.	West Bengal	17.00	16.00	32.15	1.00	0.18	17.00	16.00	20.85	1.00	0.87	242.91	16.71	70.13	281.72	17.50	71.23
	CENTRAL REGION	**103.00**	**64.00**	**124.11**	**39.00**	**162.58**	**104.00**	**71.00**	**133.22**	**33.00**	**162.13**	**2,452.68**	**29.25**	**59.71**	**2,561.44**	**28.75**	**60.06**
10.	Chhattisgarh	6.00	5.00	13.17	1.00	2.00	6.00	6.00	7.76	–	–	191.61	31.12	61.48	199.06	29.72	57.73
11.	Madhya Pradesh	38.00	24.00	36.90	14.00	72.02	38.00	30.00	59.83	8.00	41.60	993.68	28.87	64.53	1,087.99	28.82	67.36
12.	Uttar Pradesh	50.00	26.00	47.71	24.00	88.56	50.00	26.00	47.75	24.00	119.20	1,210.10	33.69	53.84	1,209.28	31.38	51.67
13.	Uttaranchal	9.00	9.00	26.33	–	–	10.00	9.00	17.88	1.00	1.33	57.29	9.71	82.80	65.11	10.69	85.05
	WESTERN REGION	**49.00**	**35.00**	**168.23**	**14.00**	**330.50**	**49.00**	**34.00**	**295.27**	**15.00**	**145.36**	**5,957.50**	**27.98**	**53.51**	**5,246.86**	**23.36**	**65.67**
14.	Gujarat	18.00	14.00	52.69	4.00	62.96	18.00	14.00	85.27	4.00	39.04	1,001.88	20.76	66.58	850.46	16.65	74.95
15.	Maharashtra	31.00	21.00	115.54	10.00	267.54	31.00	20.00	210.00	11.00	106.32	4,955.62	30.10	48.25	4,396.40	25.33	61.88
	SOUTHERN REGION	**80.00**	**55.00**	**215.20**	**25.00**	**229.38**	**80.00**	**71.00**	**564.40**	**9.00**	**72.06**	**5,612.12**	**25.74**	**61.46**	**4,563.47**	**18.89**	**74.10**
16.	Andhra Pradesh	22.00	17.00	68.68	5.00	25.02	22.00	21.00	146.85	1.00	4.87	1,725.56	28.54	49.18	1,139.69	16.27	60.54
17.	Karnataka	21.00	14.00	35.50	7.00	71.08	21.00	14.00	37.04	7.00	61.34	1,141.79	30.30	53.17	1,199.23	31.33	62.66
18.	Kerala	14.00	13.00	43.15	1.00	0.38	14.00	13.00	54.25	1.00	5.85	774.60	17.76	80.35	828.89	15.96	81.52
19.	Tamil Nadu	23.00	11.00	67.87	12.00	132.90	23.00	23.00	326.26	–	–	1,970.17	25.81	69.55	1,395.66	17.16	86.63
	ALL INDIA	**365.00**	**263.00**	**863.79**	**102.00**	**755.64**	**367.00**	**296.00**	**1,378.91**	**71.00**	**404.83**	**16,146.75**	**23.97**	**62.92**	**14,519.60**	**19.87**	**71.23**

– : Nil/Negligible

Note : 1. Data are provisional.

2. Data for DCCBs in Jammu and Kashmir is repeated from 2003-04.

Source : NABARD.

Appendix Table IV.8: Select Indicators of Primary Agricultural Co-operative Societies – State-wise *(Continued)*

(As at March 31, 2005)

Sr. No.	State/Region	No. of PACS	No. of Villages	Ratio of Villages to PACS	Population (in '000)	Members (in '000)	Borrowing Members (in '000)	Total Staff	Deposits (Rs. lakh)	Borrowings (Rs. lakh)
1	2	3	4	5	6	7	8	9	10	11
	Northern Region	**14,997**	**91,238**	**6**	**1,32,983**	**12,239**	**5,901**	**1,00,220**	**1,60,891**	**7,48,020**
1.	Chandigarh	32	22	1	901	2	1	11	6	2
2.	Delhi	–	–	–	13,851	–	–	–	–	–
3.	Haryana	2,433	7,093	3	21,145	2,658	1,703	77,414	26,998	3,34,108
4.	Himachal Pradesh	2,089	19,388	9	6,078	1,050	127	3,862	57,712	7,879
5.	Jammu and Kashmir	807	7,146	9	10,114	83	8	873	97	4,523
6.	Punjab	3,985	12,428	3	24,359	2,115	1,920	10,501	61,507	2,30,023
7.	Rajasthan	5,651	45,161	8	56,507	6,331	2,142	7,559	14,571	1,71,485
	North-Eastern Region	**3,628**	**32,045**	**9**	**38,858**	**3,836**	**330**	**7,552**	**7,816**	**14,082**
9.	Arunachal Pradesh	31	3,649	118	1,098	18	–	597	156	–
10.	Assam	809	23,422	29	26,656	3,094	82	6,172	888	508
11.	Manipur	186	N.A.	N.A.	2,167	128	200	–	178	6,500
12.	Meghalaya	179	2,458	14	2,319	103	34	20	64	671
13.	Mizoram	165	660	4	889	120	–	85	16	29
14.	Nagaland	1,719	969	1	1,990	14	14	13	6,419	904
15.	Sikkim	–	–	–	541	–	–	–	–	–
16.	Tripura	539	887	2	3,199	359	–	665	95	5,470
	Eastern Region	**29,182**	**2,70,859**	**9**	**2,27,281**	**39,085**	**12,019**	**50,226**	**3,23,289**	**3,69,561**
17.	Andaman and Nicobar Island	46	204	4	356	11	8	16	20	46
18.	Bihar	5,936	45,097	8	82,999	3,668	246	2,538	4,992	49,383
19.	Jharkhand	208	3,611	17	26,946	121	22	538	1,268	349
20.	Orissa	4,036	44,811	11	36,805	17,390	6,567	11,059	2,27,248	1,55,276
21.	West Bengal	18,956	1,77,136	9	80,176	17,895	5,176	36,075	89,761	1,64,507
	Central Region	**15,329**	**1,95,555**	**13**	**2,55,869**	**13,071**	**8,077**	**31,371**	**58,344**	**4,98,441**
22.	Chhattisgarh	1,368	21,546	16	20,834	2,121	1,118	5,082	9,270	45,463
23.	Madhya Pradesh	4,586	55,305	12	60,348	5,454	2,710	17,306	39,329	3,49,715
24.	Uttaranchal	446	5,900	13	8,489	2,748	171	938	2,925	6,187
25.	Uttar Pradesh	8,929	1,12,804	13	1,66,198	2,748	4,078	8,045	6,820	97,076
	Western Region	**30,332**	**57,907**	**2**	**1,48,897**	**13,378**	**4,266**	**31,016**	**31,145**	**10,05,128**
26.	Goa	255	1,123	4	1,348	312	8	831	2,865	7,316
27.	Gujarat	9,093	17,478	2	50,671	2,493	1,241	15,384	15,279	2,92,190
28.	Maharashtra	20,984	39,306	2	**96,879**	10,574	3,017	14,801	13,001	7,05,622
	Southern Region	**15,303**	**80,306**	**5**	**2,24,282**	**45,821**	**14,476**	**1,67,730**	**13,10,333**	**13,57,269**
29.	Andhra Pradesh	4,512	30,715	7	76,210	21,947	2,830	14,105	76,288	5,52,171
30.	Karnataka	4,051	28,513	7	52,851	4,487	1,203	11,270	77,187	1,73,941
31.	Kerala	1,796	1,714	1	31,841	11,069	6,294	18,968	8,33,941	1,68,195
32.	Pondicherry	52	264	5	974	83	31	429	4,315	1,131
33.	Tamil Nadu	4,892	19,100	4	62,406	8,236	4,118	1,22,958	3,18,602	4,61,831
	All-India Total	**1,08,779**	**7,27,911**	**7**	**10,28,171**	**1,27,406**	**45,070**	**3,88,118**	**18,97,604**	**40,24,949**

Appendix Table IV.8: Select Indicators of Primary Agricultural Co-operative Societies – State-wise *(Continued)*

(As at March 31, 2005)

Sr. No.	State	Working Capital (Rs. Lakh)	Loans and Advances Issued (Rs. Lakh)		Loans and Advances Outstanding (Rs. Lakh)		Average Deposits (Rs. Lakh)	Societies in Profit*	
			Short-term	Medium-term	Agriculture	Non-Agriculture		No.	Amount (in '000)
1	2	12	13	14	15	16	17	18	19
	Northern Region	**11,10,885**	**9,09,870**	**69,553**	**6,96,859**	**39,825**	**10.7**	**8,334**	**17,915**
1.	Chandigarh	18	3	3	–	–	0.2	15	–
2.	Delhi	–	–	–	–	–	–	–	–
3.	Haryana	4,26,334	3,84,584	27,963	3,01,693	22,877	11.1	1,517	8,219
4.	Himachal Pradesh	83,883	966	14,492	22,797	–	27.6	449	980
5.	Jammu and Kashmir	7,178	797	652	1,961	–	0.1	173	40
6.	Punjab	3,51,688	3,71,135	7,813	2,22,832	11,261	15.4	2,256	4,236
7.	Rajasthan	2,41,784	1,52,385	18,629	1,47,576	5,687	2.6	3,924	4,440
	North-Eastern Region	**79,413**	**34,520**	**2,539**	**47,886**	**1,290**	**2.2**	**490**	**8,081**
9.	Arunachal Pradesh	1,636	–	77	87	–	5.0	20	25
10.	Assam	7,533	278	350	1,086	464	1.1	309	7,639
11.	Manipur	45,904	33,859	2,078	41,639	–	1.0	–	–
12.	Meghalaya	780	181	34	753	–	0.4	70	7
13.	Mizoram	175	–	–	67	–	0.1	20	70
14.	Nagaland	11,246	157	–	197	357	3.7	–	–
15.	Sikkim	–	–	–	–	–	–	–	–
16.	Tripura	12,139	45	–	4,057	469	0.2	71	341
	Eastern Region	**9,13,314**	**3,62,302**	**87,065**	**3,74,619**	**23,788**	**11.1**	**14,634**	**2,788**
17.	Andaman and Nicobar Island	195	46	–	330	–	0.4	9	3
18.	Bihar	47,655	27,375	–	42,331	–	0.8	1,120	507
19.	Jharkhand	1,523	–	–	5	–	6.1	60	91
20.	Orissa	4,94,987	2,30,793	58,019	2,39,373	5,189	56.3	1,380	853
21.	West Bengal	3,68,954	1,04,088	29,046	92,580	18,599	4.7	12,065	1,335
	Central Region	**5,50,813**	**2,53,147**	**27,531**	**2,27,318**	**13,934**	**3.8**	**7,425**	**9,406**
22.	Chhattisgarh	64,924	23,308	13,459	–	–	6.8	805	1,081
23.	Madhya Pradesh	3,48,132	1,46,563	12,301	1,45,987	13,517	8.6	1,873	6,445
24.	Uttaranchal	11,830	4,696	604	1,300	416	6.6	211	107
25.	Uttar Pradesh	1,25,927	78,580	1,167	80,031	–	0.8	4,536	1,774
	Western Region	**13,25,382**	**5,68,837**	**1,15,700**	**8,05,895**	**1,16,556**	**1.0**	**12,138**	**20,817**
26.	Goa	14,176	7,995	–	10,059	2,160	11.2	60	32
27.	Gujarat	3,98,475	2,45,506	36,130	3,10,948	5,792	1.7	4,983	9,191
28.	Maharashtra	9,12,731	3,15,336	79,570	4,84,889	1,08,604	0.6	7,095	11,593
	Southern Region	**35,60,870**	**8,60,043**	**4,27,760**	**10,22,799**	**4,91,636**	**85.6**	**3,994**	**13,794**
29.	Andhra Pradesh	5,56,967	1,86,272	38,300	3,13,306	79,852	16.9	1,103	3,686
30.	Karnataka	3,17,783	1,32,572	28,321	1,33,911	22,010	19.1	1,227	2,688
31.	Kerala	10,53,498	1,92,763	1,93,666	2,44,971	1,57,390	464.3	728	3,321
32.	Pondicherry	6,435	3,266	2,711	1,811	2,320	83.0	17	1
33.	Tamil Nadu	16,26,187	3,45,170	1,64,763	3,28,801	2,30,063	65.1	919	4,099
	All-India Total	**75,40,741**	**31,88,709**	**7,32,463**	**32,14,672**	**6,29,941**	**17.4**	**47,015**	**72,802**

Appendix Table IV.8: Select Indicators of Primary Agricultural Co-operative Societies – State-wise *(Concluded)*

(As at March 31, 2005)

Sr. No.	State	Societies in Loss*		Overdues to Demand (%)	Viable	Potentially Viable	Dormant	Defunct	Others
		No.	Amount (in '000)						
1	2	20	21	22	23	24	25	26	27
	Northern Region	**6,230**	**9,605**		**9,768**	**4,044**	**672**	**295**	**218**
1.	Chandigarh	17	–	70.9	17	–	–	–	15
2.	Delhi	–	–	–	–	–	–	–	–
3.	Haryana	916	2,054	22.1	1,517	916	–	–	–
4.	Himachal Pradesh	1,640	79	32.8	449	1,583	23	–	34
5.	Jammu and Kashmir	201	752	79.5	280	269	50	208	–
6.	Punjab	1,729	2,335	12.9	3,207	273	487	12	6
7.	Rajasthan	1,727	4,385	30.7	4,298	1,003	112	75	163
	North-Eastern Region	**3,138**	**11,306**		**1,646**	**680**	**747**	**463**	**92**
9.	Arunachal Pradesh	11	8	97.2	31	–	–	–	–
10.	Assam	500	9,909	98.5	583	170	5	39	12
11.	Manipur	186	201	43.1	186	–	–	–	–
12.	Meghalaya	109	16	88.3	99	4	38	38	–
13.	Mizoram	145	10	93.6	20	46	19	–	80
14.	Nagaland	1,719	N.A.	90.7	457	228	655	379	–
15.	Sikkim	–	–	–	–	–	–	–	–
16.	Tripura	468	1,163	91.7	270	232	30	7	–
	Eastern Region	**14,548**	**15,633**		**16,896**	**9,114**	**1,439**	**635**	**1,098**
17.	Andaman and Nicobar Island	37	2	56.6	38	8	–	–	–
18.	Bihar	4,816	6416	54.5	1,826	2,831	764	–	515
19.	Jharkhand	148	N.A.	95.9	60	85	29	–	34
20.	Orissa	2,656	6,931	20.9	2,907	869	53	20	187
21.	West Bengal	6,891	2,285	51.2	12,065	5,321	593	615	362
	Central Region	**7,904**	**13,595**		**11,482**	**3,118**	**413**	**177**	**139**
22.	Chhattisgarh	563	1,330	62.3	955	391	10	–	12
23.	Madhya Pradesh	2,713	12,076	42.8	3,201	1,266	6	–	113
24.	Uttaranchal	235	37	65.2	211	192	15	14	14
25.	Uttar Pradesh	4,393	153	42.4	7,115	1,269	382	163	–
	Western Region	**18,194**	**47,700**		**18,850**	**10,494**	**737**	**120**	**131**
26.	Goa	195	29	57.3	123	116	12	4	–
27.	Gujarat	4,110	8,835	41.6	5,102	3,085	679	96	131
28.	Maharashtra	13,889	38,836	43.2	13,625	7,293	46	20	–
	Southern Region	**11,309**	**1,01,066**	**168**	**8,107**	**5,164**	**733**	**343**	**956**
29.	Andhra Pradesh	3,409	16,743	52.3	2,415	1,717	184	2	194
30.	Karnataka	2,824	8,577	43.1	2,835	948	101	108	59
31.	Kerala	1,068	13,115	22.8	1,215	489	62	10	20
32.	Pondicherry	35	5	25.9	17	34	–	1	–
33.	Tamil Nadu	3,973	62,626	24.0	1,625	1,976	386	222	683
	All-India Total	**61,323**	**1,98,905**	**33.6**	**66,756**	**32,614**	**4,741**	**2,033**	**2,635**

– : Nil/Negligible.
* : Based on reporting PACS.
Source : NAFSCOB.

Appendix Table IV.9: Working Results of SCARDBs – State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	State/Region	Number of Branches 2005	Profit/Loss		Total NPAs		NPAs as percentage to Loans Outstanding		Recovery (per cent as at end-June)	
			2003-04	2004-05	2004	2005	2004	2005	2004	2005
	NORTHERN REGION	**85**	**53.05**	**36.62**	**232.88**	**505.89**	**4.68**	**9.03**	**75.92**	**75.20**
1.	Haryana @	–	10.17	-2.92	–	251.17	–	12.24	90.08	69.82
2.	Himachal Pradesh #	33	1.34 *	1.15	52.20	61.80	24.65	25.30	56.73	53.00
3.	Jammu and Kashmir *	45	-2.96	-2.96	10.12	10.12	43.12	51.61	35.57	39.46
4.	Punjab @	–	39.32	30.87	–	–	–	–	100.00	100.00
5.	Rajasthan @	7	5.18	11.16	170.56	182.80	13.23	13.09	50.27	63.80
	NORTH-EASTERN REGION	**39**	**-0.50**	**-0.26**	**20.64**	**19.42**	**77.22**	**71.11**	**23.17**	**25.09**
6.	Assam *	33	0.04	0.23	12.70	11.97	98.30	94.70	7.48	7.76
7.	Manipur *	1	-0.31	-0.31	0.60	0.60	98.68	98.68	1.00	1.00
8.	Tripura *	5	-0.26	-0.49	7.34	6.85	55.61	48.72	55.48	62.60
	EASTERN REGION	**158**	**-21.10**	**-24.72**	**319.38**	**410.92**	**42.05**	**47.14**	**26.68**	**35.25**
9.	Bihar *	151	-16.27	-21.88	102.07	97.33	83.73	84.53	18.43	24.47
10.	Orissa @	5	-9.02	-4.36	109.90	144.96	90.77	80.67	8.85	38.75
11.	West Bengal #	2	2.14	0.71	107.41	168.63	20.80	29.23	48.20	53.14
	CENTRAL REGION	**345**	**5.72**	**13.70**	**1,253.97**	**1,280.60**	**26.71**	**25.13**	**40.74**	**39.51**
12.	Chattisgarh @	–	0.24	–	3.96	31.10	1.96	13.96	44.78	53.98
13.	Madhya Pradesh @	7	1.53	1.73	101.13	119.94	8.19	8.24	42.92	36.95
14.	Uttar Pradesh *	338	3.95	11.97	1,148.88	1,129.56	35.28	33.04	40.08	39.73
	WESTERN REGION	**181**	**-54.66**	**-147.02**	**1,049.27**	**1,354.77**	**62.43**	**80.42**	**37.74**	**25.73**
15.	Gujarat *	181	18.38	10.60	363.56	320.07	57.28	53.02	40.34	34.25
16.	Maharashtra @	–	-73.04	-157.62	685.71	1,034.70	65.56	95.72	34.31	16.38
	SOUTHERN REGION	**56**	**-98.92**	**-40.39**	**1,460.20**	**1,865.78**	**35.75**	**45.45**	**30.64**	**37.90**
17.	Karnataka @	23	-77.86	-0.04	650.60	810.12	48.73	57.98	13.76	33.29
18.	Kerala @	14	11.26	12.52	92.92	132.88	6.28	8.53	82.31	82.84
19.	Pondicherry *	1	-0.26	0.50	3.12	3.07	35.70	27.12	63.60	71.82
20.	Tamil Nadu @	18	-32.14	-53.43	713.56	919.71	56.62	80.71	27.51	24.56
	ALL INDIA	**864**	**-118.57**	**-162.57**	**4,336.34**	**5,437.38**	**26.73**	**31.27**	**43.84**	**43.70**

– : Nil/Negligible. * : Unitary Structure @ : Federal Structure # : Mixed Structure

Note : Data are provisional.

Source: NABARD.

Appendix Table IV.10: Working Results of PCARDBs – State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	State/Region	2003-04 Profit No.	2003-04 Profit Amount	2003-04 Loss No.	2003-04 Loss Amount	2004-05 Profit No.	2004-05 Profit Amount	2004-05 Loss No.	2004-05 Loss Amount	2004 Total NPAs	2004 NPAs as percentage to Loans Outstanding	2004 Recovery percentage to Demand as at end-June	2005 Total NPAs	2005 NPAs as percentage to Loans Outstanding	2005 Recovery percentage to Demand as at end-June
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	NORTHERN REGION	**150**	**56.12**	**62**	**40.92**	**131**	**83.99**	**41**	**73.94**	**1,366.15**	**27.7**	**59.9**	**1,452.65**	**25.9**	**53.7**
1.	Haryana	40	7.97	46	20.03	11	2.27	37	65.38	524.68	29.5	69.0	666.70	33.2	40.5
2.	Himachal Pradesh	1	1.59	–	–	1	1.28	–	–	17.22	27.6	68.2	22.44	32.0	65.1
3.	Punjab	87	40.02	–	–	87	37.32	–	–	353.36	19.6	73.6	384.26	18.6	71.3
4.	Rajasthan	22	6.54	16	20.89	32	43.12	4	8.56	470.89	36.3	34.4	379.25	25.9	48.5
	EASTERN REGION	**17**	**3.71**	**61**	**20.99**	**42**	**36.15**	**30**	**15.90**	**161.95**	**31.3**	**48.1**	**167.20**	**26.3**	**48.8**
5.	Orissa	7	1.88	48	13.53	36	34.57	21	8.86	52.76	70.8	55.9	52.76	37.2	60.6
6.	West Bengal	10	1.83	13	7.46	6	1.58	9	7.04	109.19	24.7	47.2	114.44	23.2	47.7
	CENTRAL REGION	**20**	**4.18**	**30**	**24.20**	**18**	**2.39**	**32**	**20.02**	**232.09**	**17.4**	**56.7**	**281.39**	**18.4**	**58.4**
7.	Chhattisgarh	5	1.13	7	2.54	4	0.38	8	3.06	28.16	15.6	63.3	43.82	21.5	60.4
8.	Madhya Pradesh	15	3.05	23	21.66	14	2.01	24	16.96	203.93	17.7	55.8	237.57	17.9	58.0
	WESTERN REGION	**2**	**1.33**	**27**	**96.78**	**27**	**518.34**	**2**	**0.45**	**535.39**	**83.8**	**14.6**	**169.28**	**15.5**	**27.2**
9.	Maharashtra	2	1.33	27	96.78	27	518.34	2	0.45	535.39	83.8	14.6	169.28	15.5	27.2
	SOUTHERN REGION	**93**	**11.41**	**309**	**151.96**	**44**	**24.23**	**360**	**163.65**	**1,720.31**	**45.3**	**29.1**	**1,985.39**	**51.6**	**48.9**
10.	Karnataka	22	3.25	155	86.02	6	0.39	171	121.47	560.35	51.9	17.3	749.93	62.5	60.3
11.	Kerala	16	4.54	28	34.13	30	20.22	16	10.37	503.87	34.0	44.3	573.43	36.5	56.6
12.	Tamil Nadu	55	3.62	126	31.81	8	3.62	173	31.81	656.09	53.0	30.1	662.03	61.5	30.8
	ALL INDIA	**282**	**76.75**	**489**	**334.85**	**262**	**665.10**	**465**	**273.96**	**4,015.89**	**35.8**	**43.9**	**4,055.91**	**31.9**	**50.6**

– : Nil/Negilible.

Note : 1. Data are provisional and based on reporting banks.

2. Data in Orissa has been reported for 51 PCARDBs.

Source : NABARD.

Appendix Table IV.11: Sanctions and Disbursements Under Rural Infrastructure Development Fund – State-wise *(Continued)*

(At end-March 2006)

(Amount in Rs. crore)

All India / State	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI	
	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	**1,906.21**	**1,760.87**	**2,666.87**	**2,397.95**	**2,733.82**	**2,453.50**	**2,903.32**	**2,482.00**	**3,477.16**	**3,032.66**	**4,525.36**	**3,850.83**
Southern Region	**498.70**	**460.18**	**865.14**	**779.79**	**751.51**	**672.77**	**701.84**	**639.90**	**925.02**	**852.21**	**1,289.74**	**1,157.73**
Andhra Pradesh	227.09	215.13	337.23	307.71	281.53	251.61	286.82	272.78	379.21	357.92	560.69	510.40
Karnataka	175.68	158.79	195.21	180.08	171.29	161.74	172.34	167.37	173.18	164.57	300.14	272.82
Kerala	95.93	86.26	86.91	73.14	89.29	73.87	64.00	56.72	126.77	114.27	175.87	148.17
Tamil Nadu			245.79	218.86	209.40	185.55	178.68	143.03	245.86	215.45	253.04	226.34
Western Region	**344.74**	**322.19**	**358.66**	**318.81**	**408.05**	**380.82**	**425.83**	**380.08**	**572.31**	**510.39**	**964.05**	**747.26**
Goa	6.85	6.85					8.93	8.70			19.09	8.97
Gujarat	151.08	145.47	127.00	114.34	153.74	134.86	114.92	91.08	222.03	178.31	505.79	400.28
Maharashtra	186.81	169.87	231.66	204.47	254.31	245.96	301.98	280.30	350.28	332.08	439.17	338.01
Northern Region	**526.81**	**498.85**	**822.53**	**713.39**	**837.89**	**752.54**	**934.52**	**748.96**	**899.86**	**803.53**	**1,088.91**	**997.70**
Haryana	26.70	19.33	63.92	62.16	67.33	62.41	53.46	47.85	90.09	80.21	67.03	59.97
Himachal Pradesh	14.23	14.23	52.96	52.83	51.12	49.43	87.81	78.92	110.36	106.23	128.41	125.44
Jammu and Kashmir	6.15	6.04			35.95	24.37	107.47	103.43	110.88	109.14	161.52	153.43
Punjab	60.50	60.50	62.50	62.05	88.85	84.77	96.00	74.76	102.79	91.28	230.48	196.31
Rajasthan	123.51	116.86	151.50	129.23	158.48	139.98	64.01	48.86	131.82	117.59	253.75	245.07
Uttar Pradesh	295.72	281.89	491.65	407.12	414.48	389.15	474.97	388.67	348.94	299.08	247.72	217.48
Uttranchal	–	–	–	–	21.68	2.43	50.80	6.47	4.98	–	–	–
Central Region	**240.88**	**215.03**	**250.30**	**238.67**	**280.41**	**262.05**	**241.96**	**217.96**	**262.96**	**241.64**	**371.66**	**293.52**
Chhattisgarh	82.22	77.91	9.80	5.64	57.07	57.99	68.60	65.39	34.10	31.11	50.86	42.83
Madhya Pradesh	158.66	137.12	240.50	233.03	223.34	204.06	173.36	152.57	228.86	210.53	320.80	250.69
Eastern Region	**286.18**	**256.52**	**306.95**	**285.85**	**432.83**	**362.51**	**482.13**	**392.34**	**448.33**	**355.62**	**520.09**	**425.70**
Bihar	22.17	12.63	–	–	57.96	26.93	–	–	–	–	–	–
Jharkhand	–	–	–	–	4.35	2.48	118.50	81.72	91.42	79.22	–	–
Orissa	169.50	162.05	151.13	141.03	199.98	172.04	149.89	117.16	134.62	95.40	106.86	81.47
West Bengal	94.51	81.84	155.82	144.82	170.54	161.06	213.74	193.46	222.29	181.00	413.23	344.23
North-Eastern Region	**8.90**	**8.10**	**63.29**	**61.44**	**23.13**	**22.81**	**117.04**	**102.76**	**368.68**	**269.27**	**290.91**	**228.92**
Arunachal Pradesh	–	–	–	–	–	–	–	–	25.10	21.90	102.55	90.06
Assam	–	–	63.29	61.44	16.07	15.75	64.72	51.60	185.77	117.49	49.57	44.61
Manipur	1.75	0.96	–	–	–	–	–	–	–	–	8.33	7.90
Meghalaya	3.39	3.39	–	–	7.06	7.06	9.33	9.26	35.10	30.82	30.49	27.99
Mizoram	2.38	2.37	–	–	–	–	–	–	54.17	54.19	3.76	3.76
Nagaland	1.38	1.38	–	–	–	–	–	–	15.88	14.40	56.26	33.56
Tripura	–	–	–	–	–	–	21.70	21.27	43.94	21.74	35.40	16.50
Sikkim	–	–	–	–	–	–	21.29	20.63	8.72	8.73	4.55	4.54

Appendix Table IV.11: Sanctions and Disbursements Under Rural Infrastructure Development Fund – State-wise *(Concluded)*

(At end-March 2006)

(Amount in Rs. crore)

All India / State	RIDF VII		RIDF VIII		RIDF IX		RIDF X		RIDF XI		TOTAL	
	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment	Sanc-tions	Disburse-ment
1	14	15	16	17	18	19	20	21	22	23	24	25
All India	**4,657.65**	**3,756.82**	**6,009.36**	**4,440.34**	**5,599.18**	**3,387.48**	**8,289.75**	**2,967.81**	**8,514.33**	**807.08**	**5,1283.01**	**31,337.34**
Southern Region	**1,393.35**	**1,214.49**	**1,722.71**	**1,363.78**	**1,802.09**	**1,107.81**	**2,869.37**	**967.96**	**2,628.29**	**197.58**	**15,447.76**	**9,414.20**
Andhra Pradesh	611.71	548.91	907.76	703.08	864.96	495.38	1,558.99	479.93	1,367.57	124.23	7,383.56	4,267.08
Karnataka	236.77	207.00	230.77	175.89	295.54	191.02	416.32	118.47	450.95	3.11	2,818.19	1,800.86
Kerala	191.76	134.46	196.21	135.10	93.86	14.24	236.34	46.19	206.21	8.40	1,563.15	890.82
Tamil Nadu	353.11	324.12	387.97	349.71	547.73	407.17	657.72	323.37	603.56	61.84	3,682.86	2,455.44
Western Region	**586.42**	**398.31**	**743.01**	**587.14**	**966.24**	**736.84**	**1,570.18**	**603.71**	**1,017.79**	**170.97**	**7,957.28**	**5,156.52**
Goa	15.79	9.91	16.10	10.29	–	–			–		66.76	44.72
Gujarat	40.90	20.72	283.82	262.63	899.21	692.28	1,311.69	603.71	916.98	170.97	4,727.16	2,814.65
Maharashtra	529.73	367.68	443.09	314.22	67.03	44.56	258.49		100.81		3,163.36	2,297.15
Northern Region	**1,494.91**	**1,286.96**	**1,562.54**	**1,270.73**	**1,319.33**	**8,11.16**	**1,807.88**	**839.19**	**2,226.39**	**284.64**	**13,521.57**	**9,007.65**
Haryana	151.92	135.37	270.87	185.36	153.62	114.87	173.21	72.40	196.81	13.28	1,314.96	853.21
Himachal Pradesh	168.43	167.98	169.60	136.74	142.30	72.49	91.64	30.36	224.75	19.91	1,241.61	854.56
Jammu and Kashmir	216.80	193.39	175.64	138.81	153.82	69.28	49.36	7.19	79.55	5.02	1,097.14	810.10
Punjab	231.52	200.80	206.55	183.80	288.18	178.95	312.63	161.52	286.85	54.27	1,966.85	1,349.01
Rajasthan	388.45	321.48	346.75	279.77	140.27	74.27	356.26	183.68	605.13	139.87	2,719.93	1,796.66
Uttar Pradesh	337.79	251.75	322.71	282.34	217.84	150.67	516.34	212.50	783.45	52.29	4,451.61	2,932.94
Uttranchal	–	16.19	70.42	63.91	223.30	150.63	308.44	171.54	49.85		729.47	411.17
Central Region	**395.64**	**304.27**	**856.53**	**579.93**	**709.33**	**389.71**	**596.04**	**226.38**	**560.08**	**52.53**	**4,765.79**	**3,021.69**
Chhattisgarh	84.59	66.34	281.30	193.71	432.88	238.27	62.53	9.16	116.84	6.07	1,280.79	794.42
Madhya Pradesh	311.05	237.93	575.23	386.22	276.45	151.44	533.51	217.22	443.24	46.46	3,485.00	2,227.27
Eastern Region	**685.86**	**478.59**	**966.25**	**545.08**	**544.89**	**222.03**	**1,368.31**	**299.52**	**1,423.02**	**69.75**	**7,464.84**	**3,693.51**
Bihar	58.20	27.68	198.69	117.05	97.24	35.84	290.91	6.69	459.41	22.40	1,184.58	249.22
Jharkhand	–	–	–	–	49.13	5.00	174.78	66.30	107.44		5,45.62	234.72
Orissa	153.25	121.09	246.83	161.58	185.11	1,12.36	375.66	65.95	396.95	0.39	2,269.78	1,230.52
West Bengal	474.41	329.82	520.73	266.45	213.41	68.83	526.96	160.58	459.22	46.96	3,464.86	1,979.05
North-Eastern Region	**101.47**	**74.20**	**158.32**	**93.68**	**257.30**	**119.93**	**77.97**	**31.05**	**658.76**	**31.61**	**2,125.77**	**1,043.77**
Arunachal Pradesh	69.41	47.81	–	–	15.12	4.71	20.14	7.09	136.00	7.98	368.32	179.55
Assam	–	–	76.23	43.28	189.75	74.63	13.77	2.95	402.44	14.00	1,061.61	425.75
Manipur	–	–	–	–	–	–	0.53	0.09	27.59		38.20	8.95
Meghalaya	18.30	13.02	18.39	10.22	15.52	6.49			32.03	1.37	169.61	109.62
Mizoram	7.33	7.33	2.00	2.00	13.50	13.50	6.90	4.22	19.41	1.42	109.45	88.79
Nagaland	0.95	0.95	6.68	6.68	16.94	15.62	28.66	11.52	34.96	5.32	161.71	89.43
Tripura	–	–	50.13	26.67	3.17	1.73			–		154.34	87.91
Sikkim	5.48	5.09	4.89	4.83	3.30	3.25	7.97	5.18	6.33	1.52	62.53	53.77

– : Nil/Negligible.

Source: NABARD.

Appendix Table IV.12: Kisan Credit Card – State-wise Progress
(as on March 31, 2006)

(Amount in Rs. Lakh)

State/Union Teritory	Co-operative Banks			Regional Rural Banks			Commercial Banks		Total	
	No.	Card issued	Amount Sanctioned	No.	Card issued	Amount Sanctioned	Card issued	Amount Sanctioned	Card issued	Amount Sanctioned
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	22	1,21,206	41,233	16	1,61,069	59,632	10,63,529	3,49,595	13,45,804	4,50,460
Assam	1	2,101	157	5	15,080	2,193	47,782	6,759	64,963	9,109
Arunachal Pradesh	1	207	5	1	351	7	1,615	133	2,173	145
Bihar	25	–	–	16	62,981	20,878	1,46,268	43,415	2,09,249	64,293
Gujrat	18	83,886	2,88,802	9	43,248	63,612	1,11,400	62,863	2,38,534	4,15,277
Goa	1	307	63	–	–	–	2,519	3,708	2,826	3,771
Haryana	19	71,987	1,30,852	4	88,259	63,372	93,751	1,10,335	2,53,997	3,04,559
Himchal Pradesh	3	9,920	14,345	2	5,835	8,136	19,415	10,271	35,170	32,752
Jammu and Kashmir	4	6,267	769	3	1,741	11,145	1,048	442	9,056	2,356
Karnataka	19	1,20,533	3,51,072	13	1,09,199	2,83,737	2,75,305	1,55,918	5,05,037	7,90,727
Kerala	14	1,16,913	38,764	2	25,988	9,939	97,189	43,101	2,40,090	91,804
Madhya Pradesh	38	2,20,172	1,64,850	19	86,179	44,786	1,91,504	1,36,436	4,97,855	3,46,072
Maharashtra	29	4,78,398	3,67,226	10	29,484	8,226	2,70,492	1,34,654	7,78,374	5,10,106
Meghalaya	1	720	84	1	1,455	188	7,680	1,317	9,855	1,589
Mizoram	1	6	1	1	52	12	3,690	580	3,748	593
Manipur	1	64	10	1	96	19	5,885	744	6,045	773
Nagaland	1	–	–	1	43	5	4,278	797	4,321	802
Orissa	17	2,85,047	1,70,748	9	81,856	25,345	1,27,076	24,561	4,93,979	2,20,654
Punjab	19	67,280	40,285	5	14,584	19,023	97,371	1,37,102	1,79,235	1,96,410
Rajasthan	27	72,644	1,15,205	14	97,268	59,354	1,76,588	1,25,687	3,46,500	3,00,246
Sikkim	1	767	131	–	–	–	959	240	1,726	371
Tamilnadu	22	64,795	55,972	3	32,144	7,441	4,30,953	1,26,966	5,27,892	1,90,379
Tripura	1	489	80	1	4,921	844	6,066	1,200	11,476	2,124
Uttar Pradesh	50	3,81,467	1,94,933	36	2,73,897	1,41,441	6,77,700	3,17,394	13,33,064	6,53,768
West Bengal	19	3,06,017	41,244	9	1,296	64	1,72,413	37,391	4,79,726	78,699
A and N Island	1	312	61	–	–	–	52	85	364	146
Chandigarh	–	–	–	–	–	–	1	2	1	2
Daman and Diu	–	–	–	–	–	–	71	30	71	30
New Delhi	1	111	46	–	–	–	547	561	658	607
Dadra and Nagar Haveli	–	–	–	–	–	–	5	3	5	3
Lakshadweep	–	–	–	–	–	–	109	45	109	45
Pondicherry	1	1,064	554	–	–	–	4,158	1,170	5,222	1,724
Jharkhand	9	18,225	1,825	6	59,491	17,752	48,917	9,623	1,26,633	29,200
Chhattisgarh	7	1,48,219	11,086	5	48,399	9,567	41,919	14,972	2,38,537	35,625
Uttaranchal	9	19,102	3,534	4	4,558	1,535	36,296	19,847	59,956	24,916
Total	**382**	**25,98,226**	**20,33,937**	**196**	**12,49,474**	**8,58,253**	**41,64,551**	**18,77,947**	**80,12,251**	**47,60,137**

– : 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 2004-05	
	2004-05		2005-06		2004-05		2005-06		2004-05		2005-06		2004-05		2005-06			
	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 3)	**9,091**	**6,279**	**11,942**	**9,237**	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	**9,091**	**6,279**	**11,942**	**9,237**	**31.4**	**47.1**
1. IFCI	ñ	91	ñ	187	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	91	ñ	187		104.9
2. SIDBI	9,091	6,188	11,942	9,050	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	9,091	6,188	11,942	9,050	31.4	46.2
3. IIBI	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ		ñ
B. Specialised Financial Institutions (4 to 6)	**98**	**59**	**109**	**63**	**ñ**	**ñ**	**ñ**	**ñ**	**13**	**13**	**23**	**23**	**111**	**72**	**132**	**86**	**18.9**	**19.4**
4. IVCF	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ	ñ		ñ
5. ICICI Venture	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..		**ñ**
6. TFCI	98	59	109	63	ñ	ñ	ñ	ñ	13	13	23	23	111	72	132	86	19.5	19.4
C. Investment Institutions (7 to 8)	**4,555**	**3,514**	**1,343**	**2,020**	**5,190**	**4,799**	**13,822**	**9,179**	**659**	**659**	ñ	ñ	**10,404**	**8,972**	**15,165**	**11,200**	**45.8**	**24.8**
7. LIC	4,547	3,459	1,343	2,020	4,793	4,495	13,822	9,179	ñ	ñ	ñ	ñ	9,340	7,954	15,165	11,200	62.4	40.8
8. GIC @	8	55	..	..	398	303	..	..	659	659	..	..	1,064	1,018	..	..	**ñ**	**ñ**
D. Total Assistance by All-India Financial Institutions (A+B+C)	**13,743**	**9,852**	**13,394**	**11,320**	**5,190**	**4,799**	**13,822**	**9,179**	**672**	**672**	**23**	**23**	**19,605**	**15,323**	**27,239**	**20,522**	**38.9**	**33.9**

S : Sanctions. D : Disbursements. ñ : Nil/Negligible .. : Not Available

* : Loans include rupee loans, foreign currency loans and guarantees.

@ : Data include GIC and its former subsidiaries.

Note : Data are provisional.

Source : Respective Financial Institutions.

Appendix Table V.2: Resources Raised by Select All-India Financial Institution*

(Amount in Rs. crore)

Institution/Year	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10
IIBI									
Resources raised	797	1,223	689	458	210	44	176	ñ	ñ
Outstandings	1,856	1,799	2,084	2,140	3,196	2,754	2,420	2,008	1,576
IFCI									
Resources raised	3,366	3,544	1,783	1,634	651	267	ñ	ñ	ñ
Outstandings	18,018	20,173	20,092	19,966	19,788	20,203	17,564	15,025	13,678
TFCI									
Resources raised	234	158	104	124	112	93	172	23	71
Outstandings	586	711	753	676	667	632	546	429	390
EXIM Bank									
Resources raised	ñ	500	1,281	565	1,098	4,923	6,881	5,301	7,198
Outstandings	817	1,275	3,842	4,068	5,303	9,154	12,752	11,771	15,836
SIDBI									
Resources raised	1,394	580	635	1,076	1,557	1,547	2,972	2,434	3,489
Outstandings	9,725	10,324	10,756	10,442	10,074	9,607	10,535	9,346	11,030
NABARD									
Resources raised	239	354	569	1,472	2,548	2,988	5,334	10,642	8,194
Outstandings	1,445	1,632	2,141	3,614	6,078	8,702	11,883	26,429	27,303
NHB									
Resources raised	425	575	667	500	238	2,984	3,290	3,482	2,830
Outstandings	3,470	4,074	4,807	5,256	4,830	7,932	10,569	12,395	14,365
Total Resources raised	**6,455**	**6,934**	**5,728**	**5,828**	**6,414**	**12,846**	**18,825**	**21,882**	**21,782**
Total Outstandings	**35,917**	**39,988**	**44,475**	**46,162**	**49,936**	**58,984**	**66,269**	**77,403**	**84,178**

ñ : Nil/Negligible.

* : Includes long-term (bonds and borrowings), short-term (CP, TDs, ICDs, CPs and Term Money) and foreign currency resources (bonds and borrowings).

Note : Data are provisional.

Source : Respective Financial Institutions.

Appendix Table V.3: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/ Deployment of Funds	2004-05								Total		2005-06								Total	
	Quarter ended										Quarter ended									
	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)	**19,435**	**100.0**	**17,195**	**100.0**	**27,015**	**100.0**	**21,592**	**100.0**	**85,237**	**100.0**	**16,995**	**100.0**	**20,233**	**100.0**	**30,859**	**100.0**	**32,368**	**100.0**	**1,00,455**	**100.0**
i) Internal	14,556	74.9	11,042	64.2	17,094	63.3	10,852	50.3	53,543	62.8	13,359	78.6	14,001	69.2	20,222	65.5	15,975	49.4	63,557	63.3
ii) External	3,842	19.8	5,955	34.6	9,256	34.3	9,873	45.7	28,925	33.9	3,298	19.4	6,088	30.1	9,543	30.9	14,547	44.9	33,475	33.3
iii) Others	1,037	5.3	198	1.2	665	2.5	868	4.0	2,768	3.2	338	2.0	144	0.7	1,094	3.5	1,847	5.7	3,424	3.4
Deployment of Funds (i+ii+iii)	**19,435**	**100.0**	**17,195**	**100.0**	**27,016**	**100.0**	**21,593**	**100.0**	**85,238**	**100.0**	**16,995**	**100.0**	**20,233**	**100.0**	**30,859**	**100.0**	**32,368**	**100.0**	**1,00,455**	**100.0**
i) Fresh Deployments	7,772	40.0	11,068	64.4	19,575	72.5	14,876	68.9	53,291	62.5	10,725	63.1	13,925	68.8	25,307	82.0	22,316	68.9	72,273	71.9
ii) Repayment of past borrowings	7,916	40.7	4,164	24.2	4,552	16.8	3,387	15.7	20,019	23.5	3,474	20.4	3,978	19.7	1,916	6.2	5,034	15.6	14,402	14.3
iii) Other Deployments	3,747	19.3	1,963	11.4	2,888	10.7	3,329	15.4	11,928	14.0	2,796	16.5	2,330	11.5	3,636	11.8	5,018	15.5	13,781	13.7
of which :																				
Interest Payment	1,252	6.4	1,100	6.4	1,194	4.4	1,050	4.9	4,597	5.4	1,147	6.7	1,007	5.0	1,120	3.6	1,229	3.8	4,502	4.5

ñ : Nil/Negligible

* : Includes IFCI, IIBI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.

Source: Respective Financial Institutions.

Appendix Table V.4: Weighted Average cost/Maturity of Resources raised by way of Rupee bonds/ debentures* by select all-India FIs

(Cost in per cent and maturity in years)

Institution/Year	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10
IIBI									
Weighted Average Cost	ñ	ñ	ñ	13.2	10.6	9.6	8.7	ñ	ñ
Weighted Average Maturity	ñ	ñ	ñ	5.6	9.6	8.7	18.0	ñ	ñ
IFCI									
Weighted Average Cost	13.0	13.9	12.9	12.5	11.1	9.6	8.2	ñ	ñ
Weighted Average Maturity	5.3	5.7	7.0	6.5	6.8	2.2	3.2	ñ	ñ
TFCI									
Weighted Average Cost	14.1	14.1	12.5	11.8	10.5	8.5	8.6	10.4	ñ
Weighted Average Maturity	4.6	5.7	5.2	9.0	5.9	10.1	10.0	4.8	ñ
EXIM Bank									
Weighted Average Cost	12.5	12.9	12.5	12.2	10.8	8.9	5.9	6.9	7.0
Weighted Average Maturity	6.4	5.6	4.2	3.6	6.4	6.1	6.7	5.1	4.7
SIDBI									
Weighted Average Cost	12.3	12.4	9.7	9.8	7.5	6.5	4.9	6.3	4.5
Weighted Average Maturity	10.0	10.0	2.6	1.3	1.0	2.3	2.8	7.0	7.0
NABARD									
Weighted Average Cost	9.8	11.2	10.6	9.5	8.0	6.1	5.4	6.6	5.8
Weighted Average Maturity	8.2	8.0	5.4	3.0	3.0	5.4	5.4	2.1	2.0
NHB									
Weighted Average Cost	10.5	11.2	11.1	10.2	8.7	6.4	5.4	6.5	5.9
Weighted Average Maturity	8.9	9.0	9.5	5.8	7.4	4.0	3.2	2.8	2.2

ñ : Nil/Negligible.
* : Includes only rupee resources and does not include foreign currency borrowings.
Note : Data are provisional.
Source : Respective Financial Institutions.

Appendix Table V.5: Select Financial Indicators 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)	
		2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10
1.	Securities Trading Corporation of India Ltd.	859	860	70.6	74.7	1,859	1,712	2,167	2,981
2.	SBI DFHI Ltd.	958	959	64.2	148.3	1,093	1,493	1,500	1,603
3.	Gilts Securities Trading Corporation Ltd.	247	248	113.9	92.1	353	339	379	415
4.	ICICI Securities Ltd.	426	415	32.3	25.6	691	613	1,310	1,428
5.	PNB Gilts Ltd.	463	483	62.4	40.0	1,013	1,730	1,264	2,192
6.	J P Morgan Securities (India) Pvt. Ltd.	360	372	36.2	37.0	221	722	974	1,087
7.	ABN AMRO Securities (India) Pvt. Ltd.	140	147	39.1	39.0	426	274	594	450
8.	Kotak Mahindra Capital Co. Ltd.	236	408	46.2	56.6	202	122	358	601
9.	DSP Merrill Lynch Ltd.	399	625	77.1	45.4	363	161	596	982
10.	Deutshce Securities (India) Pvt. Ltd.	169	182	135.9	41.1	343	271	318	426
11.	IDBI Capital Market Services Ltd.	628	557	40.8	45.7	613	392	905	687
12.	Corpbank Securities Ltd.	133	131	26.3	123.2	504	95	536	173
13.	HSBC Primary Dealership (India) Ltd.	78	80	188.3	1,077.8	125	75	80	81
14.	Banc of America Securities (India) Ltd.	247	255	145.2	57.3	207	95	257	285
15.	Standard Chartered UTI Securities (India) Pvt. Ltd.	65	66	255.4	68.4	71	67	70	69
16.	BOB Capital Market Ltd.	82	87	27.1	35.5	299	228	319	250
17.	Citicorp Capital Markets Ltd.	113	116	48.4	54.2	139	105	286	242
	TOTAL	**5,603**	**5,992**	**54.3**	**53.9**	**8,521**	**8,495**	**11,911**	**13,953**

Source: Capital Funds and CRAR from PDR III of March 2006.

Appendix Table V.6: 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.	2004-05	181	-222	1	-39	96	11	107	-146	-98	-11.4
		2005-06	176	-21	5	160	113	10	123	37	24	2.7
2.	SBI DFHI Ltd.	2004-05	140	-179	2	-37	49	9	58	-95	-94	-9.8
		2005-06	107	-58	3	51	42	7	49	3	2	0.3
3.	Gilts Securities Trading Corporation Ltd.	2004-05	51	-110	0	-58	25	4	29	-87	-87	-35.3
		2005-06	33	-10	1	25	20	4	24	0	0	0.2
4.	ICICI Securities Ltd.	2004-05	98	23	61	182	61	37	98	84	56	13.2
		2005-06	167	106	134	406	109	82	192	214	148	35.6
5.	PNB Gilts Ltd.	2004-05	112	-104	3	11	72	8	79	-68	-68	-14.7
		2005-06	143	-23	6	127	92	7	99	29	30	5.7
6.	J P Morgan Securities (India) Pvt Ltd.	2004-05	50	-12	2	40	21	6	27	13	8	2.3
		2005-06	155	-41	8	123	92	7	100	23	15	4.2
7.	ABN AMRO Securities (India) Pvt Ltd.	2004-05	35	-9	6	32	17	7	24	8	5	3.6
		2005-06	47	-15	24	56	34	10	44	12	7	4.8
8.	Kotak Mahindra Capital Company Ltd.	2004-05	53	4	6	63	8	35	42	20	16	6.7
		2005-06	40	0	220	260	21	56	78	182	162	48.8
9.	DSP Merrill Lynch Ltd.	2004-05	30	9	339	379	12	157	169	210	134	33.6
		2005-06	43	34	604	680	19	250	269	411	286	50.5
10.	Deutsche Securities (India) Pvt Ltd.	2004-05	18	-1	1	17	7	4	11	7	4	2.2
		2005-06	43	8	2	53	27	6	32	21	13	7.7
11.	IDBI Capital Market Services Ltd.	2004-05	-16	-4	22	2	58	18	76	-74	-74	-11.8
		2005-06	88	16	24	128	50	27	76	51	46	10.5
12.	Corpbank Securities Ltd.	2004-05	35	-88	1	-53	14	2	16	-69	-45	-33.8
		2005-06	25	-12	1	13	14	1	15	-2	-1	-2.0
13.	HSBC Primary Dealership (India) Pvt Ltd.	2004-05	7	2	2	11	3	2	5	6	4	4.8
		2005-06	8	0	3	10	2	2	4	6	4	4.8
14.	Bank of America Securities (India) Pvt Ltd.	2004-05	17	-8	0	9	1	4	5	5	3	1.2
		2005-06	29	-10	2	21	8	3	11	11	7	2.8
15.	Stanchart UTI Securities (India) Pvt Ltd.	2004-05	7	2	1	10	3	2	5	6	3	5.1
		2005-06	13	-4	5	14	7	2	9	5	5	6.8
16.	BoB Capital Markets Ltd.	2004-05	-11	1	0	-10	7	2	10	-19	-19	-23.8
		2005-06	19	-9	5	14	12	2	14	0	0	-0.3
17.	Citicorp Capital Markets Ltd.	2004-05	12	-4	6	14	5	3	9	5	3	2.9
		2005-06	16	-8	3	11	8	3	12	0	0	-0.3
	TOTAL	**2004-05**	**821**	**-700**	**453**	**574**	**459**	**310**	**769**	**-195**	**-250**	**-4.5**
		2005-06	**1,151**	**-47**	**1,049**	**2,153**	**670**	**481**	**1,150**	**1,003**	**749**	**12.9**

: Includes Discount Income.