

2. BANKING STATISTICS

The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets. Besides a few foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state-owned) banking system in India. A diagrammatic structure of Indian banking, including cooperatives, is presented in Figure 2.1. Banking statistics in India is predominantly compiled and disseminated by the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). As the data collection mechanism and the dissemination standards thereof vary for commercial and cooperative banks, this chapter presents relevant details separately for commercial banks and cooperative banks. However, there is some overlapping information which is collected both from commercial and cooperative banks. Accordingly Section 2.1 covers information on commercial banks, while that of cooperative banks is presented in Section 2.2.

2.1. Banking Statistics on Commercial Banks

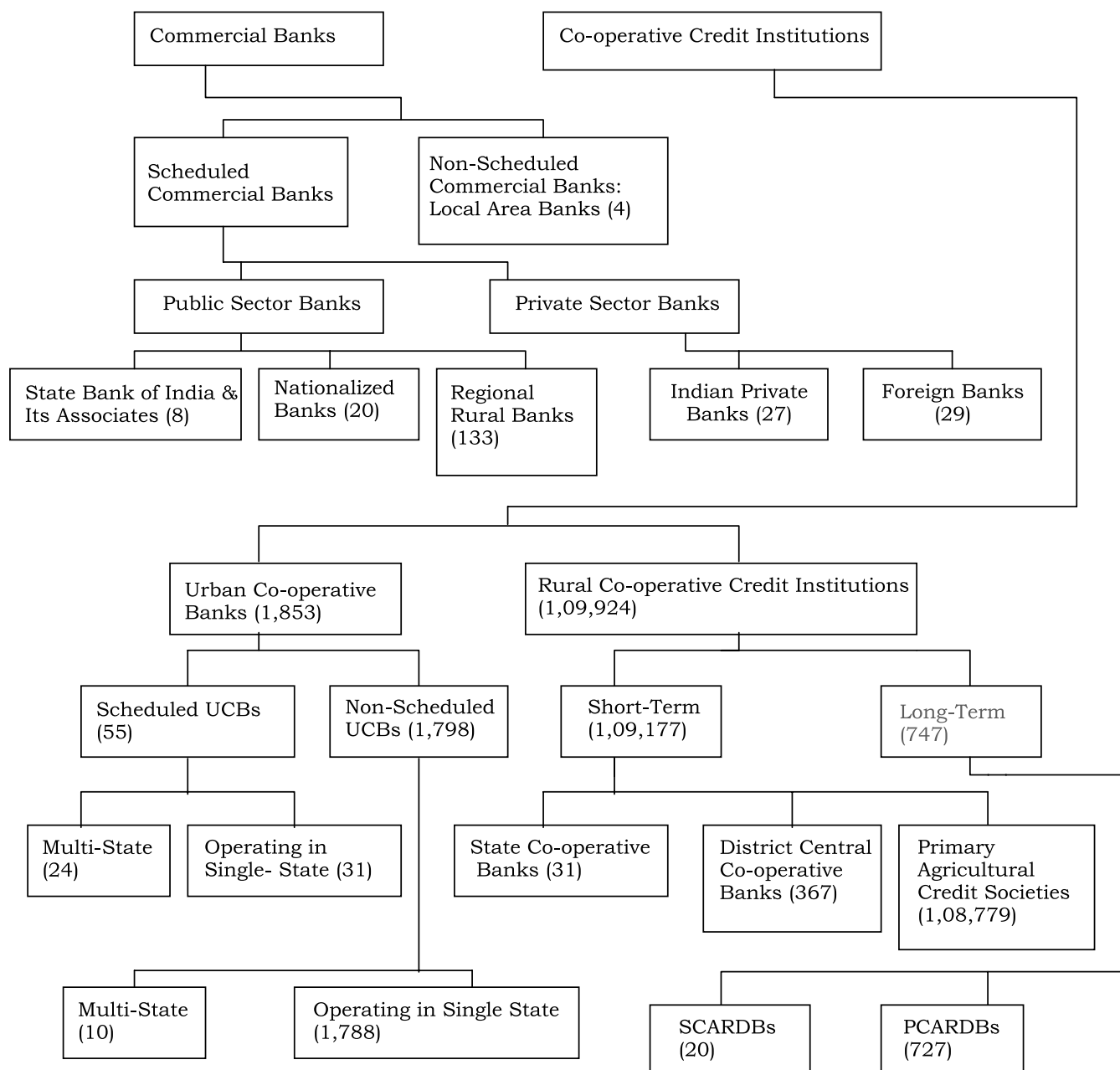
As a part of central banking activities and the overall economic perspective of the banking system of the country, RBI collects a vast amount of information on the banking system through various statutory and control (non-statutory) returns. Control returns cover various aspects of banking information like spatial distribution of deposits and credit, international banking, priority sectors, etc. Each aspect is again defined by its own separate statistical system. Against this background, the information based on statutory returns and those of control or special returns are presented separately.

2.1.1. Statistics based on Statutory Returns

The data received through various statutory returns in RBI are mainly used for monetary policy formulation and regulatory prescriptions. However, the information based on a few returns is only disseminated to the public. Among them, statistics filed statutorily by banks on two returns/reports are most significant, viz., Form A/B and annual reports of banks (balance sheet and profit and loss account). These are discussed below.

2.1.1.1. Business of all Scheduled Banks in India

One of the most important statistics based on statutory Form A/B returns, which are disseminated by RBI (RBI Bulletin), are labelled under the title "*Business of all Scheduled Banks in India*". Each Scheduled Bank (commercial and cooperative bank) is required to furnish to the RBI fortnightly return showing major items of its assets and liabilities in India as at the close of business on reporting Friday, as per Section 42(2) of RBI Act, 1934. Scheduled Banks are also required to furnish a special return corresponding to the last Friday of every month if it is not a reporting Friday. This return is submitted in the prescribed form viz., Form-A for Scheduled Commercial Banks and Form-B for Scheduled Cooperative Banks. Provisional data are to be submitted within 7 days of the reference date and final data within 21 days. The format of Form 'A' was revised based on the recommendation of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y. V. Reddy) in October 1998. In an attempt to fill the data gaps emerged due to the liberalisation and deregulation in the financial sector, the Scheduled Commercial banks have been advised as a sequel to the recommendations of the Reddy Committee to report the returns under Section 42(2) in a revised format with effect from 9th October 1998. The revised format includes Memorandum to Form 'A' (paid-up capital, reserves, etc.), Annexure 'A' (details of foreign

Fig. 2.1: Structure of Indian Banking

SCARDBs: State Co-operative Agriculture and Rural Development Banks.

UCBs: Urban Co-operative Banks

PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Note: Figures in brackets indicate the number of institutions at end-March 2006. However, for rural co-operative credit institutions, the number is at end-March-2005.

currency liabilities and assets) and Annexure 'B' (details of investments in non-SLR securities).

The provisional Section 42(2) data are released by RBI through weekly press communiqué and are also published in the Weekly Statistical Supplement to RBI Bulletin (WSS). The final data of Section 42(2) return are published in the Reserve Bank of India Bulletin, every month, in two tables, viz., i) All Scheduled Banks-Business in India and ii) All Scheduled Commercial Banks-Business in India.

2.1.1.1.2. Measurement Needs of the Data

Section 42(2) data are primarily collected for monitoring the compliance of statutory cash reserve ratio (CRR) by Scheduled Banks operating in India and also for money supply compilation. In addition, these data are also used for monitoring overall banking business in India, including the trends of important indicators like aggregate deposits, bank credit, investments, etc. These data are published in the two statutory publications of RBI viz., (i) RBI Annual Report and (ii) Report on Trend and Progress of Banking in India.

2.1.1.1.3. Concepts, Definitions and Classifications

As per Section 42(2) of the RBI Act, 1934, every scheduled bank is required to submit to the Reserve Bank of India a return showing (i) the amount of its demand and time liabilities and the amount of its borrowings from banks in India, classifying them into demand and time liabilities, (ii) the total amount of legal tender notes and coins held by it in India, (iii) the balances held by it at other banks in current account and the money at call and short notice in India, (iv) the investments (at book value) in Central and State Government securities including Treasury Bills and Treasury deposit receipts, (v) the amount of advances in India, (vi) the inland bills purchased and discounted in India and foreign bills purchased and discounted, at the close of business on each alternate Friday, and every such return shall be sent not later than seven days after the date to which it relates.

Effectively, Form 'A' & Form 'B' do not differ except for one item viz., 'Demand and Time Liabilities' under 'Liabilities to the Banking System', for which, the break-up into demand liabilities and time liabilities are given separately in the case of Cooperative Banks (i.e., in Form 'B').

Definitions / classification of Liabilities to the 'Banking System' as well as Liabilities to others in India are given in the following paragraphs.

- I. Liabilities to the Banking System in India
 - a) Demand and time deposits from banks
 - b) Borrowings from banks (includes inter-bank borrowings and inter-bank deposits at call or short notice not exceeding 14 days).
 - c) Other demand and time liabilities
- II. Liabilities to Others in India
 - a) Aggregate deposits (other than from banks)
 - i) Demand
 - ii) Time
 - b) Borrowings (borrowings represent total borrowings from outside the 'Banking System'. Money at call and short notice obtained from LIC, UTI etc. are included where as borrowings from RBI, NABARD, EXIM Bank etc. are excluded from this item.).
 - c) Other demand and time liabilities

Demand Deposits comprise:

- (i) Current deposits
- (ii) Demand liabilities portion of savings bank deposits
- (iii) Margins held against letter of credit/ guarantees
- (iv) Balances in overdue fixed deposits
- (v) Cash certificates
- (vi) Cumulative/Recurring deposits
- (vii) Outstanding telegraphic and mail transfers

- (viii) Demand drafts
- (ix) Unclaimed deposits
- (x) Credit balances in the cash credit accounts
- (xi) Deposits held as security for advances which are payable on demand

Time Deposits comprise:

- (i) Fixed deposits
- (ii) Cash certificates
- (iii) Cumulative and recurring deposits
- (iv) Time liabilities portion of savings bank account
- (v) Staff security deposits
- (vi) Margins held against letters of credit if not payable on demand
- (vii) Fixed deposits held as security for advances
- (viii) Money repayable at notice exceeding 14 days or more received from LIC, UTI, etc.

Other Demand and Time Liabilities comprise:

- (i) Interest accrued on deposits
- (ii) Bills payable
- (iii) Unpaid dividends
- (iv) Suspense account balances representing amounts due to other banks or public
- (v) Participation certificates issued to other financial institutions other than banks
- (vi) Any amount due to the 'Banking System' which are not in the nature of deposits or borrowings. (Such liabilities may arise due to items such as (a) collection of bills on behalf of other banks (b) interest due to other banks and so on. Whenever it has not been possible to segregate the liabilities to the 'Banking System' from the total of 'Other demand and time liabilities', the entire 'Other demand and time liabilities' are treated as liability to 'Others').

III. Assets with the 'Banking System'

Assets with the banking system comprise the following:

- a. Balances with the 'Banking System' in Current Account
- b. Balances with Other Banks in Other Accounts
- c. *Money at Call and Short Notice:* This represents funds made available to the 'Banking System' by way of loans or deposits repayable at call or short notice of 14 days or less.
- d. *Advances to Banks, i.e., Due from Banks:* This represents the loans other than 'Money at call and short notice' made available to the 'Banking System'. Participation Certificates purchased is also included here.
- e. *Other Assets:* Any other amounts due from the 'Banking System', which cannot be classified under any of the above three items. For example, in the case of inter-bank remittance facilities scheme, as on date, the total amount held by a bank with other banks (in transit or other accounts) are shown here as such sums cannot be construed as 'balances' or 'call money' or 'advances'.

IV. Cash in India (i. e., Cash in hand)

Cash in hand represents notes and coins held by the bank as till money. Currencies of foreign countries are not included here.

V. Investments in India

Investments indicate the total investments in (A) Government securities and (B) Other approved securities.

A. *Investments in Government Securities:*

- (i) Central and State Government securities including treasury bills
- (ii) Treasury deposit receipts
- (iii) Treasury savings deposit certificates
- (iv) Postal obligations such as national plan certificates, national savings certificates, etc.

- (v) Government Securities deposited by foreign scheduled banks under Sec.11(2) of BR Act, 1949

B. Investments in Other Approved Securities:

- (i) Securities of State associated bodies such as Electricity Board, Housing Board and Corporation Bonds.
- (ii) Debentures of Land Development Banks
- (iii) Units of UTI
- (iv) Shares of RRBs, etc., which are treated as approved securities under Sec.5 (a) of BR Act, 1949.

VI. Bank Credit in India (excluding inter-bank advances)

Bank credit in India is the total of three items viz. (A) Loans, cash-credits and overdrafts, (B) Inland bills – purchased and discounted and (C) Foreign bills – purchased and discounted. Bills (inland and foreign) rediscounted with the RBI, IDBI and other financial institutions are not included under this head.

a) Loans, cash-credits and overdrafts

- (i) Demand loans
- (ii) Term loans
- (iii) Cash-credits
- (iv) Overdrafts
- (v) Packing credit, etc., granted to constituents (other than banks)
- (vi) Any other type of credit facilities other than by way of bills purchased and discounted

b) Inland Bills – Purchased and Discounted

Inland bill drawn and payable in India including demand draft and cheques purchased. Separate break-up is presented for bills purchased and discounted.

c) Foreign Bills – Purchased and Discounted

Foreign bills covers all export and import bills purchased and discounted in India as also

cheques, demand drafts drawn in foreign currencies and paid by banks' office in India. Separate break-up is provided for bills purchased and discounted.

In addition to the core return, some of the additional important items are reported. These include: (a) net demand and time liabilities for the purpose of Sec.42(1) of the RBI Act, 1934 = Net Liabilities to the Banking System + Liabilities to Others in India i.e., (I-III) + II, if (I-III) is a plus figure or II only, if (I-III) is minus figure, (b) Amount of minimum deposit required to be kept with the RBI under the Act and (c) the liabilities under Savings Bank Account - further classified separately as the demand liabilities and time liabilities.

Besides these items, Form 'A' consists of Memorandum, Annexure A, and Annexure B. Reporting of these additional data was implemented with effect from 9th October, 1998 as per the recommendation of Working Group on Money Supply: Analytics and Methodology of Compilation, 1998.

VII. Memorandum reports data on:

- a. Paid-up capital,
- b. Reserves (free as well as statutory reserves) as per the last balance sheet and continue to report the same every fortnight until the release of audited balance sheet of the following year)
- c. Time deposits giving the time liabilities portion of the saving bank account (broken into short term and long term)
- d. Certificates of deposits.
- e. Net Demand and Time Liabilities
- f. Amount of deposits required to be maintained as per current rate of CRR
- g. Any other liability on which CRR is required to be maintained under Section 42(2) and 42(1A) of the Reserve Bank of India Act, 1934.
- h. Total CRR required to be maintained under Section 42(2) and 42(1A) of the Reserve Bank of India Act, 1934.

Annexure A to Form A gives details on the liabilities and assets in foreign currency outstanding at book value and revaluation value along with interest, as indicated below:

Liabilities:

Liabilities to others in India

- I. Non-Resident Deposits
 - I.1 Non-Resident External Rupee Account (NRE)
 - I.2 Non-Resident Non-Repatriable Rupee Account (NRNR)
 - I.3 Foreign Currency Non-Resident Banks Scheme [FCNR(B)] (I.3.1+I.3.2)
 - I.3.1 Short-term
 - I.3.2 Long-term
 - I.4 Others
- II. Other Deposits/Schemes
 - II.1 Exchange Earner's Foreign Currency Accounts
 - II.2 Resident Foreign Currency Accounts
 - II.3 ESCROW¹ Accounts by Indian Exporters
 - II.4 Foreign Credit Line for Pre-shipment Credit account and Overseas Rediscounting of Bills
 - II.5 Credit Balances in ACU (US dollar) Account
 - II.6 Others
- III. Foreign Currency Liabilities to the Banking System in India
 - III.1 Inter-bank Foreign Currency Deposits
 - III.2 Inter-bank Foreign Currency Borrowings
- IV. Overseas Borrowings include total of overdrawing in all NOSTRO² accounts

¹ ESCROW account: A trust account held in the borrower's name to pay obligations such as taxes, insurance, etc.

² NOSTRO account: An account one bank holds with a bank in a foreign country, usually in the currency of that foreign country.

and should not be netted for credit balance in other NOSTRO accounts. It also includes any other borrowings from foreign market or Head Office (in case of foreign banks).

Assets:

- V. Assets with the banking system in India
 - V.1 Foreign currency lending
 - V.2 Others
- VI. Assets with others in India
 - VI.1 Bank Credit in India in Foreign Currency
 - VI.2 Others
- VII. Overseas Foreign Currency Assets: These include balances held abroad, i.e., (i) cash component of Nostro account, debit balances in ACU (US dollar) account and credit balances in the commercial banks of ACU countries, (ii) short term foreign deposits and investments in eligible securities, (iii) foreign money market instruments including Treasury Bills and (iv) foreign shares and bonds.
The liabilities in foreign currencies under various schemes are re-valued at FEDAI indicative rates. As regards interest, banks report accrued interest in respect of all liabilities.
- VIII. External Liabilities to Others subject to differential / zero CRR prescription (I+II)
- IX. External Liabilities fully subject to CRR prescription (IV)
- X. Net Inter-Bank Liabilities (I-III of Form A)
- XI. Any other liabilities coming within the purview of zero prescription
- XII. Liabilities subject to zero CRR prescription (VIII+X+XI)

Annexure B to Form A reports the following at their book value and also at their revaluation value:

Investment in Approved Securities include investments in Government securities broken into short term (of contractual maturity of one year or less) and long term (contractual maturity of more than a year).

Investments in non-approved securities include commercial paper, units of UTI and other mutual funds, shares and bonds/debentures.

Banks are required to revalue their investment in approved securities on quarterly basis. As regards to the revaluation of investments in non-approved securities, the same is reported as and when the banks revalue their investments as per the current practice/instructions.

2.1.1.1.4. Sources and Systems

Data from Scheduled commercial banks are collected in Form-A from all the banks belonging to different bank groups, viz., (a) State Bank of India and its Associates, (b) Nationalised banks, (c) Other Scheduled Commercial Banks, (e) Foreign Banks and (f) Regional Rural Banks. Data from Scheduled cooperative banks are collected in Form-B format from all banks belonging to the two categories, viz., (a) Scheduled State cooperatives and (b) Scheduled Urban cooperatives.

Scheduled Commercial Banks (other than RRBs), submit the Form 'A' return through Online Return Filing System. Data for Regional Rural Banks are received by the Rural Planning and Credit Department (RPCD) of the RBI. Data with respect to scheduled state cooperative banks and scheduled urban cooperative banks are received in Final Form 'B' by RPCD and Urban Banks Department (UBD) of RBI, respectively. These data are merged with the other data pertaining to commercial banks and the consolidated statements for all scheduled banks are generated by DESACS of RBI.

2.1.1.1.5. Ensuring Quality Standards

Before the finalisation of these data, the following data checks are done:

- (i) An error report for each bank is generated for a particular fortnight wherein all the items in the return having

either more than 20% variation or more than Rs. 5 crore difference from its previous reporting fortnight level are listed in the case of RRBs and State Cooperative Banks. This list is checked with hard copy Form A returns and errors in punching, if found are rectified.

- (ii) In the case of commercial banks, an error report for each bank is generated for a particular fortnight wherein all the items in the return having either more than 20% variation or more than Rs.50 crore difference from its previous reporting fortnight level are listed. If required, the banks concerned are contacted for clarifications and corrections are made.
- (iii) These returns are also duly checked for statistical consistency by generating 3-sigma / 5-sigma reports.
- (iv) Finally, the bank-group level aggregates are checked with provisional data.

2.1.1.2. Annual Reports of Scheduled Commercial Banks

The present structure of reporting of data items in annual reports of scheduled commercial banks is as per the recommendation of Ghosh Committee Report (1985) on annual accounts of banks, effective from 1992-93. Basic items are initially classified into various blocks (called 'schedules') and data are reported statutorily, under Section 27 of Banking Regulation Act, 1949. Detailed bank-wise data based on annual reports are published in 'Statistical Tables Relating to Banks in India'. Individual definitions of each item in the schedules of Balance Sheet and Profit & Loss Account of commercial banks are given in the *Annex 2.1*. Table-wise major contents of this publication is presented in *Annex 2.2*. Definitions/concepts of some of the important ratios based on annual report information published in 'Statistical Tables Relating to Banks in India' are as follows:

- a) (i) *Cash* in cash-deposit ratio includes cash in hand and balances with RBI.
- (ii) *Investments* in investment-deposit ratio represent total investments including investments in non-approved securities.

- (iii) *Net interest margin* is defined as the total interest earned less total interest paid.
- (iv) *Intermediation cost* is defined as total operating expenses.
- (v) *Wage bills* is defined as payments to and provisions for employees.
- (vi) *Operating profit* is defined as total earnings less total expenses, excluding provisions and contingencies; and
- (vii) *Burden* is defined as the total non-interest expenses less total non-interest income.
- b) Items like capital, reserves, deposits, borrowings, advances, investments and assets / liabilities used to compute various financial earnings / expenses ratios are averages for the two relevant years.
- c) (i) Cash-deposit ratio = $(\text{Cash in hand} + \text{Balances with RBI}) / \text{Deposits}$.
- (ii) Ratio of secured advances to total advances = $(\text{Advances secured by tangible assets} + \text{Advances covered by bank or Govt. guarantees}) / \text{Advances}$.
- (iii) Ratio of interest income to total assets = $\text{Interest earned} / \text{Total assets}$.
- (iv) Ratio of net interest margin to total assets = $(\text{Interest earned} - \text{Interest paid}) / \text{Total assets}$.
- (v) Ratio of non-interest income to total assets = $\text{Other income} / \text{Total assets}$.
- (vi) Ratio of intermediation cost to total assets = $\text{Operating expenses} / \text{Total assets}$.
- (vii) Ratio of wage bill to intermediation costs (Operating Expenses) = $\text{Wage bills} / \text{Operating Expenses}$.
- (viii) Ratio of wage bill to total expenses = $\text{Wage bills} / \text{Total expenses}$.
- (ix) Ratio of wage bill to total income = $\text{Wage bills} / \text{Total income}$.
- (x) Ratio of burden to total assets = $(\text{Operating expenses} - \text{Other income}) / \text{Total assets}$.
- (xi) Ratio of burden to interest income = $(\text{Operating expenses} - \text{Other income}) / \text{Interest income}$.
- (xii) Ratio of operating profits to total assets = $\text{Operating profit} / \text{Total assets}$.
- (xiii) Return on assets for a bank group is obtained as weighted average of return of assets of individual banks in the group, weights being the proportion of total assets of the bank as percentage to total assets of all banks in the corresponding bank group.
- (xiv) Return on Equity = $\text{Net Profit} / (\text{Capital} + \text{Reserves and Surplus})$.
- (xv) Cost of Deposits = $\text{Interest Paid on Deposits} / \text{Deposits}$.
- (xvi) Cost of Borrowings = $\text{Interest Paid on borrowing from RBI and others} / \text{Borrowings}$.
- (xvii) Cost of Funds = $\text{Total Interest Paid on deposits and borrowings} / (\text{Deposits} + \text{Borrowings})$.
- (xviii) Return on Advances = $\text{Interest Earned on Advances} / \text{Advances}$.
- (xix) Return on Investments = $\text{Interest Earned on Investments} / \text{Investments}$.
- (xx) Return on Advances adjusted to cost of funds = $\text{Return on advances} - \text{Cost of funds}$.
- (xxi) Return on Investment adjusted to Cost of Funds = $\text{Return on investments} - \text{Cost of funds}$.

2.1.1.2.1. Sources and Systems

The balance sheet and profit and loss account data that are published in the 'Statistical Tables Relating to Banks in India' are sourced from the Annual Reports of banks. Balance sheet and profit & loss account is based on audited information and thus quality of data is automatically ensured. Statutory time limit for submission of data is 3 months from the reference date, i.e., June 30.

2.1.1.2.2. Ensuring Quality Standards

In order to ensure quality standards, the following steps are followed:

- (i) Annual Reports are obtained from each of the Scheduled Commercial bank including Regional Rural Banks.
- (ii) Data entry of the required fields is done and required calculations for the relevant tables are made.
- (iii) If any discrepancies are observed, data are again checked from the original source, i.e., the annual reports of banks.
- (iv) Cross Checking of various tables are done for consistency checks.
- (v) Data are again compared with those of the previous year's report.

2.1.2. Statistics based on Special Returns

2.1.2.1. Basic Statistical Return (BSR) System

The BSR system was introduced in December 1972 following the recommendation of the Committee on Banking Statistics adapting from the erstwhile data reporting system called Uniform Balance Book (UBB). The Uniform Balance Book (UBB) system was designed to provide a detailed and up-to-date picture of the sectoral and regional flow of bank credit and was introduced in December 1968 in the context of the setting up of the National Credit Council. It had twin objectives of ensuring a steady flow of information while minimising the reporting load on branches. The UBB proforma was required to be submitted by every bank office every month and provided for the reporting of account-wise information in regard to credit limits sanctioned and advances outstanding according to the type of account, type of borrower, occupation, purpose, security and rate of interest charged. This was considered sufficiently comprehensive for policy and information purposes. However, the response and the accuracy of the data obtained through the UBB system had proved to be quite inadequate. After few rounds of survey, it was noticed that response from branches was very poor and also the quality of reporting had not been satisfactory.

Besides these difficulties, the UBB had not gone beyond experimental stage.

Meanwhile with the nationalisation of major Indian banks and the more definite shape given to the new policy of diversifying the pattern of credit, the demand for information on various aspects of credit deployment was mounting. A more determined effort at systematising the reporting of banking data to ensure the availability of fairly comprehensive information with a minimum time lag had become necessary. Accordingly, the Reserve Bank of India constituted a 'Committee on Banking Statistics' in April 1972 under the chairmanship of Shri A. Raman, Director, Credit Planning Cell, RBI, having members from various departments of RBI and commercial banks to look into various aspects of statistical reporting of data by banks and suggest appropriate steps.

The Committee submitted its report in August 1972. The overall pattern of the statistical reporting system envisaged by the committee which, taken together, was designated as Basic Statistical Returns (BSR) to provide a steady flow of the required data was as follows:

1. *BSR 1 - Return on Advances* - half-yearly - as on the last Friday of June and December - from all branches - in two parts - Part A for accounts with limits over Rs.10,000 and Part B for accounts with limits of Rs.10,000 and less.
2. *BSR 2 - Return on Deposits* - half-yearly - as on the last Friday of June and December - from all branches.
3. *BSR 3 - Return on Advances against the Security of Selected Sensitive Commodities* - monthly - as on last Friday of each month - from Head Offices.
4. *BSR 4 - Return on Ownership of Bank Deposits* - once in two years - as on the last Friday of March - from all branches (replacing present annual survey from head offices).
5. *BSR 5 - Return on Bank Investments* - annual - as on the last day of March - from Head Offices (on the lines of Survey of Bank Investments).

In addition to this, it was recommended that the Survey of Debits to Deposits, which was done annually, to be done once in three years.

RBI agreed with the recommendations of the Committee and accordingly implementation actions followed:

1. A 'Committee of Direction on Banking Statistics (CDBS)' in RBI was constituted in to have overall charge of the Basic Statistical Returns, with officials of different departments of RBI and of various banks as its members.
2. UBB returns were discontinued from the month of July 1972.
3. The BSR system was implemented from December 1972 with BSR 1, 2 and 3.
4. The BSR 4 return was implemented from March 1976, which was collected from all branches. Ownership classifications were also changed from March 1976 survey. BSR 4 was collected on sample basis for 1978 and 1980 and on census basis for 1982 survey. From 1984 it was made biennial sample survey.
5. BSR 5 return commenced from March 1973.
6. The Survey on Debit to Deposits account which was conducted till 1971-72 annually, was next conducted in 1974-75 on census basis and renamed as *BSR 6* from 1985-86 as biennial sample survey. The survey has been made quinquennial from the year 2000.
7. The *BSR 7* return was originally introduced in August 1974 as a monthly return to capture branch-wise information on gross bank credit and aggregate deposits. The periodicity of the return was changed to quarterly from the quarter ended March 1984.
8. *BSR-8* on portfolio management scheme of banks, obtained on fortnightly basis, was introduced in 1992. The return was discontinued in 1999 following recommendation of CDBS.

2.1.2.1.1. Basic Statistical Returns 1 and 2

Basic Statistical Returns (BSR) 1 and 2 forms the major part of the BSR system. Comprehensive data on deposits and credit of scheduled commercial banks and the information on number of employees of the banks are collected presently through the annual statistical surveys, Basic Statistical Returns (BSR)-1 and 2, with 31st March as the reference date, and are obtained from the offices of scheduled commercial banks in India including Regional Rural Banks.

The surveys used to be conducted half-yearly, as on last Friday of June and December, from 1972 till 1990. From the year 1990, the surveys have been made annual with 31st March as the reference date. To provide guidance for filling in of BSR 1 and 2 returns, the Reserve Bank brought out the first Handbook of Instructions in September 1972. Consequent upon the improvements in the BSR system, the Handbook was revised from time to time. Following the developments in banking scenario in the last couple of years and to have uniform coding system for occupation/activity classification in line with National Industrial Classification (NIC) 1998, which itself is based on International Standard Industrial Classification (ISIC) 1990, a few revisions were introduced with effect from March 2002 survey. The latest edition, sixth in the line, provides these amendments in the system. As suggested by the Government of India to adopt a uniform classification system in order to keep the data comparable, nationally as well as internationally, the Reserve Bank of India had appointed an Informal Group on Coding System for Banking Statistics to look into the feasibility and adoptability of NIC 1998 for BSR and similar information systems in the banks. The new activity coding system in BSR was based on the recommendation of the Informal Group.

BSR-1 relates to gross bank credit and comprises term loans, cash credit, overdrafts, bills purchased and discounted, bills re-discounted under the New Bill Market Scheme and also dues from banks, whereas, the bank credit data, based on returns under Section 42(2) of the RBI Act, 1934, is exclusive of dues from banks and

bills re-discounted under the New Bill Market Scheme. The BSR-1 return is divided into two parts - Part A and Part B (termed as BSR-1A and BSR-1B). The cutoff credit limit for an account for inclusion in BSR-1A was kept as Rs. 10,000/- in 1972 at the time of its introduction. In the year 1984 the cutoff limit was raised to Rs. 25,000/- and the cut-off credit limit was raised to Rs. 2 lakh for BSR-1A return for scheduled commercial banks other than Regional Rural Banks from March 1999 survey. In the case of Regional Rural Banks, the cut off limit for classifying accounts in BSR-1A has been made as Rs. 2 lakh from March 2002 onwards. In BSR-1A, information in respect of each of the borrowal account is collected on various characteristics, such as place (district and population group) of utilisation of credit, type of account, type of organisation, occupational category, nature of borrowal account, rate of interest, credit limit and amount outstanding. In BSR-1B, information in respect of accounts with individual credit limit upto Rs. 2 lakh (termed as small borrowal account) is obtained in consolidated form for broad occupational categories. The BSR-1B Return has two separate credit limit size groups, i.e., 'up to Rs. 25,000' and 'over Rs. 25,000 to Rs. 2 lakh'. The information on small borrowal accounts are obtained in BSR-1B return from all scheduled commercial banks (including regional rural banks).

In BSR-2, each bank office submits information on deposits with their break-up into current, savings and term deposits. Information on deposit accounts of *females* is given separately. Information of term deposits according to different maturity periods is also furnished in this return. In addition, BSR-2 provides information on staff strength, classified according to gender and category (i.e. officers, clerical and subordinates), in individual bank offices as on the reference date of the returns. Deposits exclude inter-bank deposits. Current deposits comprise (i) deposits subject to withdrawal on demand (other than savings deposits) or on notice of less than 14 days, or term deposits with a maturity period of less than 7 days (ii) call deposits withdrawable not later than 14

days; (iii) unclaimed deposits; (iv) overdue fixed deposits; (v) credit balance in cash credit and overdraft accounts and (vi) contingency unadjusted account if in the nature of deposits. Savings deposits are deposits accepted by banks under their savings bank deposit rules. Term deposits are deposits with a fixed maturity of not less than 7 days and above or subject to notice of not less than 14 days. These would also include (a) deposits payable after 14 days notice; (b) cash certificates; (c) cumulative or recurring deposits; (d) Kuri & Chit deposits and (e) special deposits in the nature of term deposits. Conceptually, the deposits data in BSR-2 and the aggregate deposits in Section 42(2) return are the same. However, the deposits exclude the proceeds of Resurgent India Bonds (RIBs) as well as India Millennium Deposits (IMDs). In BSR-2, bank branches also give classification of term deposits according to broad interest rate ranges as well as size of deposits. The data on residual maturity of term deposits, introduced in March 2003, are collected through Part-V of this return in respect of computerised branches of scheduled commercial banks, except regional rural banks.

2.1.2.1.1.1. Dissemination of data

The dissemination of information of BSR 1 & 2 data is done through various publications brought out by the Bank. The main publications are the various Volumes of 'Banking Statistics - Basic Statistical Returns', which was renamed as 'Basic Statistical Returns of Scheduled Commercial Bank in India' from Volume 29, March 2000. This publication is also available on RBI website www.rbi.org.in from the year 1996. The annual publication is also brought out in the form of a CD-ROM since 2002 presenting the data in the form of excel tables. A special publication on CD-ROM titled 'Banking Statistics: Basic Statistical Returns 1 & 2, Volume 1 to 31: 1972 to 2002' was brought out, which presents the three decades data, published in various volumes, at one place, in PDF format. This publication is also available on RBI website. The publication presents distribution of credit and deposits of scheduled commercial banks in India on various characteristics/ parameters.

The data on credit and deposits are published on aggregate basis on various characteristics.

1. Bank group-wise – SBI & its associates, Nationalised Banks, Foreign Banks, Regional Rural Banks, Other Scheduled Commercial Banks (Private Sector Banks)

- Nationalised banks, which include IDBI Ltd. from 2005.

2. Spatial Distribution – Region, State & District

- Data on Credit are presented as per place of sanction and also as per place of utilisation. The details are given in BSR Volumes.
- The BSR-1A return provides the identification of the district and population group of the place where the credit is utilised. However, in BSR-1B return, such information is not collected. It is presumed that in respect of these accounts, the credit is utilised at the same place where it is sanctioned.

3. Population group – Rural, Semi-Urban, Urban, Metropolitan.

- Data on Credit are presented as per place of sanction and also as per place of utilisation.

4. Credit data are presented on various parameters

- Occupation – Available for BSR 1A & BSR 1B. Credit data are presented according to occupation of the borrower.
 - Data are aggregated on sectors and sub-sectors.
- Size of credit limit – Includes in both BSR 1A & BSR 1B.
- Interest rate range – Based on BSR-1A data only, referred as 'Loans and Advances', which excludes Bills.
- Types of account – Data are based on BSR-1A only. Data of loans against

Credit Cards are included in Demand Loans. Inland bills include both trade and other bills.

- Organisation – Organisational categories of borrowing account holder is based on BSR-1A only.

- Data on Small Scale Industries are based on both BSR 1A and BSR 1B returns. This include

- 'Artisans and Village & Tiny Industries' comprising Artisans/Craftsman, Village/Cottage Industries and Tiny Industries
- Other small scale industries.

5. Distribution of deposits data are present on various characteristics

- Type of Deposits – Current, Savings, Term.
- Broad ownership pattern – Data are published against individuals (Male and Female) and Others (excludes inter-banks).
- Original period of maturity.
- Percentage distribution of residual period of maturity.
- Percentage distribution of interest rate range.
- Percentage distribution of size of deposits.

6. Employment in banks – Total and Female (Officers, Clerks, Sub-ordinates).

The utility of BSR data is immense and multifarious. The information is not only used within RBI for the purpose of policy formulations but also used for answering various queries raised by members of the parliament. The data is supplied to various Central government ministries and departments such as Central Statistical Organisation. State governments also require the data for monitoring the progress and economic development of their states and state-level publications. The data is also used extensively by individuals and institutions for research purposes.

2.1.2.1.1.2. Concepts, Definitions and Classifications

BSR-1: BSR-1 return relates to bank credit. Each branch/office of a bank is required to submit this return to the Reserve Bank of India as on 31st March every year. In case 31st March is a holiday, the figures relates to the immediate preceding working day.

The bank credit reported in this return comprises the following items:

- (a) loans, cash credits and overdrafts,
- (b) inland bills purchased and discounted,
- (c) foreign bills purchased and discounted.

The above items reported in BSR-1 take account of

- (a) Dues from banks which represent loans and advances granted to banks (including participations without risk sharing),
- (b) Bills rediscounted with the financial institutions,
- (c) Advances extended through Credit Cards,
- (d) Bad debts (not written off) and protested bills,
- (e) Inter-bank participation with risk sharing.

However, Money at call and short notice is not included.

On comparison, the credit reported in BSR-1 return comprises (i) credit including 'dues from banks' within the meaning of fortnightly return under Section 42(2) of the Reserve Bank of India Act, 1934 and (ii) bills rediscounted with the financial institutions.

The BSR1 has two parts, Part A of the return (BSR-1A) relates to accounts with individual credit limits of over Rs.2,00,000. Particulars in respect of each of these accounts are collected separately. In BSR 1A, the particulars of the account, viz., name of the party, account number given for identification by the lending bank office, district and population group code of the place of utilisation of credit, type of account, organisation, occupation, nature of the borrowal account, asset classification of the borrowal

account, rate of interest, credit limit and amount outstanding are recorded separately for each account with credit limit of over Rs.2,00,000.

In Part B of the BSR1 return (BSR-1B), account-wise information is not collected. It calls for consolidated information on the occupation-wise totals of accounts with individual credit limits of Rs.2,00,000 and less. The information are given separately for loans with individual credit limit of Rs. 25,000 or less and above Rs. 25,000 to Rs. 2,00,000.

The cut-off point of Rs.2,00,000 for each individual account relates to the credit limit in force as on the date of the return and not the amount outstanding in the account. In case no specific credit limit is sanctioned, the amount outstanding itself is to be treated as the credit limit.

Reporting under BSR1 (Part A and Part B) is done account-wise and not party-wise. The size of the credit limit of each account is the factor for deciding whether it is to be individually reported in BSR-1A or consolidated with other accounts of the same occupational category in BSR-1 B.

- a. *Uniform branch code:* The uniform branch code allotted by the DESACS of RBI to each branch/office is used for unique identification of a branch. At present, the branch code consists of two parts, viz., Part I and Part II, and each part consists of seven digits.

The attributes of an account, collected in BSR-1A return are as under:

- b. *Place of Utilisation of Credit:* The information on place of utilisation of credit is being collected under two heads viz., district and population group.
 - (i) *District:* The district code indicates the district where actual credit has been or will be utilised by the borrower.
 - (i) *Population Group:* The code indicates the population group status of the place of utilisation of credit. The

relevant codes are given in *Annex 2.3* (List 'A'). Information given in these columns is important for ascertaining the State and district/population group-wise flow of credit. The credit extended by a branch/office is not always used in the same district/population group and State in which the branch office is located. In several major urban and metropolitan branches, a good part of the credit extended, is utilised elsewhere. For example, if a company having Head Office in Mumbai is granted an advance for utilisation for its factory located in Pen (Raigad district in Maharashtra), the appropriate district code will be Raigad and as the population of Pen is between 10,000 and one lakh, the appropriate population group code 2 for semi-urban area is used for the account.

It may not always be possible to indicate the district and population group where certain advances are utilised, for instance, advances granted to a Government Corporation (e.g. Food Corporation of India) or statutory bodies (e.g. Electricity Boards) or a privately owned company, the operations of which extend to more than one district, population group or state. In such cases, the codes of the district and population group where the major portion of the advances is utilised, is recorded. In case it is difficult to identify those aspects, the information of the place where the branches are located, is used.

- c. *Type of Account:* The code numbers allotted to the various types of accounts are given in *Annex 2.3* (List 'B'). All accounts in the books of a branch/office are classified under one type or the other appropriately. In case, a party is given borrowing facilities under different types of accounts, each account is separately listed. Such accounts are not combined. Pre-shipment finance under any type of facility, viz., cash credit, overdraft and demand loans are classified as Packing

Credit. Advances by way of rediscounting of bills of other party are reported as 'Bills discounted' with appropriate occupation category.

- d. *Type of Organisation:* The code number relevant to the type of organisation of the borrower is also recorded. *Annex 2.3* (List 'C') contains the code numbers allotted to different types of organisations. Organisation code consists of two digits. The list itself provides a brief explanation for each category of organisation. Some further explanations are given below :

Government companies are defined under Section 617 of the Indian Companies Act, 1956, as companies in which not less than 51 per cent of the paid-up capital is held by the Central or a State Government either singly or jointly.

Statutory corporations, owned by the Central Government or by a State Government, as well as companies which are subsidiaries of Government companies are also to be treated as Government companies. If a company is owned by the Central and State Government jointly on 50:50 basis, it is treated as a State Government undertaking for the purpose of this return. Loans sanctioned to a State Government or its departments, e.g. for food procurement operations, is coded as 'State Government' (code 12).

However, advances to Co-operative Marketing Federations for food procurement operations as also for other purposes are coded as 'Co-operatives' (code 20). All types of co-operative institutions are given organisation code 20. The activities of the co-operative institutions are not relevant. Thus, organisation code 20 includes co-operative marketing and other federations, co-operative housing societies, co-operative retail stores, etc. Even where the co-operative institution is sponsored by a Government body, the correct organisation code is 20 and not 14. The activity of the co-operative (farming, processing, marketing,

trading, housing, etc.) are given in a separate column.

Public and Private Limited companies are classified as Private Corporate Sector (code 31 & 32) and other private sector entities such as Partnerships, Propriety concerns, Joint families, Self-Help Groups, NGOs Associations, Clubs, Trusts and Groups, etc., are taken as Private Sector - Others (codes 33, 34 and 35). Non-profit institutions serving business and privately funded quasi-corporate institutions are classified as private corporate sector. Loans granted to individuals, singly or jointly with one or more persons are assigned the code number 41 (Individuals - Male) or 42 (Individuals - Female) depending on the gender of the sole/first account holder.

- e. *Nature of borrowal account:* The nature of borrowal account is recorded against each individual account. Codes relating to nature of borrowal account are given in *Annex 2.3* (List 'D'). Tiny industries are classified with village and cottage industries. For loans given to industry, the nature of borrowal account can be 1 or 2 or 3 and for all other loans it is 3.
- f. *Asset Classification of borrowal account:* Information on asset classification of each account with credit limit of over Rs.2,00,000 is reported as per asset classification code assigned to a borrowal account for reporting to DBOD/DBS of the Reserve Bank of India. The relevant codes are given in *Annex 2.3* (List 'E'). The accounts are classified as 'Standard', 'Sub-standard', 'Doubtful' or 'Loss' Assets. The changes in guidelines as prescribed from time to time by the Reserve Bank of India, is taken into account while reporting under this column. The information on asset classification is captured for internal consistency and this data is not disseminated.
- g. *Activity/Occupation:* Information given in this column brings out the sector-wise flow of credit. *Annex 2.3* (List 'F') summarises 5 digit code numbers for different types of occupation or activities. The details are presented in *Annex 2.4*. The code number

appropriate to the occupation or activity of the borrower for each account is indicated in this column. If the borrower is engaged in more than one type of activity and if separate limits/sub-limits are sanctioned by the bank for different activities, the credit limit and outstanding amount are segregated for each activity and reported separately. For example, if a company engaged in the manufacture of cotton textiles and chemicals is granted credit limits by the bank, the credit limits and amount outstanding are reported separately for the two units, if separate credit limits are sanctioned. If, however, separate limits are not sanctioned, the major activity of the borrower is taken as the basis for classification. In a majority of cases, the occupation code can be determined on the basis of the activity of the borrower. However, in the case of consumption and personal loans such as housing loans, loans for education, etc., activity of the borrower may not by itself determine the occupation code. For Example, in the case of personal loans (codes 94003, 94004, 94006, 94007, 94008 and 94009), housing loans (codes 94001 and 94002), loans for education (code 94005), etc. It is, however, not proper to determine the occupation code on the basis of the activity of the borrower. In such cases, purpose for which the credit is extended (whether for education, housing or consumption) is the guideline for determining the correct occupation code.

- h. *Rate of Interest:*
The rate of interest (per cent per annum) charged to an account is reported, up to two decimals, and is exclusive of interest tax.
- i) Where slab rates of interest are charged on advances, the rate corresponding to the largest portion of the advances should be recorded. If two rates are charged, the rate applicable to the major portion of amount outstanding should be reported.
- ii) In the case of Inland and Foreign Bills Purchased/Discounted, the rate of interest column is not filled in.

- i. **Credit Limit:** The sanctioned credit limit in force as on the date of the return is treated as the credit limit. Any additional limits granted temporarily for short periods at the discretion of agents/managers and other competent authorities are included if they are in force at the time of reporting. The 'drawing limit' which is linked to the value of stocks hypothecated or pledged and the margin prescribed is taken as credit limit.

In recording credit limits in respect of term loans, it shows only the operative limit, i.e. the limit sanctioned minus the principal amount repaid. For example, a company has been sanctioned a term-loan of Rs.25 lakh, for installation of some plant, which is to be repaid in ten equal half-yearly installments. Suppose, the company has repaid Rs.5 lakh (i.e., 2 half-yearly instalments of Rs.2.5 lakh each). Hence, under this column, only the operative credit-limit, i.e., Rs.20 lakh will be shown and not Rs.25 lakh. If the operative limit of an account is reduced to Rs.2,00,000 or less, it will be reported in a consolidated manner in BSR-1B.

In the case of other loans, which have not been fully drawn, the sanctioned limit is indicated. The credit limit is not adjusted for the unpaid or overdue instalments. If a borrower is sanctioned a composite credit limit against more than one account, the limit is split up in proportion to the outstanding amounts and shown against the respective accounts. Where no specific credit limit is sanctioned, the amount outstanding is treated as the credit limit.

- j. **Amount Outstanding:** The actual amount outstanding (debit) in each account as at the close of business on the reporting date, rounded off to the nearest thousands of rupees is reported. If the account is having a credit balance, the amount outstanding reported is Nil. The actual amount of credit balance is not reported.

The information on accounts aggregated on different characteristics, collected in BSR-1B return is as under:

In BSR-1B return, information in respect of accounts with credit limits of Rs.2,00,000 and less is collected in a consolidated form. These accounts are further classified into two credit limit size-groups viz., 'Rs.25,000 and less' and 'Over Rs.25,000 and upto Rs. 2 lakh'. Accounts are grouped according to the occupational categories specified in the format. The number of accounts, credit limits and amount outstanding are totaled up for each of these occupational categories and given separately for the two credit limit size-groups. Each occupation in BSR-1B is referred as a item code. The item code numbers in the format of BSR-1B for classifying various occupational categories have been allotted 2-digit codes. A table given in the Handbook* provides the relationship between BSR-1A occupation codes (5-digit) and for BSR-1B item codes.

Asset classification of borrowal accounts reported in BSR-1B are consolidated for all occupation categories and recorded against item codes 81 to 84, separately for each size-group, viz., 'Rs. 25,000 and less' and 'Over Rs.25,000 and upto Rs.2 lakh'. The information on asset classification is captured for internal consistency and this data is not disseminated.

Information on Gender classification in respect of borrowal accounts of Individuals reported in BSR-1B are consolidated against item codes 86 and 87, separately for each size-group. The information on gender classification is not reported uniformly by all the branches and as such only the percentage distribution is disseminated.

Basic Statistical Return (BSR) 2 - Type of Deposit Accounts

This return relates to deposits. Branches/Offices of all *Scheduled Commercial Banks* in India furnish information on number of employees, number of accounts and amount outstanding according to type of deposits and classification of term deposits according to maturity, broad interest rate ranges and size of deposits as on

* Handbook of Instructions on BSR 1 & 2 March, 2002.

31st March every year. All Administrative Offices, Regional and Zonal Offices and Branches/ Offices without any deposits such as Training Colleges, Lead Bank Offices, Service Branches, etc. furnish employment details in this return, even though they do not have deposits.

a. *Employment details*

All permanent and temporary full-time staff on the rolls of the branch/office as on the date of the return are included. This relates to the actual strength of the branch and not the sanctioned strength. Part-time and casual employees are excluded. The category wise staff position is collected in the block on employment details. Category-wise number of female employees is also reported against item code 101.

b. *Part - I: Classification of Deposits according to Type*

Through this part of the return information from each office is obtained on the deposits classified according to their type, viz., current, savings and term deposits. The additional information on gender of account holder is also collected in this part of the return. The information on different types of deposits is collected under two broad ownership categories, i.e. 1) Individuals and 2) Others. Individuals include Hindu Undivided Families. The data on categories such as Non-resident individuals, Farmers, Businessmen, Traders, Professionals and Self-employed persons, Wage and salary earners, etc. are reported under this category. In case of joint accounts under individual, the gender of the first account holder is the deciding factor for classifying the account under 'Female' category. The inter-bank deposits are excluded from total deposits. Three types of deposit accounts are defined as follows:

- (1) The scope of deposits reported in this part of the return is same as deposits reported in the fortnightly return submitted under section 42(2) of the Reserve Bank of India Act, 1934. Interest accrued and payable on deposits should be treated as 'Other liabilities' and should not be included in BSR-2.
- (2) Savings deposit shall mean a form of demand deposit which is a deposit account

whether designated as "Savings Account", "Savings Bank Account", "Savings Deposit Account" or other account by whatever name called which is subject to the restrictions as to the number of withdrawals as also the amounts of withdrawals permitted by the bank under their savings account rules during any specified period and would include special savings deposits.

- (3) Term deposit shall mean a deposit received by the bank for a fixed period and which is withdrawable only after the expiry of the said fixed period. At present, the term deposits are deposits with a fixed maturity of not less than a specified period (which is amended from time to time) or subject to notice of not less than a specified period (which is amended from time to time). They would also include (a) deposits including inter-bank deposits payable after 14 days' notice, (b) cash certificates, (c) cumulative, recurring, annuity or reinvestment deposits, (d) Kuri* and chit deposits, (e) certificates of deposits, (f) non-resident deposits in the nature of term deposits, and (g) any other special deposits in the nature of term deposits. Interest accrued and payable on these deposits are treated as 'Other liabilities' and therefore not included in this part of return.
- (4) Current Account shall mean a form of demand deposit wherefrom withdrawals are allowed any number of times depending upon the balance in the account or upto a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings Deposit nor Term Deposit; At present the Current accounts comprise (a) deposits subject to withdrawal on demand (other than savings deposits) or with a maturity period of less than a specified period (which is amended from time to time), or on notice of less than a specified period (which is amended from

* Kuri or chit means a transaction by which foreman enters into an agreement with number of subscribers. Every subscriber shall subscribe a certain sum of money for certain period. Each subscriber in his turn shall be entitled to a prized amount.

time to time), (b) call deposits withdrawable not later than a specified period (which is amended from time to time), (c) unclaimed deposits, (d) overdue fixed deposits, (e) credit balance in cash credit and overdraft accounts and (f) contingency unadjusted accounts if in the nature of deposits. It must be noted that deposits from banks, UTI, LIC, etc., at call or short notice not exceeding 14 days are treated as borrowings and are not included in this return.

- (5) Staff security deposits, margin deposits and staff provident fund deposits should be classified under current or fixed deposits depending upon payment of interest on such deposits.

c. *Part - II: Classification of Term Deposits according to Maturity*

Information on outstanding amount of term deposits as on the date of the return, classified according to the original period of maturity for which deposits have been placed with the branch by depositors is collected in this part.

d. *Part - III : Classification of Term Deposits according to Interest Rate Range*

In Part III, outstanding amounts of term deposits are classified according to interest rate for which deposits have been placed with the branch by depositors and outstanding as on the reference period. These deposits are grouped under the different interest rate ranges.

e. *Part - IV: Classification of Term Deposits according to Size*

In Part IV, outstanding amounts of term deposits are classified according to size of deposits which have been placed with the branch by depositors and outstanding as on the reference period. These deposits are grouped under the different sizes as per original deposit amount.

f. *Part - V: Classification of Term Deposits according to Residual Maturity (Excluding RRBs)*

Information on outstanding amount of term deposits as on the date of the return, classified

according to the *residual period of maturity* is collected in this part.

2.1.2.1.1.3. Sources and Systems

The data on BSR 1 & 2 returns, as survey is done on a census basis, are collected from each branch/office of the scheduled commercial banks in India. The Banking Statistics Division of the Department of Statistical Analysis and Computer Services, Reserve Bank of India, is the nodal office for collection, compilation and dissemination of BSR 1 and 2 data. Data are submitted in soft form by most of the banks, except some regional rural banks. Some banks, specially a few public sector banks and a few new private sector banks, have implemented integrated software for their MIS, through which the BSR 1&2 data are generated directly. The data are received from banks in the following mode: Paper Return (mostly from regional rural banks), Floppies/CDs and Emails. With more and more banks computerising their branches and implementing the integrated software and increasing use of Internet, the data are being received through email.

2.1.2.1.2 Basic Statistical Return - 4: Survey of Ownership of Deposits

The Basic Statistical Return (BSR)-4: Survey of Ownership of Deposits of Scheduled Commercial Banks as on March 31, is an annual return, under the BSR system obtained from a sample of branches, selected scientifically for the year under reference. The BSR-4 intends to capture composition and ownership pattern of deposits, with the objective of building up estimates on the composition and ownership pattern of deposits at different levels of aggregation. Till 1972, the annual Survey of Ownership of Deposits was conducted to get data from Head Offices of banks. It was replaced by BSR 4 return from March 1976, which was received from all branches. Ownership classifications were also changed from March 1976 survey. BSR 4 was collected on sample basis for 1978 and 1980 and on census basis for 1982. From 1984, it was made biennial sample survey. The survey has been made annual from 1990.

2.1.2.1.2.1 Measurement needs of the area

The estimates arrived at through this survey are an important source of information on the changes in profile and structural shifts in composition and ownership pattern of deposits with Scheduled Commercial Banks (SCBs). They are utilized in the compilation of National Accounts Statistics (NAS), the Flow of Funds Accounts of the Indian Economy, Financial saving of the Household sector, etc. Major users of the survey results are the CSO, RBI, commercial banks and others, e.g., researchers and others.

An article presenting salient features of the results of the BSR-4 survey is published annually in the RBI Bulletin. Various other publications also present data based on the results of the BSR-4 survey.

2.1.2.1.2.2. Concepts, Definition and Classifications

Sampling Design Used for the March 2005 survey:

A stratified sampling design was used for selection of branches of banks for this survey. Based on State/Union Territory, population group of the centre where bank branch was located, and bank group, all branches of the scheduled commercial banks (SCBs) in the country were classified into 379 basic strata. The population groups are (i) rural; (ii) semi-urban; (iii) urban; and the metropolitan group, further sub-divided into two groups (iv) four major metropolitan centers (viz., Mumbai, Delhi, Chennai and Kolkata) and (v) the other metropolitan centers. Five bank groups, viz., (i) State Bank of India and its Associates; (ii) Nationalised Banks; (iii) Regional Rural Banks; (iv) Other Indian Scheduled Commercial Banks and (v) Foreign Banks, were considered for the purpose. If branches in a basic stratum numbered 7 or less, all branches were selected with certainty in such strata. As an exception, all 9 branches operating in Lakshadweep Islands were included in the sample to provide adequate representation to this union territory. In the remaining basic strata, each stratum was further stratified into 2 or 3 sub-strata taking into

account the range in total deposits of the branches in the strata and number of deposit accounts. For this purpose, threshold values were determined for each basic-stratum taking into account above two characteristics.

In such basic strata, Size Class Strata (SCS) were formed as per descending order of deposits. The branches having aggregate deposits greater than threshold value-I were included under SCS-I. The SCS-II covered branches having aggregate deposits between threshold value-I and threshold value-II and the SCS-III included all those branches having aggregate deposits up to the threshold-value-II. Thus, 912 Size Class Strata (ultimate strata) were formed.

The branches under SCS-I were included in the sample with certainty. In SCS-II and SCS-III of each basic stratum, sample branches were selected by circular systematic sampling after arranging the branches within the SCS in descending order of their aggregate deposits, subject to selecting a minimum of 2 branches from each SCS. The sample size in the case of SCS-II varied from about 20 to 50 per cent of branches (depending upon the total size of SCS). If the number of units (branches) exceeded 200, 15 per cent of branches were drawn as sampling units. In the case of SCS-III, 10 per cent sample was selected.

Based on the above procedure, 9,933 branches were selected for the survey for March 2005. In all, 2,292 bank branches were selected with certainty. Out of the remaining 63,778 bank branches, 7,641 branches were selected using above sampling design from sub-strata SCS II and SCS III.

The deposits are classified into Current deposits, Savings deposits and Term deposits-Certificates of Deposits (CDs) and Other Term Deposits, while the major economic sectors according to which ownership is to be classified are Government sector, Private corporate sector, Financial sector, Household sector and Foreign sector. Detailed definitions, as provided in the Guidelines attached with the BSR-4 return, March 2005 are:

Current deposits comprise: (a) deposits subject to withdrawal on demand (other than savings deposits) or with a maturity period of less than 15 days (7 days in case of Rs. 15 lakh & above), (b) call deposits withdrawable not later than 14 days; (c) unclaimed deposits; (d) overdue term deposits; (e) credit balance in cash credit and overdraft accounts and (f) contingency unadjusted accounts, if in the nature of deposits. The inter-bank deposits at call or short notice not exceeding 14 days are treated as inter-bank borrowings and not included in this return. However, inter-bank deposits in current account are included. Savings deposits are deposits accepted by banks under their savings banks deposits rules and include deposits under Special Savings Schemes. Term deposits are deposits with a fixed maturity of not less than 15 days

(7 days in the case of Rs. 15 lakh & above), or subject to notice of not less than 15 days (7 days in the case of Rs. 15 lakh & above). They also include (a) deposits including inter-bank deposits payable after 14 days notice, (b) cash certificates, (c) cumulative or recurring deposits, (d) kuri and chit deposits and (e) special deposits and certificates of deposits (CDs). Interest accrued but not paid on these deposits is treated as other liabilities and therefore not included in this return. Certificates of Deposits (CDs) figures are separately under term deposits. Any deposits treated as 'other demand and time liabilities' for the purpose of fortnightly/ special return under Section 42 (2) are not reported in this return.

The coverage of the sectors classified in this return is presented in Table 2.1.

Table 2.1: Coverage of the sector under BSR - 4 return

Major sector	Sub-sectors	Details/ illustrations
1 Government sector	Central Government	Central Govt. departments, departmental undertakings, like Railways, P& T.
	State Governments	State Govt. departments, departmental undertakings like, Road Transport Undertakings, etc.
	Local Authorities	Municipalities, Panchayti Raj institutions, Port Trusts
	Quasi-Government Bodies	Housing Boards, SEBs, ICAR, ICSSR.
	Non-Departmental Commercial Undertakings	Public sector undertakings, STC, FCI, State Warehousing Corporations
	Others	
2 Private Corporate Sector	Financial companies	
	Housing Finance companies	HDFC, Dewan Housing Finance, etc.
	Auto finance companies	Bajaj Auto Finance, Ashok Leyland Finance, etc.

Major sector	Sub-sectors	Details/ illustrations
	Mutual Funds-private sector	Kothari Pioneer, Apple Mutual Fund, etc.
	Financial services companies	Issue Management, Portfolio Management Companies, e.g., DSP Financial Consultants, etc.
	Other financial companies	Leasing companies, Hire-purchase, etc.
	Non-Financial companies	Non-Government companies, Companies managed (but not owned by Government) engaged in Manufacturing, Trading, etc., activities and registered under Companies Act 1956
	Non-credit Co-operative institutions	Marketing, Housing, Industrial etc., co-operative societies
	Others including Quasi-Corporate Institutions like large educational Institutions which are funded privately	Non-Profit Institutions, Privately funded educational institutions, e.g., CII, FICCI, etc.
3 Financial sector	Banks	Indian Commercial Banks, Foreign Banks, Co-operative Banks and Credit societies like PACS.
	Other FIs.	
	Unit Trust of India	
	Mutual Funds	Floated by FIS and commercial Banks.
	Insurance Companies	Includes both Life and Non-Life insurance companies.
	Term Lending institutions	e.g., IFCI, SFCs, NHB.
	Provident Fund Institutions	PF Commissionners, Trustees of PFs., Staff PF of the Bank.
	Others	
4 Household sector	Individuals - - Farmers; - Businessmen, Traders, Professionals and self-Employed; - Wage and salary-earners-Shroffs, Money-lenders, etc. - Others	Includes HUFs and Joint Accounts of Individuals.

Major sector	Sub-sectors	Details/ illustrations
	Trusts, Associations, Clubs	
	Proprietary & partnership concerns	
	Educational Institutions	
	Religious Institutions	
	Others	
5 Foreign sector	Foreign consulates, Embassies, Trade missions, Information Services, etc.	
	Non-Residents	Individuals and also overseas companies, firms, societies, OCBs, trusts, etc, owned to the extent of atleast 60 per cent by NRIs or PIOs
	Others	Also includes non-resident banks.

2.1.2.1.2.3. Sources and Systems

The basic data for the survey flows from the branches of scheduled commercial banks that are selected in the sample for survey. The format for the BSR-4 return, together with guidelines for filling-in the same are provided to the reporting and controlling offices of the banks. The head/controlling offices of the banks submit the returns (hard copy) along with data in soft form to the respective regional office of DESACS, RBI. However, the banks or their branches that can directly extract the data from their systems, are provided file-structure so that they can submit the data without using our data-entry software. Further, banks unable to use the data-entry software for certain reasons, are permitted to send data either in any acceptable form or submit only hard copies. The data so received are processed at DESACS, RBI, Mumbai, using the software developed in-house. The data are edited by putting them through rigorous computer programs to check their consistency, validity and integrity and wherever required, necessary corrections are carried out.

2.1.2.1.3. Basic Statistical Return - 5: Survey of Investments of Scheduled Commercial Banks

The Survey of Investments of Scheduled Commercial Banks, conducted through BSR 5, analyses the position of investments in India and abroad of Scheduled Commercial Banks (excluding Regional Rural Banks) as at the end of March annually. The investment portfolio covers investments in securities issued by Central and State Governments, private sector companies, financial companies, banks, approved for the purpose of investments under the Indian Trusts Act, 1882; other domestic securities and investments; foreign securities and other foreign investments. Analysis of investments is done according to bank groups, namely, State Bank of India and its Associates (SBI and its Associates), Nationalised Banks, Other Indian Scheduled Commercial Banks (OSCBs) and Foreign Banks in terms of instruments, maturity, interest rate (coupon) and states. BSR 5 return commenced from March 1973 and replaced earlier survey on Bank Investments. The proforma for reporting State-wise investments was also introduced in the revised survey.

2.1.2.1.3.1. Measurement needs of the area

The results of the survey capture the changes in the composition pattern of investments of SCBs and thus provide valuable information on banks investments according to type, maturity profile, interest/ coupon rates and according to states. Such information is useful to policy-makers, analysts, bankers and researchers.

An article presenting salient features of the results of the BSR-5 survey is published annually in the RBI Bulletin. Various other publications also present data based on the results of the BSR-5 survey.

2.1.2.1.3.2. Concepts, Definition and Classifications

The BSR-5 survey covers all the SCBs, excluding RRBs and Head offices of the banks submit the return. The exclusion of RRBs is due to their low share (about 2.8 per cent, as on end-March 2005) in total investments of all SCBs. The return seeks information on banks' investments in Central and State Government securities; securities, other than Central and State Government securities, approved for the purpose of investments under the Indian Trusts Act, 1882; other domestic securities; foreign securities and other foreign investments. In respect of each category, the banks report their investments in terms of face value, book value, and wherever applicable, market value and market rate. Details of investments in shares, debentures is called for separately for quoted and Non-quoted instruments. A complete list of securities and other investments included in the survey is provided in the return. This list is updated annually. The concepts used for the survey broadly refer to the Reserve Bank's guidelines/ instruction on Valuation, Classification and operation of investments portfolios, as applicable to SCBs.

2.1.2.1.3.3. Sources and Systems

Head offices of scheduled commercial banks form the basic source for the supply of data in BSR 5. The format of the return, together with guidelines for filling-in the same are provided to

the head offices of the banks who submit the filled-in returns to Central Office, DESACS, RBI. The head offices of the banks submit the paper returns along with data in soft form. Software developed for the purpose, is provided to the banks for data entry. Further, the banks which are unable to use the data-entry software for certain reasons, are permitted to send data either in any acceptable form or submit only hard copies. The banks also submit a copy of their annual accounts/Balance sheet as on March 31.

Preliminary scrutiny of the returns is done with the annual accounts as on March 31 so as to ensure the two sets of data match, and after reconciliation of the same, the data are processed at DESACS, RBI, Mumbai. Necessary references are made to banks to seek clarifications, before data processing. The data are edited by putting them through rigorous computer programs to check their consistency, validity and integrity and wherever required, necessary corrections are carried out.

2.1.2.1.4. Basic Statistical Return - 6: Survey of Debits to Deposit Accounts

The Basic Statistical Return (BSR)-6 which is canvassed for the Survey of Debits to Deposit Accounts with Scheduled Commercial Banks is a quinquennial return under the BSR system. The return is submitted by the branches which are selected in the sample for the year under reference. The BSR-6 intends to capture the value of debits to deposit accounts, with a view to work out the rate of turnover of deposits, which is one of the important measures of economic activity in the country as a whole. The Survey on Debit to Deposits account (form T-1) which was conducted till 1971-72 annually, was next conducted in 1974-75 on census basis and renamed as BSR 6 return from 1985-86 as biennial sample survey as per decision taken by the Committee of Direction on Banking Statistics. Subsequently, the survey has been made quinquennial from the year 2000. The BSR-6 survey covers the same branches as are selected for the BSR-4 survey for the year in which the BSR-6 survey is being conducted.

2.1.2.1.4.1. Measurement needs of the area

Debits to deposits accounts of banks represent withdrawals made by depositors either in the form of cheques or in cash. Comparison of the total of such withdrawals for a certain period with the average balances held by the depositors in such accounts provides a measure of the extent to which depositors make use of the funds in their bank accounts for making payments and thus are an important source of information. Major users of the survey results are the Government departments/Organisations, RBI, commercial banks and others, e.g., researchers and others. Information on cash debits (including those made through ATMs) is also being collected in the survey for 2004-05 and is expected to be a useful source of data for policy purposes and researchers.

An article presenting salient features of the results of the BSR-6 survey is published in the RBI Bulletin. Various other publications also present data based on the results of the BSR-6 survey.

2.1.2.1.4.2. Concepts, Definition and Classifications

The data covered are quarterly outstanding balances in Current and Savings Deposit accounts and approved limits in Cash Credit and Overdraft accounts and total debits (quarter-wise) and cash debits (quarter-wise) in above types of accounts. The Outstanding Balances/ approved limits are as on Last Friday of June, September and December, and as on March 31 in case of March quarter. Detailed definitions, are provided in the Guidelines attached with the BSR-6 return. The definitions/concepts used in the BSR-6 for 2004-05 return are:

Inter-bank deposits / credit accounts of banks (whether commercial or co-operative, scheduled or non scheduled) are excluded entirely from the data reported. Total debits (withdrawals) to current deposit accounts, savings deposit accounts, cash credit accounts and overdraft accounts during the quarters April-June, July-September, October-December and January - March are reported. Debits (withdrawals) made by all means are covered. These cover debits made through cheques, in cash and also include

those made through ECS, ATMs, Internet banking and other electronic banking channels. Debits through ATM are a subset of all debits reported in Part on Total Debits. Savings and current deposits include the amount of interest due to the depositors. Current deposits include credit balances in cash credit accounts, deposits repayable at call or on notice of less than 15 days, (7 days in case of deposits above Rs.15 lakh), unclaimed deposits and fixed deposits matured but not paid. Contingency and unadjusted accounts, if in the nature of deposits, are also included in current deposits. Margin deposits, staff provident fund and security deposits and interest due on these are excluded from the data furnished. Approved limits refer to effective limits (drawing powers) in respect of cash credits and overdrafts as on the last Friday of the quarters April-June, July-September, October-December and as on 31st March for January- March quarter even if such limits have not been availed of. In the case of clean overdrafts, the full sanctioned limits are taken. As stated above, the sample branches are selected for the survey following the same sampling scheme described for BSR 4 whenever this survey is conducted.

2.1.2.1.4.3. Sources and Systems

The basic data for the survey flow from the branches of scheduled commercial banks that are selected in the sample for survey. The format for the BSR-6 return, together with guidelines for filling-in the same are provided to the selected branches through their head/controlling offices for the particular year's survey. The data to be submitted through the return are extracted by the branches from their system. The head/controlling offices of the banks submit the paper returns along with data in soft form to the regional offices of DESACS, RBI. Software developed, in FoxPro, for the purpose of data entry, is provided to the banks. However, these banks or their branches, which can directly extract the data from their systems, are provided file-structure so that they can submit the data without using DESACS's data-entry software. Further, certain banks which are unable to use the data-entry software for certain reasons, are

permitted to send data either in any acceptable form or submit only hard copies. The data so received are processed at DESACS, RBI, Mumbai using the software developed in-house. The data are edited by putting them through rigorous computer programs to check their consistency, validity and integrity.

2.1.2.1.5. Basic Statistical Return - 7: Quarterly Return on Aggregate Deposits and Gross Bank Credit

The Reserve Bank of India was collecting information on aggregate deposits and gross bank credit of Scheduled Commercial Banks (including Regional Rural Banks) on monthly basis through Basic Statistical Return (BSR) 7 introduced in August 1974. The periodicity of the return was changed to quarterly from the quarter ended March 1984. These data on aggregate deposits and gross bank credit were disseminated from the year 1981 through the publication titled "Banking Statistics-Monthly Return on Aggregate Deposits and Gross Bank Credit". Subsequently, the data were published under the title "Banking Statistics - Quarterly Handout" from March 1984. The name of the publication has further been changed to "Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks" from September 2003. These publications provide the data on deposits and credit, *inter alia*, according to States/Districts/Centres/Population Groups/Bank Groups.

2.1.2.1.5.1. Measurement needs of the area

The information on the geographical distribution of aggregate deposits and gross bank credit based on BSR 7 return serves as an important input to monetary policy and regional development process. Besides, it serves as an important input to analysis of banking potential of different regions/centers. Reserve Bank, Commercial and Co-operative Banks and Researchers extensively use the BSR-7 data. These data are also an important input for preparing material for replies to parliamentary queries and used by different committees set up by the government/RBI on various economic issues. The data are disseminated through

quarterly publication, which can also be accessed through Internet site of the Reserve Bank.

2.1.2.1.5.2. Concepts, Definition and Classifications

The BSR-7 return is a simple return wherein the head/controlling offices of banks report branch/office-wise quarterly data on aggregate deposits and gross bank credit as on the reference date, which is the last Friday in the case of June, September and December quarters and March 31 in the case of March quarter. The Aggregate Deposits represent demand and time liabilities of a bank (excluding inter-bank deposits and India Millennium Deposits). The Gross Bank credit represents bank credit (excluding interbank advances) as per Form A return under Sec 42(2) of RBI Act, 1934, together with outstanding amount of bills rediscounted with Reserve Bank of India and Financial Institutions. A Centre is defined as the revenue unit classified and delineated by the respective State Government, *i.e.*, a revenue village/city/town/municipality/municipal corporation, etc., as the case may be, in which the branch is situated. The Population Group classification of banked Centres is based on 1991 Census. The Population Groups are defined as under:

- i) 'Rural' group includes centres with population of less than 10,000,
- ii) 'Semi-urban' group includes centres with population of 10,000 and above but less than 1 lakh,
- iii) 'Urban' group includes centres with population of 1 lakh and above but less than 10 lakhs, and
- iv) 'Metropolitan' group includes all centres with population of 10 lakhs and above.

2.1.2.1.5.3. Sources and Systems

The basic data for the survey flow from the branches/offices of scheduled commercial banks. The head/controlling offices of the banks arrange to obtain data from their branches/offices and after preliminary scrutiny submit the same to DESACS, RBI. For the purpose of data entry, software developed in FoxPro for the purpose, is

provided to the banks. However, some banks or their branches are allowed to extract the data from their systems, and are provided file-structure so that they can submit the data without using DESACS data-entry software. Further, if banks are unable to use the data-entry software for certain reasons, then they are permitted to send data either in any acceptable form or submit hard copies.

The data so received are processed at DESACS, RBI, Mumbai using the software developed in-house. The data are edited by putting them through rigorous computer programs to check their consistency, validity and integrity and wherever required, queries are forwarded to banks and after obtaining their replies, necessary corrections are carried out.

2.1.2.1.6. Ensuring Quality Standards of BSR data

On the processed data reported under BSR 1 and BSR 2 returns, various code-validation and inter-consistency checks are performed such as (i) branch-wise totals are tallied with BSR-7 data to check large dimensional variations; (ii) checking large growth / decline as compared to past year data; (iii) examining outliers (out of range) - very large/ small values; (iv) locate logical inconsistencies (a combination of codes/ attributes appearing together); and (v) bank-wise totals are tallied with Section 42(2) and banks' annual report data. The inconsistency reports are sent back to the banks for getting clarification/feed-back/ corrected/ revised data. The final results are also checked with the other sources of data published by RBI.

To ensure receipt of good quality data obtained in BSR returns, besides vigorous follow-up, workshops and meetings are arranged periodically to train the bank personnel and to impress upon them the need to submit complete, accurate and timely data. The workshops also dwell upon common errors/discrepancies observed in earlier surveys as also provide demonstration/hands-on sessions on data entry software. To ensure correct data entry, various validation and consistency checks are in-built into the data entry software. Cleaning of data is done in-house

and its consistency is cross-checked at different levels of aggregation with the data emanating from other returns. Further, the preliminary tabulations are examined in the light of other macro-economic developments to ensure consistency in the survey results.

2.1.2.2. International Banking Statistics

Importance of maintenance and timely dissemination of quality and adequate data on external transactions have been felt necessary by regulatory authorities, both national and international, for efficient functioning of the global financial system. This helps to identify and analyze the undercurrents in the international financial markets. Thus, the development of appropriate data of high quality and management thereof has to be a vital function of all central bank authorities. The crisis in East Asia, in particular, brought into sharp focus the need for collection of timely and comprehensive data on international exposures of banks and the size and structure of international debt positions.

In India, with the growing liberalization of the external sector, close monitoring, on an ongoing basis, of the cross-border flow of funds has assumed critical importance. This calls for concerted efforts to collect the data on international claims and liabilities of the banking sector. At present, banks in India provide various details of their operations in India as well as abroad to different departments in the RBI to meet the specific requirement of the departments concerned. While a lot of information flows to different departments of the RBI to cater to their specific needs, these are not adequate for meeting the international standards as well as for participating in the International Banking Statistics (IBS) collected and published by the Bank for International Settlements (BIS). The IBS system of the BIS mainly designs to collect/ compile/ provide information on banks' external/ international liabilities and assets vis-à-vis (a) non-residents in any currency and (b) residents in foreign currency. Under the system, the information from scheduled commercial banks on disaggregated items such as, loans, deposits, investments, borrowings, other assets and other

liabilities with details into currency (domestic and foreign currencies), sector (banks, non-bank public and non-bank private) and country (individual countries, international institutions and monetary authorities) is compiled at quarterly intervals.

For the above purpose, RBI constituted a Working Group on International Banking Statistics to suggest, *inter alia*, a comprehensive reporting mechanism, to enable India's participation in the IBS system of the BIS. As per the recommendations of the Working Group, the requisite detailed data on international assets and international liabilities of banks are being collected from banks on quarterly basis since December 1999. A Standing Monitoring Group (SMG) representing senior officers of the RBI and commercial banks has been monitoring the implementation of the recommendations of the Working Group on International Banking Statistics. The SMG is an ongoing body and reconstituted once in two years.

Since March 2001 quarter, the consolidated data of banks in India in the form of 23 statements (18 locational banking statistics (LBS) and 4 (5 from March 2006) consolidated banking statistics (CBS)) are being supplied regularly to the BIS on quarterly basis. The BIS started incorporating India's IBS data from December 2001 quarter and as a result, India became the third among all developing countries in the world complying with the BIS requirements of compilation of IBS. While the BIS publishes (www.bis.org) consolidated data of all reporting countries, the RBI publishes consolidated data on IBS of India in the form of article in the RBI Bulletin (www.rbi.org.in). The BIS publishes consolidated statistics of all reporting countries regularly in the "BIS Quarterly Review- International Banking and Financial Market Developments" and "The BIS Consolidated Banking Statistics". Apart from the BIS, international organizations and central banks in other countries have been using country specific detailed data for further investigations.

In order to improve upon the coverage of data, the BIS revised its guidelines for consolidated

banking statistics (CBS) by increasing the coverage of products/instruments, namely, derivative contracts, guarantees, credit commitments, etc., modifying its reporting formats and increasing the number of CBS statements (from 4 to 5). The newly introduced CBS statement present - (i) the consolidated international claims by country and sector of ultimate risk, and (ii) instrument wise (viz., derivative contracts, guarantees, credit commitments) outstanding amounts by country of ultimate risk. There is only one return i.e., IBS Return, in India for collating both kinds of statistics viz., LBS and CBS. In the light of the revised guidelines of the BIS and certain observations recorded, for enhancement of the system, during the course of implementation of the IBS system of BIS in India, the Guide to IBS for banks in India and Indian banks' offices abroad was revised/modified. The revised system has been implemented from the reporting quarter March 2005. The following are the major revisions/modifications.

- i) The asset/liability codes have been modified to capture data on financial instruments, viz., Derivatives, Letter of Credits, guarantees and credit commitments.
- ii) The banks/branches had been reporting the outstanding 'amount/balance' and 'accrued interest' in rupee terms. Now, the outstanding amount/balance and accrued interest are also reported in terms of currency of the account.
- iii) The sectoral classification has also been modified by reducing the number of categories to 8 [two for banks viz., Bank Own Office and Bank Other's Office, one for Official Monetary Authorities, one for Government, three for Non-bank and one for cash collateral (applicable only for sector of ultimate risk)] as compared to the earlier sector classification into 12 categories (8 codes for banks based on various criteria viz., ownership, location of head office and own/other bank's office, one code for official monetary authorities and three codes for non-

banks, viz., non-bank public sector, non-bank private sector and non-bank others).

- iv) In comparison to the existing reporting of information on six currencies, viz., US Dollar, Euro, Japanese Yen, Swiss Franc, Pound Sterling and Domestic Currency (Indian Rupee), and all other currencies clubbed under residual category 'OTH', the revised system requires reporting, for items other than derivatives, of the currency of account/transaction as ISO currency code. It would require reporting of information on 25 currencies including Indian Rupee and remaining foreign currencies under residual currency category "OTH". However, for reporting of derivatives from branches to their RO/ZO/LHO/HO, the currency of settlements of the derivative contracts are reported as ISO currency code. A list of about 161 currencies and their ISO codes are provided in *Annex-2.5*. The currency of settlements, along with country of the counter-party, are reported for the purpose of netting, if applicable, at Head Office.

2.1.2.2.1. Measurement needs of the area

The IBS provides an understanding of the total magnitude of international assets and liabilities of the banking system and their composition, mainly in terms of sector (bank, non-bank), residual maturity, currency and country of residence. International assets / liabilities cover claims/liabilities of reporting banks with/toward non-residents in any currency and residents only in foreign currency.

The IBS data are primarily compiled to comply with the BIS requirement. The BIS releases (www.bis.org) international liabilities and assets position of banks of member countries on a quarterly basis through their publications viz., (i) *Consolidated Banking Statistics* and (ii) *BIS Quarterly Review: International Banking and Financial Market Developments*. The IBS data compiled by the BIS are used by the central banks of member countries, international organizations

e.g., IMF, etc. The methodology of compilation of LBS/CBS and explanation to various terms used in IBS are provided in *Annex 2.6*.

2.1.2.2.2. Concepts, Definitions and Classifications

The definitions of various items used in IBS are given below:

Reporting Country: The term "reporting country" refers to the country, which compiles and provides IBS data to the BIS. Here, India is the reporting country and any country other than India is foreign country.

Local Currency and Non-Local Currency: Local or domestic currency is the currency of the country where the banking office is located. The currencies other than domestic are termed as non-local or foreign currencies. Here, in India, Indian Rupees (INR) is the local or domestic currency and all other currencies are foreign currencies.

International Assets and International Liabilities: Balances in the accounts of the ledgers maintained with the branch, representing assets placed with (or claims on) and liabilities towards (i) non-residents in any currency (i.e., foreign currencies and domestic currency); and (ii) residents in foreign currencies are treated, respectively, as international assets and international liabilities.

Who are Treated as Non-Resident: For the purpose of these statistics, *non-resident means:*

- i) An individual permanently resident outside India,
- ii) An individual who has stayed or intend to stay outside India for a period as stipulated in the FERA guidelines or guidelines issued under FEMA,
- iii) An individual normally resident outside India who is temporarily resident in India,
- iv) Student or an individual undergoing medical treatment, who is a foreign national, irrespective of the length of his stay in India,

- v) A company/firm/institution located outside India,
- vi) Diplomatic missions and personnel, irrespective of length of their stay in India.

Items of Information captured in IBS: The branches of banks in India report to their head/principal offices the following items relating to international assets/liabilities:

Country (Code) of Residence of the reporting branch ("IN" for the branches in India),

Broad Category of Asset/Liability,

Type of Asset/Liability under Category,

Currency of Account/Transaction/Settlement as an ISO Currency Code,

Country of Borrower/Customer as an ISO Country Code,

Sector of Borrower/Customer as a Sector Code,

Residual Maturity as a Maturity Code,

Country of Ultimate Risk as an ISO Country Code,

Sector of Ultimate Risk as Sector Code,

Balance in terms of Currency of Account/Transaction (MTM value of derivatives in terms of US Dollar, irrespective of currency of settlement),

Accrued Interest in terms of Currency of Account/Transaction (this should be Zero/Nil if the accrued interest is already reflected in the Balance Amount),

Balance in Accounts/MTM Value of Derivatives in terms of Equivalent Indian Rupee, and

Accrued Interest in terms of Equivalent Indian Rupee (this should be Zero/Nil if the accrued interest is already reflected in the Balance Amount).

Country of Residence of the Reporting Branch: Country of residence of the reporting branch/office means the country where the reporting branch is located. All reporting branches in India, including branches of foreign banks, should provide the value as "IN" ("IN" is the ISO country code for India). The ISO country codes are provided in *Annex 2.7*.

Classification of International Assets / Liabilities under various categories and type

A. INTERNATIONAL ASSETS

Asset Category	Category Code (ALCD)	Asset Type Description	Type Code (TYPECD)
International Loans and Deposits	11	Loans to Non-residents	11
		Foreign Currency Loan to Residents	12
		Outstanding Export Bills	21
		Foreign Currency in hand, Travelers Cheques, etc.	41
		NOSTRO Balances and Placements Abroad	51
International Holdings of Debt Securities	21	Investment in Foreign Government Securities	11
		Investment in Other Debt Securities Abroad	12
International Other Assets	31	Investments in Equities Abroad	11
		Other International Assets	21

B. INTERNATIONAL LIABILITIES

Liability Category	Category Code (ALCD)	Liability Type Description	Type Code (TYPECD)
International Deposits and Loans	51	FCNR (B)	11
		Residents Foreign Currency (RFC) Deposits	12
		Exchange Earners' Foreign Currency (EEFC) A/Cs	13
		Other FC deposits	14
		Borrowings	41
		Balances in VOSTRO Accounts	51
		Non-Resident External (NRE) Rupee Accounts	52
		Non-Resident Ordinary (NRO) Rupee Accounts	55
		Embassy Accounts	57
		Foreign Institutional Investors' (FIIs) Accounts	58
		ESCROW Accounts	59
Own Issues of International Debt Securities	61	International Bonds (IMDs of SBI, etc.,)	11
		FRNs (Floating Rate Notes)	12
		Other Own Issues, if any, of International Debt Instruments	13
International Other Liabilities	71	GDRs/ADRs (issued by the reporting banks)	11
		Rupee Equities of banks held by NRIs/OCBs	12
		Other international liabilities	13

C. DERIVATIVES, LETTER OF CREDITS, GUARANTEES AND CREDIT COMMITMENTS

<i>Derivatives, Letter of Credits, Guarantees and Credit Commitments</i>	81		
		Derivatives	11
		Letter of Credits	21
		Guarantees	31
		Credit Commitments	41

Currency of Account/Transaction/Settlement (Curcd): The banks/branches report, for items other than derivatives, the currency of account/transaction as ISO currency code provided below. For reporting of derivatives from branches to their RO/ZO/LHO/HO, the currency of settlements of the derivative contracts are reported as ISO currency code as provided in Annex 2.5. Although, the MTM values of derivative contracts are reported in terms of equivalent US Dollar and Indian Rupee, the currency of settlements, along with country of the counter parties, are reported for the purpose of netting at Head Office.

While recording rupee equivalent amount for foreign currency accounts/transactions, banks in India use notional exchange rates for various currencies. The notional exchange rates vary from bank to bank and the differences between market rate and notional rate for certain currencies are very high. Accordingly, the currency of accounts/transactions along with amounts/balances/interests in terms of currency of accounts/transactions (US dollar equivalent amounts/balances/interests in the case of currency of account/transaction is "OTH") and rupee equivalent amounts/balances/interests, calculated at notional rates, are reported in the

IBS. While rupee equivalent amounts calculated at notional rates would help the banks to tally with their ledgers, the foreign currency amounts would be converted into equivalent US Dollar at market rates uniformly for all banks at the RBI for reporting to the BIS.

Country of Residence of Borrower/Customer (COUNCD): The country code of the country of residence of the person/entity (bank, corporate, individual, institution, etc.) with whom bank has assets or towards whom bank has liabilities is reported as ISO Country Code. In other words, the country of residence of borrower/customer means the country of the person/entity in whose name the account is maintained in the books of the bank/branch. The resident country of the borrower/customer is also called as “Country of Immediate Risk”. The country information is reported as per the ISO country code listed in *Annex 2.9*.

Sector of Borrower/Customer (SECTCD): The sector of borrower/ customer, with/towards whom bank/branch has asset/liability, is reported as sector code provided below. Also, the same set of codes is applicable for allocating “Sector of Guarantor (Ultimate Risk)” (S_U_CD). In addition to these codes, the code “35” is used as sector of ultimate risk for “Cash Collateral”.

CLASSIFICATION OF SECTOR	Sector Code (SECTCD)
Bank - Own Branch/Office (i.e., Assets/Liabilities of reporting banks with/towards their OWN branch/office)	11
Bank - Branch/Office of Another Bank (i.e., Assets/Liabilities of reporting banks with/towards branch/office of ANOTHER bank. This includes assets/liabilities with/towards certain International Organizations). For the international organizations, the country code should be furnished as ZZ and NOT as per the location of country of the organization. A list of international organizations is provided in <i>Annex-2.10</i> .	12

CLASSIFICATION OF SECTOR	Sector Code (SECTCD)
Official Monetary Authorities (i.e., Assets/Liabilities of reporting banks with/towards Central Banks of various countries, Multilateral Development Banks, etc). A list of official monetary authorities is provided in <i>Annex-2.9</i> .	21
Bank for International Settlements (BIS), European Central Bank (ECB) (i.e., Assets/Liabilities of reporting banks with Bank for International Settlements (BIS), European Central Bank (ECB), etc).	22
Governments (i.e., Assets/Liabilities of reporting banks with/towards Central, State or Local Governments, Government Departments)	25
Non-Bank - Public Sector Undertakings (i.e., Assets/Liabilities of reporting banks with/towards companies/institutions other than banks in which share holding of state/central governments is at least 51 per cent). This includes assets/liabilities with/towards certain International Organizations. For the international organizations, the country code should be furnished as ZZ and NOT as per the location of country of the organization.	30
Non-Bank - Private Sector (i.e., Assets/Liabilities of reporting banks with/towards Joint Stock and Private/Public Limited Companies)	31
Non-Bank - Others (i.e., Assets/Liabilities of reporting banks with/towards individuals, HUFs, etc.)	32
Cash Collateral (This could be furnished as Sector of Ultimate Risk, if the banks exposure is against the cash collateral)	35
Unallocated (In case of fixed assets, where the sector cannot be determined, the sector should be assigned to this residual category.)	40

Country of Ultimate Risk (C_U_CD): This is applicable only for Asset items, Derivatives, Letters of Credit, Guarantees and Credit Commitments. The Country of Ultimate Risk is the country in which the guarantor of a financial claim resides (for individuals) and/or the country in which the head office of the guarantor entity (bank, public/private organization, etc.) is located. The same set of ISO country codes should be used for allocating Country of Ultimate Risk Codes.

Sector of Ultimate Risk Code (S_U_CD): The Sector of Ultimate Risk is defined as the sector of the guarantor of a financial claim. This is applicable only for Asset items, Derivatives, Letters of Credit, Guarantees and Credit Commitments. The same set of sector codes as provided should be used for allocating Sector Codes of Ultimate Risk.

Residual Maturity Code (MATCD): Residual Maturity as on reporting date means the remaining maturity period, which is calculated by taking the difference between the date of maturities of international assets/liabilities and reporting date of IBS data. Residual maturity of asset/liability is reported as per the following classification:

Residual Maturity Classification	Residual Maturity Code (MATCD)
Up to and inclusive of six months [Includes the accounts/transactions (saving/current deposits, etc.) where amounts are received/paid on demand]	1
Over six months but up to and inclusive of one year	2
Over one year but up to and inclusive of two years	3
Over two years	4
Unallocated [In certain cases, like, investment in equity shares (in FC/abroad), participations, fixed assets abroad, etc., residual maturity cannot be determined and these should be reported as unallocated.]	5

Outstanding Amount in Terms of Currency of Account (FC_BAL): The outstanding balance in the account, in terms of currency of account OR the marked to market (MTM) value of derivative contracts in terms of US Dollar, as at the end of reporting quarter are reported against this item.

Accrued Interest in Terms of Currency of Account (FC_INT): If the interest accrued up to the end of the reporting quarter is already debited/credited to the outstanding balance of the account, then '0' (zero), otherwise, the accrued interest is calculated in terms of currency of account/transaction and reported separately under this item.

Outstanding Amount in Terms of Indian Rupee (RS_BAL): The outstanding balance in the account (as it appears in the ledger in terms of Indian Rupee) OR the marked to market (MTM) value of derivative contracts as at the end of the reporting quarter, in terms of Indian Rupee (INR) is reported against this item after rounding off to Rupee.

Accrued Interest in Terms of Indian Rupee (RS_INT): If the interest accrued up to the end of the reporting quarter is already debited or credited to the outstanding balance of the account then '0' (zero), otherwise, accrued interest amount, in terms of Indian Rupee (INR), is reported after rounding to Rupee.

Reporting Conventions:

All amounts under Assets and Liabilities, on- and off- balance sheet items, are reported with positive sign EXCEPT credit balances in MIRROR NOSTRO Accounts, debit balances in VOSTRO Accounts, loan/cash credit/over draft accounts and negative MTM values of Derivative contracts.

Reporting of Balance Amount in NOSTRO Accounts: Balances in NOSTRO accounts are reported as per local books, i.e., as per mirror book of NOSTRO accounts. The Credit balances are reported with -ve sign, which is clubbed under Overseas Borrowings (i.e., Liabilities).

Reporting of Balance Amount in VOSTRO Accounts: Debit balances in VOSTRO accounts

are reported with -ve sign, which are clubbed under Lending to Non-Residents (i.e., Assets). In this case Country & Sector of Ultimate Risk Code (i.e., C_U_CD & S_U_CD) are furnished.

The system of International Banking Statistics (IBS) as pursued by the Bank for International Settlements (BIS) is expected to reduce the inadequacies in data and data gaps in the international assets and liabilities of the banks in India. The IBS system of reporting comprises two sets of tabulations viz., Locational Banking Statistics (LBS) and Consolidated Banking Statistics (CBS). The features of LBS and CBS are summarized below:

Locational Banking Statistics (LBS): The locational banking statistics provide for the collection of data on the positions of all banking offices located within the reporting area. The 'reporting area' is used to refer to the countries, which submit IBS data to the BIS. Such offices report exclusively on their own (unconsolidated) business, which thus include international transactions with any of their own affiliates (branches, subsidiaries, joint ventures) located either inside or outside the reporting area. The basic organizing principle underlying the reporting system is the residence of the banking office. This conforms to balance of payments and external debt methodology. In addition, data on an ownership or nationality basis are also calculated by regrouping the residence-based data according to countries of origin.

The LBS comprises 18 statements, of which 8 statements represent Instrument-wise (viz., International Loans and Deposits, International Holdings/Own Issues of Debt Securities and International other Assets/Liabilities) international assets and liabilities of the banking sector by country and sector of borrower and currency, the 10 statements represent major currency - wise international assets and liabilities of reporting banks according to their country of incorporation and sector of borrower.

Consolidated Banking Statistics (CBS): The consolidated banking statistics are designed to provide comprehensive and consistent quarterly data on banks' financial claims, i.e., assets side of balance sheet, on other countries on two

different bases. While the first set of statistics collects data on an ultimate risk basis, i.e., allocated to the country where the final risk lies, for assessing country credit risk exposures, the second set of statistics collects data on an immediate borrower basis, i.e., allocated to the country where the original risk lies, for providing a measure of country transfer risk. The data cover on and off- balance sheet claims reported mainly by domestic banks, including the exposures of their foreign offices (i.e., subsidiaries and branches), and are collected on a worldwide-consolidated basis with inter-office positions being netted out.

The CBS comprises 5 statements, of which 4 statements represent country (on immediate risk basis) and sector of borrower, and residual maturity-wise international/foreign claims according to the type of reporting banks (viz., domestic banks, inside area banks [foreign banks incorporated in the countries submitting IBS to the BIS], outside area banks (foreign banks incorporated in the countries NOT submitting IBS to the BIS]), the last statement represents country (country of ultimate risk) and sector - wise foreign claims and the claims arising from derivatives, guarantees and credit commitments.

Allocation and Reporting of Immediate/Ultimate Risk: Reporting domestic banks provide information on the volume of their cross-border financial claims, and the local claims of their foreign offices in any currency, that has been reallocated from the country of the immediate borrower to the country of ultimate risk as a result of guarantees, collateral and those credit derivatives that are part of the banking books. The risk reallocation also includes that between different economic sectors (banks, public sector and non-bank private sector) in the same country. The risk reallocation also covers loans to domestic borrowers, which are guaranteed by foreign entities and, therefore, represent inward risk transfers, which increase the exposure to the country of the guarantor. Equally, foreign lending which is guaranteed by domestic entities (e.g., a domestic export credit agency) is reported as an outward risk transfer, which reduces the exposure to the country of the foreign borrower.

If all outward and inward risk transfers were to be reported, they would add up to the same total. However, because in the case of risk reallocations from or to a reporting bank's home country only the part relating to the foreign counter-party country is reported, inward and outward risk transfers may not necessarily add to the same total. Similarly, the issuer (or protection buyer) of credit-linked notes and other collateralized debt obligations and asset-backed securities only report an outward risk transfer and no inward risk transfer because he is perceived to have received cash collateral which extinguishes the exposure to his original claim.

Local Assets and Local Liabilities in Local Currency of Domestic Banks' Foreign Affiliates:

Head offices of banks in the reporting area provide data on the local assets and liabilities in local currency of their affiliates in other countries on a gross basis. In the revised system, while the data on local liabilities in local currencies are reported on gross basis (i.e., one record only), the data on local assets in local currency are reported with details of country & sector of borrower, country & sector of guarantor, currency, residual maturity, etc. The consolidated banking statistics, though measures only claim, are a counterpart to borrowing countries' liabilities and, thus, can be aggregated to construct a measure of international debt owed to banks.

Derivative Contracts: Reporting domestic banks provide consolidated data on the cross-border financial claims (i.e., positive market values) resulting from derivative contracts of all their offices worldwide and the financial claims from derivative contracts of their foreign offices vis-à-vis residents of the countries where the offices are located, independent of whether the derivative contracts are booked as off- or on-balance sheet items. The data are reported on a consolidated and ultimate risk basis, i.e., inter-office positions are netted out and the positions are allocated to the country where the final risk lies.

The data cover in principle all derivative contracts that are reported in the context of the BIS regular OTC derivatives statistics. The data

thus mainly comprise forwards, swaps and options relating to foreign exchange, interest rate, equity, commodity and credit derivative contracts. However, credit derivatives, such as credit default swaps and total return swaps, are only to be reported under the item "Derivative contracts" if they are held for trading by a protection buying reporting bank. Credit derivatives, which are not held for trading, are reported as "Risk transfers" by the protection buyer and, all credit derivatives are reported as "Guarantees" by the protection seller.

Guarantees and Credit Commitments: Reporting domestic banks provide data on guarantees outstanding vis-à-vis non-residents of all their offices worldwide and the exposures of their foreign offices from guarantees vis-à-vis residents of the countries where these offices are located. Similar data should also be provided separately for credit commitments outstanding. Both types of data are reported on a consolidated and ultimate risk basis, i.e., inter-office positions are netted out and - except when the exposure is mitigated by cash collateral or by exposure to a resident (i.e., home country) third party, in which case no foreign exposure is reported - the positions should be allocated to the country where the final risk lies.

Guarantees and credit commitments are reported to the extent that they represent the unutilized portions of both binding contractual obligations and any other irrevocable commitments. These cover only those obligations which, if utilized, would be reported in total cross-border claims and local claims of foreign offices in any currency. Performance bonds and other forms of guarantee are reported only if, in the event of the contingency occurring, the resulting claim would have an impact on total cross-border claims and local claims of foreign offices in any currency. A more detailed definition of guarantees and credit commitments and a non-exhaustive list of typical instruments that qualify as guarantees and credit commitments are provided below.

Guarantees: Guarantees are contingent liabilities arising from an irrevocable obligation to pay to a third party beneficiary when a client fails to

perform some contractual obligation. They include secured, bid and performance bonds, warranties and indemnities, confirmed documentary credits, irrevocable and standby letters of credit, acceptances and endorsements. Guarantees also include the contingent liabilities of the protection seller of credit derivative contracts.

Credit Commitments: Credit commitments are arrangements that irrevocably obligate an institution, at a client's request, to extend credit in the form of loans, participation in loans, lease financing receivables, mortgages, overdrafts or other loan substitutes or commitments to extend credit in the form of the purchase of loans, securities or other assets, such as backup facilities including those under note issuance facilities (NIFs) and revolving underwriting facilities (RUFs).

Other Reporting Conventions

Netting of Assets: International assets and liabilities are, in principle, reported on gross basis i.e., bank's assets and liabilities vis-à-vis the same counter-party are reported separately, NOT netted one against the other. However, for reporting of derivatives, while branches submit counter-party and contract-wise marked to market (MTM) values on gross basis to their HO/PO, the HO/PO of banks do netting for a counter-party *where specific legally enforceable bilateral netting arrangement such as International Swaps and Derivative Association (ISDA) master agreement, etc., exists* before summarizing the data on derivatives.

Valuation: International claims in the form of loans and receivables originated by the bank and not held for trading as well as held to maturity investments be in principle valued at face value or amortized cost price. Financial assets available for sale and held for trading are valued at market or fair values. Contingent liabilities resulting from guarantees and credit commitments are valued at face value or the maximum possible exposure. The procedure for valuation and reporting of derivatives is given in *Annex 2.10*.

Arrears of Interest and Principal: Until they are written off, interest in arrears on international

claims and principal in arrears (including capitalized interest) are reported/included in the data on international assets/claims.

Provisions: Financial claims against which provisions have been made are normally reported as foreign assets at their gross value. However, accounting rules may require in certain instances that these claims be reported on a net basis if there is an identified loss.

Write-Offs of Claims and Debt Forgiveness: Although an asset that has been written off may still be a legally enforceable claim, it is excluded from the reporting.

Currency Conversion: The banks/branches report, for items other than derivatives, the outstanding amounts/balances and accrued interest in terms of currency of the account/transaction as well as in equivalent rupee terms. The positions in terms of currency of the account/transaction reported by banks are converted in terms of US Dollar by the RBI at the exchange rate prevailing on the reporting date, for the purpose of reporting to the BIS. For derivatives, no conversion is required as the banks/branches report the MTM values of derivative contracts in terms of equivalent US Dollar as well as Indian Rupee terms, irrespective of currency of settlement.

2.1.2.2.3. Sources and Systems

Source of Data: The required/relevant data items are available in the account ledgers of the branch, under assets and liabilities, which are further divided into different ledgers. On the first folio of any account the information relating to the account holder such as name, address, maturity date, etc., and nature of the account is recorded. Besides, balance in the account as at any given date is also available in the balance column.

The Reporting System: The Reporting System under IBS involves branches, head/principal offices (HOs/POs) of banks and the RBI. The Reporting System comprises:

Branches/Offices of Banks: The branches/offices of banks (Indian banks and Foreign banks) operating in India from the source which report

account-wise data on international assets, international liabilities and the claims arising from derivatives, guarantees and credit commitments; and provide summarized data to the HOs/POs. The reporting branches/offices may submit summarized data to their RO/ZO/LHO or directly to the HO/PO depending upon the arrangements of the banks concerned. Also, foreign branches of Indian banks prepare account-wise data on international assets and claims arising from derivatives, guarantees and credit commitments and provide summarized data to the HOs/POs.

Head/Principal Office of Banks: The HO/PO process and consolidate the data of branches and forward bank level summarized data to the RBI,

Reserve Bank of India: The IBS data received from banks' HO/PO are processed to arrive at the consolidated positions for all reporting banks in India. Based on final consolidated IBS data of all reporting banks in India, LBS and CBS statements are generated and supplied to the Bank for International Settlements (BIS).

For the purpose of securing bank level IBS data from banks in India, a senior level officer from each of the banks concerned, nominated by the banks, is acting as Nodal Officer. The RBI (DESACS) conduct workshops on IBS for the benefit of Nodal Officers at bank level. Banks in turn conduct regular training/workshops on IBS in their Staff Training Colleges. In order to facilitate data preparation/compilation by banks/branches, windows based software has been provided to them. The banks submit bank level consolidated data, in a specified format (text files), to the RBI within one month from the reporting date. Data transmission is done in electronic form only. The HO/PO of banks submit the data to the RBI through e-mail/floppy.

The IBS return is not statutory, however, it is mandatory. The return was introduced as per recommendations of the working group on the BIS system of IBS in India. The working and development in compilation of the return is overseen by a standing monitoring group (SMG)

on IBS, which comprises of senior officers of select banks and the RBI. The SMG is reconstituted, normally, once in two years.

2.1.2.2.4. Ensuring Quality Standards

The IBS data are collected/compiled as per the guidelines/recommendations of the BIS and hence, the data compilation is of international standards. There is a standing monitoring group (SMG) to facilitate implementation of the BIS system of IBS in India in an effective manner and to consider necessary changes in the event of further easing of foreign exchange controls.

Suitable facilities have been provided in the software to generate certain reports to ensure the coverage and correctness of data. The banks are advised to verify these reports and compare with the data reported to the RBI under other returns. Also, suitable checks are provided in the software to ensure the quality of data. Further, provision has been made in the software to record the reasons for large variations in data with respect to the data reported in the previous quarters. At RBI level, while processing the data received from banks, the correctness/coverage of data are ensured by comparing the IBS data with similar aggregate level data reported by banks to the RBI under different set of return.

In order to train/educate bank/branch officials workshops/training programs are conducted regularly. Also, banks conduct workshops for their officials in their training establishments.

2.1.3 Branch Banking Statistics (Master Office File System)

The Reserve Bank of India collects data/information on different aspects of banks through periodical returns/ statements. For processing these data, it is necessary to keep a unique identity of the source of data. This is achieved through allotting suitable code number, named as Uniform Code Numbers to all the bank offices. Evolving a code numbering system that could be uniformly used in all returns to be submitted by bank branches/offices was considered in late sixties by the RBI and put in place initially for commercial banks in 1972. Similarly, allotment of Uniform Code Numbers to all the co-operative

credit institutions and the state financial corporations, which participated in the Lead Bank Scheme, was attempted in 1982.

2.1.3.1. Measurement needs of the area

Comprehensive and updated list of branches is maintained by RBI (DESACS) in the Master Office File (MOF) constituting the frame of bank branches for various Basic Statistical Return (BSR) surveys, other bank related surveys and various foreign exchange related returns received in DESACS. It may not be out of place to mention here that MOF is the only official and reliable source of branch-banking details of commercial banks in India.

Maintenance of up-to-date branch records in the MOF has assumed great significance for the following multi-dimensional utility of branch banking statistics:

- i) Submission of branch-banking data to the Ministry of Finance for replying Parliament questions.
- ii) Submission of branch details to various Central and state government departments in connection with their publications, disbursement of pension, online reporting of tax payment data to Income Tax Department pertaining to On Line Tax Accounting System (OLTAS), etc.
- iii) Submission of details of branches, handling foreign exchange business, with uniform code number to the Office of the Customs and Central Excise, New Delhi in connection with clearance of export consignments by the respective customs authorities.
- iv) Submission of details of branches/offices of commercial banks and summarized data thereof to Department of Banking Operations and Development (DBOD) and Rural Planning and Credit Department (RPCD) in connection with Branch Licencing Policy.

Besides some of the requirements listed above, other Central Office Departments of RBI other than DBOD and RPCD Offices make use of the uniform code numbers and the data compiled

based on MOF. Based on branch details of commercial banks available in the MOF, DESACS brings out regularly two publications viz., "BRANCH BANKING STATISTICS" (providing summarized branch banking data on commercial banks) and "DIRECTORY of COMMERCIAL BANK OFFICES in India" (providing list of branches/offices with locational and other details) in CD-ROM as well as through RBI website. These data in modified form are also published in other publications of the Bank.

2.1.3.2. Concepts, Definitions and Classifications

a. Master Office File (MOF)

The uniform codes along with other particulars of each and every branch/office of commercial and co-operative banks and financial institutions handling foreign exchange and temporary offices, are maintained in the Department of Statistical Analysis and Computer Services (DESACS) in the form of Master Office File (MOF) in its computer system.

b. Uniform Code Number (UCN)

UCN of branches/offices of banks comprises two parts as Part - I code and Part - II code of 7 digits each; two additional digits are assigned to Part - I code of temporary offices (Not Administratively Independent Offices-NAIO).

Part-I code is defined as follows:

- *for branches/offices/NAIOs of commercial banks and other financial institutions:*
first three digits *from the left* stand for bank code;
next four digits stand for branch code.
In case of NAIOs last two digits stand for NAIO code.
- *for branches/offices/NAIOs of state/district central co-op. banks, state/central land development banks:*
first four digits *from the left* stand for bank code;
next three digits stand for branch code;

last two digits stand for NAI0 code. (In case of NAI0s).

- *for branches/offices/NAI0s of other co-op. banks, salary earners' banks, state financial corporations and tours, travels, finance & leasing companies:*

first five digits *from the left* stand for bank code;

next two digits stand for branch code;

last two digits stand for NAI0 code.

Part-II code, irrespective of the category of a bank, is defined as follows:

first three digits *from the left* stand for district code;

next three digits stand for centre code within the district;

last single digit stands for population range code.

Relationship between population range code (last digit in the Part – II code) and population group code is shown below:

Last digit of Part II of the Uniform Code Number (Population Range code)	Population range	Population Group	Population Group Code
1	Up to 4999	Rural	1
2	5000 to 9999		
3	10,000 to 19,999	Semi-Urban	2
4	20,000 to 49,999		
5	50,000 to 99,999		
6	1,00,000 to 1,99,999	Urban	3
7	2,00,000 to 4,99,999		
8	5,00,000 to 9,99,999		
9	10 lakhs and above	Metropolitan	4

c. *Uniform Code, BSR Code and AD Code Number*

There is no difference between *Uniform Code, BSR Code and AD Code Number*. They are one and the same.

d. **Proformae - I & II**

Detailed information on branches/offices of banks are regularly collected in the prescribed proformae, viz., *Proforma-I* and *Proforma-II*. Details of new branches/ offices opened in banked/ unbanked centres such as date of opening of branch/office, names and addresses of branch/ office, other locational details, population of centre, nature of business activities pursued and a host of auxiliary information such as AD category, currency chest details, status of computerisation, etc., are reported through *Proforma-I*. The information of relocation/ closure/ merger/ conversion of a bank branch/ change of branch name/AD category/ change of any auxiliary information is collected through *Proforma-II*. Specimen copy of Proformae-I & II and explanatory note thereon is enclosed at *Annex 2.11*.

e. *Definition of a Centre with particular reference to location of a bank branch/ office*

A Centre refers to a revenue unit having definite surveyed boundary, defined by a local administration/state government and includes such places as revenue village/town/city/municipality/municipal corporation/cantonment board, outgrowths to a city /municipality/municipal corporation, etc. In decennial population census, same definition of centre is used by the Census Authority. Name of centre reported by banks in the Proforma is checked against records available in the census document.

f. *Definition of a Banked Centre*

A revenue center as defined above having at least a branch/office of a commercial or co-operative bank or a temporary office, such as an extension counter or a satellite office or an off-site ATM of a commercial or co-operative bank is called a banked center.

g. *Population Group classification of Banked Centres used in RBI*

Population groups of banked centres are defined as follows:

- i) Rural group includes centres with population less than 10,000.
- ii) Semi-urban group includes centres with population 10,000 and above but less than 1 lakh.
- iii) Urban group includes centers with population 1 lakh and above but less than 10 lakh.
- iv) Metropolitan group includes centres with population of 10 lakh and above.

h. *Population Group classification used by Census Authority*

Population group classification used in the Bank is different from the one used by the Census Authority. Population group classification used by the Census Authority in the 2001 Census is as follows:

The following places are treated as urban:

- 1. All statutory towns i.e., all places with a municipality, corporation, cantonment board or notified town area committee, etc.
- 2. All other places which satisfy the following criteria:
 - A minimum population of 5,000;
 - At least 75% of the male working population engaged in non-agricultural pursuits;
 - A density of population of at least 400 per sq. km. (1,000 per sq. mile).

All other places (revenue villages) having definite surveyed boundaries were classified as rural.

i. *Various Commercial Bank Groups currently in use*

- i) Public Sector Banks: (a) SBI and its 7 Associates, (b) 19 Nationalised Banks, (c) Other Public Sector Banks (IDBI Ltd.)
- ii) Regional Rural Banks
- iii) Foreign Banks
- iv) Other Scheduled Commercial Banks (Private Banks): (a) Old Private Sector Banks and (b) New Private Sector Banks

- v) Non-scheduled Commercial Banks (Local Area Banks)

j. *Difference between Satellite Office and Extension Counter*

Satellite Offices are normally located in remote areas and carry out all normal functions of a branch but only on a limited number of days in a week. Whereas, Extension Counters are open in all working days but discharge only limited functions of a branch such as opening of savings account, acceptance of deposit, etc.

2.1.3.3. Sources and Systems

Basic data sources are commercial banks, co-operative banks and non-banking financial companies handling foreign exchange business, wherefrom branch banking details are obtained in Proforma-I & II. Information relating to merger and reorganization of centers/districts/states are received from gazette notifications issued by state/central governments. Based on Decennial Census population data of centers released by the Office of the Registrar General, Government of India, updation of population group classification of banked centers vis-à-vis bank branches is carried out.

In respect of banks other than public sector banks, Proforma-I & II are submitted directly by the head office of the banks, to whom Part-I & II Uniform are advised. In respect of public sector banks, there is a two-tier arrangement. zonal/circle/local head offices report Proforma-I & II in respect of the branches/offices coming under their jurisdiction to their head office, who in turn submit consolidated proforma to us after allotment of Part-I uniform code to the newly opened branches/offices, to whom the Part-II uniform code is advised.

For collection of branch banking data from banks, recently data entry software (Visual Basic 6.0 software has been used as the front end tool and MS Access as the back end) has been developed and forwarded to banks. Master Office File system, wherein all branch/office/NAIOs details are maintained, is based on Oracle RDBMS system (Visual Basic software has been used as the front end tool and Oracle 9i as the

back end one). In this system, Crystal Reports-11.0 has been used for generating the reports. The main feature of the system is to capture branch-wise transactional records so that history of any branch/office/NAIO can be viewed at any point of time in the future. Also, in the bank level software, to cumulate all the records from the zonal/circle/local head offices, there is a provision to import the zonal/circle/local head offices level files at the HO level and they can be exported as a single/cumulated format of all records, which can be later sent to RBI. Using the bank level data entry software, banks have started sending soft copy of Proformae- I & II, in magnetic medium/ by using Internet facility.

For branches/offices handling foreign exchange business, Proformae are submitted on an on-going basis. Whereas, banks submit Proformae on a quarterly basis, in respect of branches/offices not handling foreign exchange business.

2.1.3.4. Ensuring Quality Standards

To ensure receipt of good quality data from banks, besides earmarking certain important data fields in Proformae-I & II as mandatory, a large number of consistency checks have been also incorporated in the data entry software. Workshops are being conducted from time to time to impress upon bank representatives about submission of good quality data in time. Regulatory authorities in RBI, such as Department of Banking Operations and Development, Foreign Exchange Department, Rural Planning and Credit Department, etc., issue guidelines to banks from time to time emphasizing the need to submit quality data with in stipulated time.

2.1.4. Other Banking Statistics

Besides statistics based on statutory and special returns, RBI collects and compiles various other banking statistics relating to priority sectors, supervision and other areas of banking. Information based on these subjects are regularly disseminated in various publications like Statistical Tables Relating to Banks in India, Report on Trend and Progress of Banking, etc.

Some of the salient features of these statistics are presented below.

2.1.4.1. Priority Sectors' Statistics

At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors viz., agriculture and small-scale industries. The description of the priority sectors was later formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the priority sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under various categories of priority sectors. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974, the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of Public Sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 percent by March 1985. Subsequently, on the basis of the recommendations of the Working Group on the modalities of implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks, all commercial banks were advised to achieve the target of priority sector lending, viz., agriculture, small-scale industries, small road & water transport operators, retail trade, small business, etc., at 40 percent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and weaker sections within the priority sector. Banks were advised to ensure that direct finance extended to agriculture (including allied activities) reached a level of at least 15% of total bank credit by March 1985 and at least 16% by March 1987 and 17% of their total credit by March 1989 and further raised to 18% by March 1990. In October 1993, banks were advised that with

a view to ensuring the focus of the banks on the direct category of agricultural advances did not get diluted, that agricultural lending under the indirect category should not exceed one-fourth of the sub-target of 18 per cent, i.e., 4.5% of Net Bank Credit. At present, within the overall main lending target of 40 per cent of net bank credit, the scheduled commercial banks should ensure that 18% of net bank credit goes to agricultural sector, 10 per cent of net bank credit to the 'weaker sections'. However, this was not made applicable to foreign banks operating in the country in view of the fact that their coverage in rural and semi-urban areas was small. It was felt that their involvement in financing of priority sectors like SSI, small transport operators, retail trade, etc., could be increased to a much higher level than at present. In 1988, foreign banks operating in India were advised that their priority sector advances should be progressively increased to the level of 15 per cent of their net outstanding advances by the end of March 1992. With a view to reducing the disparity between the domestic banks and foreign banks operating in India in regard to priority sector obligations, foreign banks were advised in April 1993 that their minimum requirement for lending to priority sector by foreign banks was raised from 15 per cent to 32 per cent of their net bank credit to be achieved by March 1994. At the same time, keeping in view that the foreign banks have no rural branch net work, it was decided that with effect from July 01, 1993, the composition of priority sector advances in case of foreign banks would be inclusive of export credit provided by them and the enhanced target of 32% inclusive of export credit. Further, within overall target of 32%, the advances to SSI and export sector should not be less than 10% each of the net bank credit. However, the sub-target prescribed for exports was enhanced to 12% subsequently. In the event of failure to attain the stipulated targets and sub-targets, the foreign banks are required to make good the shortfall in the achievement of the targets/sub-targets by depositing for a period of three years, an amount equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI) at rate of interest ranging from Bank Rate to Bank Rate minus 3 percentage points depending on

the percentage of shortfall in achievement of priority sector lending target/sub-targets as may be decided by RBI from time to time. Domestic scheduled commercial banks having shortfall in lending to priority sector/agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD. Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits, etc., are decided every year after announcement in the Union Budget about setting up of RIDF. The contributions to be made by banks are communicated to the banks concerned separately. Shortfall in lending to priority sector/agriculture is taken into account while making allocations to banks under RIDF, the amount that has to be deposited with NABARD at a certain rate of interest.

In order to align bank credit to the changing needs of the society, the scope and definition of priority sector have been fine-tuned over time by including new items as also by enhancing credit limit of the constituent sub-sectors. The coverage of the priority sectors, the data, which are published in its various publications by RBI, is described below.

1. **Agriculture**

1.1 Direct Finance to farmers for agricultural purposes viz.,

1.1.1. Short- term loans for raising crops, i.e., for crop loans. In addition, advances upto Rs.10 lakh to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank

1.1.2 Medium and long term loans provided directly to farmers for financing production and development needs,

- (i) Purchase of agricultural implements and machinery

- (a) Purchase of agricultural implements (iron ploughs, harrows, hose, land levelers, bundfarmers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.)
 - (b) Purchase of farm machinery (viz., tractors, trailers, power tillers, tractor accessories, etc.),
 - (c) purchase of trucks, jeeps, pick-up vans, bullock carts and other transport equipments to assist the transport of agricultural inputs and farm products,
 - (d) transport of agricultural inputs and farm products,
 - (e) purchase of plough animals, etc.
- (ii) Development of irrigation potential through
- (a) construction of shallow and deep tube wells, tanks, etc., and purchase of drilling units,
 - (b) constructing, deepening clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps,
 - (c) purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.,
 - (d) construction of lift irrigation project,
 - (e) installation of sprinkler irrigation system,
 - (f) purchase of generator sets for energisation of pumpsets used for agricultural purposes,
- (iii) Reclamation and land development schemes - Bunding of farm lands, terracing, conversion of dry paddy lands into wet irrigable paddy lands, wasteland development, development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.
- (iv) Construction of farm buildings and structures, etc. - Bullock sheds, implement sheds, tractor and truck sheds, farm stores,
 - (v) Construction and running of storage facilities - Construction and running of warehouses, godowns, silos and loans granted to farmer for establishing cold storages used for storing own produce,
 - (vi) Payment of irrigation charges, etc. - Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric moors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.
 - (vii) Other types of direct finance to farmers -
 - a. Short-term loans
 - i. To traditional/non-traditional plantations and horticulture
 - ii. For allied activities such as dairy, fishery, piggery, poultry, bee-keeping, etc.
 - b. Medium and long term loans
 - i. Development of loans to all plantations, horticulture, forestry and wasteland
 - ii. Development of loans for allied activities,
 - iii. Development of dairying and animal husbandry in all its aspects,
 - iv. Development of fisheries in all its aspects from fish catching to stage of export, financing of equipment necessary for deep sea fishing, rehabilitation of tanks (fresh water fishing), fish breeding, etc.
 - v. Development of poultry piggery, etc. in all its aspects including erection of poultry houses, pig houses, bee-keeping, etc.

- vi. Development and maintenance of stud farms, sericulture including grainages etc. However, breeding of race horses cannot be classified here,
- vii. Bio-gas plants,
- viii. Financing of small and marginal farmers for purchase of land for agricultural purposes,
- ix. Financing setting up of Agriclincs and Agribusiness Centres by agriculture graduates,
- x. Investment by banks in securitised assets which represent direct advance to agriculture.

1.2: Indirect finance to agriculture

- 1.2.1 (i) Credit for financing the distribution of fertilizers, pesticides, seeds, etc.,
- (ii) loans up to Rs.40 lakh granted for financing distribution of inputs for the allied activities such as cattle feed, poultry feed, etc.
- 1.2.2 (i) loans to Electricity Boards for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energizing their wells, loans to power distribution corporations/companies emerging out of bifurcation/restructuring of SEBs may also be classified as indirect finance to agriculture and (ii) loans to SEBs for Systems Improvement Scheme under Special Project Agriculture (SI-SPA),
- 1.2.3 Loans to farmers through PACS, FSS and LAMPS,

1.2.4 Deposits held by the banks in Rural Infrastructure Development Fund (RIDF) maintained with NABARD

1.2.5 Subscriptions to bonds issued by Rural Electrification Corporation (REC) exclusively for financing pump set energisation programme in rural and semi-urban areas and also for financing System Improvement Programme (SI-SPA). However, the investments that may be made by banks on or after April 1, 2005 in the bonds issued by REC shall not be eligible for classification under priority sector lending and such investments which have already been made by banks upto March 31, 2005, would cease to be eligible for classification under priority sector lending with effect from April 1, 2006.

1.2.6 Subscriptions to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities. However, the investments made by banks in such bonds issued by NABARD, shall not be eligible for classification under priority sector lending with effect from April 1, 2007.

1.2.7 Other types of indirect finance such as (i) finance for hire-purchase schemes for distribution of agricultural machinery and implements, (ii) loans for constructions and running of storage facilities (warehouse, market yards, godowns and silos) including cold storage units designed to store agriculture produce/products, irrespective of their location, (iii) advances to Customs Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines etc and undertake work from farmers on contact basis, (iv) loans to individuals, institutions or organizations who undertake

spraying operations, (v) advances to State-sponsored Corporations for onward lending to weaker sections, (vi) loans to Non Banking Financial Companies (NBFCs) for on-lending to agriculture, investment by banks in securitised assets which represent direct advances to agriculture, etc.

2. Small Scale Industries

2.1. Small and Ancillary Industries

Small-scale industrial units are those engaged in the manufacturing, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs.1 crore. These would, inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should not exceed Rs.1 crore to be classified under small-scale industry.

The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery, hand tools, drugs & pharmaceuticals and stationery items by the Government of India.

In order to ensure that credit is available to all segments of the SSI sector, banks should ensure that

- (1) 40 per cent of the total credit to small scale industry goes to the cottage industries, khadi & village industries, artisans and tiny industries with investment in plant and machinery up to Rs.5 lakh
- (2) 20 per cent of the total credit to small scale industry goes to SSI units with investment in plant and machinery between Rs.5 lakh and Rs.25 lakh; and
- (3) The remaining 40 per cent goes to other SSI units with investment exceeding Rs.25 lakh

2.2 Tiny Enterprises

The status of 'Tiny Enterprises' may be given to all small scale units whose investment in plant and machinery is up to Rs.25 lakh, irrespective of the location of the unit.

2.3. Small Scale Service & Business Enterprises (SSSBEs)

Industry related service and business enterprises with investment upto Rs.10 lakh in fixed assets, excluding land and building will be given the benefits of small scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by subsequent owners.

2.4 Investment made by banks in securitised assets representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided it satisfies the following conditions:

- (1) The pooled assets represent direct loans to SSI sector which are reckoned under priority sector ; and
- (2) The securitized loans are originated by banks/financial institutions

2.5 Indirect finance in the small-scale sector will include credit to :

- (i) Agencies involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries,
- (ii) Government sponsored Corporations/ organizations providing funds to the weaker sections in the priority sector,
- (iii) Advances to handloom co-operatives,
- (iv) Term finance/loans in the form of lines of credit made available to State Industrial Development Corporation/ State Financial Corporations for financing SSIs,
- (v) Credit provided by banks to KVIC under the scheme for provision of credit to KVIC by consortium of banks for on lending to viable Khadi and Village Industrial Units, etc.

2.6 Industrial Estates - Loans for setting up industrial estates.

3. **Small Road & Water Transport Operators (SRWTO)**

Advances to small road and water transport operators owning a fleet of vehicles not exceeding ten vehicles, including the one proposed to be financed.

Advances to NBFCs for on-lending to truck operators and SRWTOs other than truck operators satisfying the eligibility criteria. Also, portfolio purchases (purchases of hire purchase receivables) from NBFCs made after 31 July 1998 would also qualify for inclusion under priority sector lending, provided the portfolio purchases relate to SRWTOs satisfying priority sector norms.

4. **Retail Trade**

Advances granted to (a) retail traders dealing in essential commodities (fair price shops) and consumer co-operative stores, and (b) private retail traders with credit limits not exceeding Rs.10 lakh (Retail traders in fertilizers will form part of indirect finance for agriculture and those to retail traders of mineral oils under small business).

5. **Small Business**

Small business would include individuals and firms managing a business enterprise established mainly for the purpose of providing any service other than professional services whose original cost price of the equipment used for the business does not exceed Rs.20 lakh. Banks are free to fix individual limits for working capital depending upon the requirements of different activities.

Advances for acquisition, construction, renovation of house boats and other tourist accommodation will be included here. Distribution of mineral oils shall be included under 'small business'. Advances to judicial stamp vendors and lottery ticket agents may also be classified under this category.

6. **Professional & Self-employed Persons**

Included under this head are:

a. Loans to professional and self-employed persons include loans for the purpose of

purchasing equipment, repairing or renovating existing equipment and/or acquiring and repairing business premises or for purchasing tools and/or for working capital requirements to medical practitioners including dentists, chartered accountants, cost accountants, practicing company secretary, lawyers or solicitors, engineers, architects, surveyors, construction contractors or management consultants or to a person trained in any other art or craft who holds either a degree or diploma from any institutions established, aided, or recognized by Government or to a person who is considered by the bank as technically qualified or skilled in the field in which he is employed.

b. Advances to accredited journalists and cameramen who are freelancers, i.e., not employed by a particular newspaper/magazine for acquisition of equipment by such borrowers for their professional use.

c. Credit for the purpose of purchasing equipment, acquisition of premises (strictly for business) and tools to practicing company secretaries who are not in the regular employment of any employer.

d. Financial assistance for running 'Health Centre' by an individual who is not a doctor but has received some formal training about the use of various instruments of physical exercises.

e. Advances for setting up beauty parlours where the borrower holds qualification in the particular profession and undertakes the activity as the sole means of living/earning his/her livelihood.

f. Only such professional and self-employed persons whose borrowings (limits) do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements, should be covered under this category. However, in the case of professionally qualified medical practitioners, setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital

requirements. Advances granted for purchase of one motor vehicle to professional and self-employed persons other than qualified medical practitioners will not be included under priority sector.

- g. Advances granted by banks to professional and self-employed persons for acquiring personal computers for their professional use, may be classified in this category, provided the ceiling of total borrowings of Rs.10 lakh of which working capital should not be more than Rs.2 lakh per borrower, is complied with in each case for the entire credit inclusive of credit provided for purchase of personal computer. However, home computers should not be treated on par with personal computers and excluded from priority sector lending.

7. **State sponsored organization for scheduled castes/scheduled tribes**

Advances sanctioned to State Sponsored Organisations for Scheduled Castes/Scheduled Tribes for the specific purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries of these organizations.

8. **Education**

Educational loans should include only loans and advances granted to individuals for educational purposes up to Rs.7.5 lakh for studies in India and Rs.15 lakh for studies abroad and not those granted to institutions and will include all advances granted by banks under special schemes, if any introduced for the purpose.

9. **Housing**

Direct Finance

- (i) Loans upto Rs.15 lakh in rural/semi-urban areas, urban and metropolitan areas for construction of houses by individuals, with the approval of the banks' boards, excluding loans granted by banks to their own employees.
- (ii) Loans given for repairs to the damaged houses of individuals upto Rs.1 lakh in

rural and semi-urban areas and Rs.2 lakh in urban areas.

- (iii) Loans granted by banks upto Rs.5 lakh to individuals desirous of acquiring or constructing new dwelling units and upto Rs.50,000/- for upgradation or major repairs to the existing units in rural areas under Special Rural Housing Scheme of NHB
- (iv) Investment by banks in the mortgaged backed securities, provided it satisfies the following conditions
- (a) The pooled assets are in respect of direct housing loans which satisfy the definition for inclusion under the priority sector
- (b) The securitised loans are originated by the housing finance companies/banks;

Indirect Finance

- (i) Assistance given to any governmental agency for construction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs.5 lakh of loan amount per housing unit,
- (ii) Assistance given to a non-governmental agency approved by the NHB for the purpose of refinance for reconstruction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of Rs.5 lakh per housing unit,
- (iii) All the investment in bonds issued by NHB/ HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be reckoned for inclusion. However, the investments that may be made by banks on or after April 1, 2005 in the bonds issued by NHB/HUDCO shall not be eligible for classification under priority sector lending and such investments which have already been made/to be made by banks upto March 31, 2005 would cease to be eligible for classification under priority sector lending with effect from April 1, 2006.

10. Consumption Loans

Pure consumption loans granted to the weaker sections of the community under the Consumption Credit Scheme should be included in this item. These include:

- i. Loans to NGOs/Self-Help Groups (SHGs)/ Micro Credit,
- ii. Loans provided by banks to NGOs/SHGs for on-lending to SHG/members of SHGs/discrete individuals or small groups which are in the process of forming into SHGs will be reckoned as priority sector lending,
- iii. Lending to SHGs is to be included as a part of bank's lending to weaker sections,
- iv. Micro credit provided by banks either directly or through any intermediary should be included under priority sector.

11. Food and Agro-based Processing Sector

The following items within the food and agro-based processing sector would be eligible for classification as priority sector lending by banks: (i) Fruit and vegetable processing industry, (ii) Food grain milling industry, (iii) Dairy products, (iv) Processing of poultry and eggs, meat products, (v) Fish processing, (vi) Bread, oilseeds, meals (edible), breakfast foods, biscuits, confectionery (including cocoa processing and chocolate), malt extract, protein isolate, high protein food, weaning food and extruded/other ready to eat food products, (vii) Aerated water/soft drinks and other processed foods, (viii) Special Packaging for food processing industries and (ix) Technical assistance and advice to food processing industry.

With regard to the size of the units within this sector, it is clarified that food and agro-based processing units of small and medium size with investment in plant and machinery up to Rs.5 crore would be included under priority sector lending. While loans to units satisfying SSI definition may be shown under advances to SSI, loans to other units should be shown separately in the half-yearly statements on priority sector lending.

12. Software Industry

Loans to software industry with credit limit up to Rs.1 crore from the banking industry to be included under this item.

13. Venture Capital

Investment in Venture Capital will be eligible for inclusion in priority sector, subject to the condition that the venture capital funds/companies are registered with SEBI. However, fresh investments that may be made by banks on or after July 1, 2005 shall not be eligible for classification under priority sector lending and the investments which have already been made by banks upto June 30, 2005 shall not be eligible for classification under priority sector lending with effect from April 1, 2006.

14. Leasing and Hire purchase

Para-banking activities such as leasing and hire purchase financing undertaken departmentally by banks will be classified as priority sector advances, provided the ultimate beneficiary satisfies the criteria laid down by RBI for treating such advances as advances to priority sector

15. Loans to urban poor indebted to non-institutional lenders

Loans to distressed urban poor to prepay their debt to non-institutional lenders against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors, would be eligible for classification under priority sector. Urban poor for this purpose may include those families in the urban areas who are below the poverty line.

16. Weaker Sections

In order to ensure that more under-privileged sections in the priority sector are given proper attention in the matter of allocation of credit, it should be ensured that the advances to weaker sections reach a level of 25 per cent of priority sector advances or 10 per cent of net bank credit. The weaker sections under priority sector shall include the following:

- (a) Small and marginal farmers with land holding of 5 acres and less and landless labours, tenant farmers and share croppers

- (b) Artisans, village and cottage industries where individual credit limits do not exceed Rs.50,000/-,
- (c) Beneficiaries of Swarnjayanthi Gram Swarojgar Yojana (SGSY),
- (d) Scheduled Castes and Scheduled Tribes,
- (e) Beneficiaries of Differential Rate of Interest (DRI) Scheme,
- (f) Beneficiaries under Swarna Jayanti Shahari Rojgar Yojana (SJSRY),
- (g) Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS),
- (h) Advances to Self Help Groups,
- (i) Loans to distressed urban poor to prepay their debt to non-institutional lenders against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors

17. Differential Rate of Interest Scheme

The scheme was introduced in 1972 and is being implemented by all Indian Scheduled Commercial Banks. The banks are required to lend under the scheme, at least 1% of their aggregate advances as at the end of the previous year. 2/3rd of the total DRI advances must be routed through the banks' rural and semi urban branches.

- i. Objective: To provide bank finance at a concessional rate of interest of 4 % p.a to the weaker sections of the community for engaging in productive and gainful activities so that they could improve their economic conditions.
- ii. Area of operations: The scheme is being implemented throughout the country.
- iii. Target group/Eligibility criteria: Income criteria: The income ceiling for eligibility is annual income of Rs. 7200/- per family in urban or semi urban areas and Rs. 6400/- per family in rural areas.
- iv. Land holding criteria: Size of land holding must not exceed one acre of irrigated land and 2.5 acres of unirrigated land. The land holding criteria is not applicable to SC/STs.

The important categories of borrowers under the scheme are SC/STs and others engaged on a very modest scale, in agriculture and / or allied agricultural activities, people who themselves collect or do elementary processing of forest products, people physically engaged on a modest scale in the fields of cottage and rural industries and vocation, indigent students of merit etc.

- v. Loan amount: The maximum assistance per beneficiary has been fixed at Rs. 6500/- for productive purposes. In addition to this, physically handicapped persons can avail of assistance to the extent of Rs. 5000/- (maximum) per beneficiary for acquiring aids, appliances, equipment, provided they are eligible for assistance under the scheme. Similarly, members of SC/ST s satisfying the income criteria of the scheme can also avail of housing loan up to Rs. 5000/- per beneficiary over and above the loan of Rs. 6500/- available under the scheme.
- vi. Margin money: No margin money has been prescribed under the scheme.
- vii. Capital subsidy/Interest: No capital subsidy is available. Rate of interest to be charged on loans is 4 % p.a. Interest on current due is not to be compounded.
- viii. Security: No collateral security/ third party guarantee is required. Assets created out of the loan amount would only be hypothecated to the banks.
- ix. Repayment: Not exceeding five years including grace period of two years.
- x. Reservation/Preference: The banks are required to ensure that at least 40% of their DRI advances flow to SC/STs.

2.1.4.2. Supervisory Statistics

As supervisor of the banking system, RBI collects voluminous data on several indicators of performance, health, soundness, management, etc., from the banks. These data are being called in exercise of powers vested in RBI under Section 27(2) of Banking Regulation Act, 1949. Most of these information are confidential in nature.

However, RBI is disseminating some information in the form of tables based on off-site supervisory data reporting system in its annual publications, viz., Annual Report, Report on Trend and Progress of Banking in India and Statistical Tables Relating to Banks in India. The source and coverage of data are generally provided in the footnotes to the respective tables. The supervisory returns are received from banks as encrypted email attachments. Concepts, definitions and other information pertaining to data provided in the tables (*Annex 2.12*) are given below:

2.1.4.2.1. Non-performing assets

Beginning April 1, 1992, banks in India switched over to a system of recognition of income, classification of assets and provisioning for bad debts on a prudential basis which is objective, based on record of recovery and ensuring uniform and consistent application of norms. Prior to this, banks were classifying the advances under a Health-code system. Under the existing income recognition, asset classification and provisioning norms, banks assets are classified under the following categories:

1. Standard Assets
2. Sub-standard assets
3. Doubtful assets and
4. Loss assets

Non-performing assets pertain to assets, other than standard assets. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A non-performing asset (NPA) is a loan or an advance where;

- (i) interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- (ii) the account remains 'out of order' in respect of an Overdraft / Cash Credit (OD / CC),
- (iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- (iv) a loan granted for short duration crops will be treated as NPA, if the installment

of principal or interest thereon remains overdue for two crop seasons.

- (v) a loan granted for long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

Banks are advised to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter. For further information, one may refer to Master Circular DBOD. No.BP.BC.11 /21.04.048 /2005-06 dated July 1, 2005 on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, available in RBI website (www.rbi.org.in). Loan assets of banks are broadly classified as performing (standard) and non-performing assets. Non-performing assets are classified as sub-standard, doubtful and loss assets based on the period for which the asset has remained non-performing and the realisability of the dues.

2.1.4.2.1.1. Sub-standard Assets

A sub-standard asset is one, which is classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which remained NPA for a period less than or equal to 18 months. In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected. With effect from 31 March 2005, a sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months.

2.1.4.2.1.2. Doubtful Assets

A doubtful asset is one, which remained NPA for a period exceeding two years. With effect from 31 March 2001, an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 18 months. A loan classified as doubtful has all the weaknesses inherent in

assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, - on the basis of currently known facts, conditions and values - highly questionable and improbable. With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

2.1.4.2.1.3. Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

2.1.4.2.2. Provisioning Norms

RBI introduced the system of Asset classification and provisioning in line with international practice for the first time in 1993. The present norms, which are applicable as on March 2005, are presented below:

Asset	Provisioning
1. Substandard	
(a) Secured	10% of outstanding dues
(b) Unsecured	20% of outstanding dues
2. Doubtful	
(a) Doubtful I (first 12 months in doubtful category)	20% of realisable value for security +100% of the shortfall of security.
(b) Doubtful II (further 24 months in doubtful category)	30% of realisable value for security +100% of the shortfall of security
(c) Doubtful III (over 48 months in doubtful category)	100% provisioning
3. Loss Assets	100% provisioning

2.1.4.2.3. Investment Fluctuation Reserve

In terms of the RBI instructions June 12, 1997, the excess provision towards depreciation on investments should be transferred to Capital Reserve Account by way of appropriation in the Profit and Loss Account. It was decided that the excess provision towards depreciation on investments should be appropriated to "Investment Fluctuation Reserve Account" instead of Capital Reserve Account and should be shown as a separate item in Schedule 2 - "Reserves and Surpluses" under the head "Revenue and other Reserves" and will be eligible for inclusion in Tier II capital. The existing amount of excess provision towards depreciation on investments held under Capital Reserve Account should stand transferred to "Investment Fluctuation Reserve Account". The amount held in "Investment Fluctuation Reserve Account" could be utilised to meet, in future, the depreciation requirement on investment in securities. In terms of subsequent instruction dated March 30, 1999, banks were advised to appropriate the excess provision towards depreciation on investments to Investment Fluctuation Reserve Account (IFR) instead of Capital Reserve Account. Banks were permitted to utilise the amount held in IFR to meet, in future, the depreciation requirement on investment in securities. In the context of the substantial decline in the yield on securities, the position was reviewed in consultation with major commercial banks as under:

- i. Banks should transfer maximum amount of the gains realised on sale of investment in securities to the IFR.
- ii. The objective should be to achieve IFR of a minimum of 5 per cent of the portfolio, by transferring the gains realised on sale of investment, within a period of 5 years. Banks are, however, free to build up higher percentage of IFR of upto 10 per cent of the portfolio depending on the size and composition of their portfolio, with the concurrence of their Board of Directors.
- iii. Banks should ensure that the unrealised gains on valuation of the investment

portfolio are not taken to the income account or to the IFR.

- iv. In modification of the earlier instructions dated October 16, 2000, individual scrips held under the 'Available for Sale' category should be marked to market at least at quarterly intervals.
- v. The Investment Fluctuation Reserve, consisting of realised gains from sale of investments, would be eligible for inclusion in Tier 2 capital as hitherto.
- vi. Banks were advised to assess the impact of changes in interest rates on their investment portfolio. In addition, banks were advised therein to fix a definite timeframe for moving over to VaR and Duration methods for measurement of interest rate risk and initiate appropriate steps in this direction.
- vii. Banks were also permitted to transfer balances from IFR to Profit and Loss Account to meet the depreciation requirement on investment as a 'below the line' item would continue, as hitherto.

Further, with a view to ensuring smooth transition to Basel II norms banks were advised on June 24, 2004 to maintain capital charge for market risk in a phased manner over a two year period, as under:

- i) In respect of securities included in the held for trading (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, and

- ii) In respect of securities included in the available for sale (AFS)* category by March 31, 2006.

With a view to encourage banks for early compliance with the guidelines for maintenance of capital charge for market risks, it has been decided that banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT (items as indicated at (i) above) and AFS category may treat the balance in excess of 5 per cent of securities included under HFT* and AFS* categories, in the IFR, as Tier I capital. Banks satisfying the above criteria may transfer the amount in excess of the said 5 per cent in the IFR to Statutory Reserve. This transfer shall be made as a 'below the line' item in the Profit and Loss Appropriation Account. In another advice dated October 10, 2005, it was further decided that banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT (items as indicated at (i) above) 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 balance in the Investment Fluctuation Reserve 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit & Loss Account.

In the event, provisions created on account of depreciation in the AFS or HFT categories are found to be in excess of the required amount in any year, the excess should be credited to the Profit & Loss account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess

* Accounting standards require a Company to classify its investment in debt (bonds) and equity (stocks) securities into one of three categories when they are purchased: (1) held-to-maturity (HTM), (2) trading (HFT), or (3) available-for-sale (AFS). This classification is based on the Company's intended use of that security and the classification dictates the accounting treatment.

Held to maturity - Debt securities that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost. The impact of temporary fluctuations in fair value of the debt securities is not reflected in the Company's financial statements. Since equity securities do not have maturity date, they cannot be classified as held-to-maturity.

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- Trading - Debt and equity securities that are bought and sold principally for the purpose of selling them in the near term are classified as trading securities and are reported in the financial statements at fair value. Changes in the fair value from period to period are reported as a component of net income.
 - Available-for-sale - Debt and equity securities not classified either as held-to-maturity or trading are considered available-for-sale and are reported at fair value. Changes in the fair value from period to period are not reported as a component of net income but are charged or credited directly to equity.

provision) should be appropriated to an Investment Reserve Account in Schedule 2 - "Reserves & Surplus" under the head "Revenue and other Reserves" and would be eligible for inclusion under Tier II within the overall ceiling of 1.25 per cent of total Risk Weighted Assets prescribed for General Provisions / Loss Reserves.

2.1.4.2.4. Capital adequacy ratio

The Committee on Banking Regulations and Supervisory Practices (Basle Committee) had, in July 1988, released the agreed framework on international convergence of capital measure and capital standards. The Committee adopted weighted risk assets approach which assigns weights to both on and off Balance Sheet exposures of a bank according to their perceived risk, as the method of measuring capital adequacy and set the minimum standard at 8 per cent (of risk weighted assets) to be achieved by the end of 1992 (7.25 per cent by end - 1990). The Committee was keen that this accord on capital adequacy measurement (herein after referred as the Basel I standards) should become the basis for a worldwide standard.

In India, various groups of banks were subjected to different minimum capital requirements as prescribed in the Statutes under which they have been set up and operate. The foreign banks operating in India were prescribed to hold foreign funds deployed in Indian business equivalent to 3.5 per cent of their deposits as at the end of each year. Further, there are prescriptions regarding the maintenance of statutory reserves. In the context of the varying minimum capital requirements and taking into account the approach of Basle Committee, it was decided to introduce uniform prescriptions for capital adequacy in April 1992.

The Basel I capital adequacy framework was implemented in phases with banks required to adhere to the following time table:

	Minimum capital requirement
Foreign banks operating in India	8% of RWA by March 31, 1993
Indian banks with foreign branches	8% of RWA by March 31, 1993
All other banks	4% of RWA by March 31, 1993 8% of RWA by March 31, 1996

With effect from March 31, 2000, all scheduled commercial banks are required to maintain a minimum CRAR of 9%.

2.1.4.2.5. Some Important Definitions

Capital funds: The Basle Committee has defined capital in two tiers - Tier I and Tier II. Tier I capital, otherwise known as core capital, provides the most permanent and readily available support to a bank against unexpected losses. Tier II capital contains elements that are less permanent in nature or are less readily available. Elements of Tier I capital and Tier II capital differ with respect to Indian banks and foreign banks operating in India.

Risk adjusted assets and off-Balance Sheet items: Risk adjusted assets would mean weighted aggregate of funded and non-funded items. It is defined as Balance Sheet assets and conversion factors to off-Balance Sheet items, expressed as a weighted percentage of individual credit risk*. The value of each asset/item shall be multiplied by the relevant weights to produce risk adjusted values of assets and of off-Balance Sheet items. The aggregate will be taken into account for reckoning the minimum capital ratio.

* Credit risk is risk due to uncertainty in counterparty's ability to meet its obligations. Because there are many types of counterparties from individuals to sovereign governments and many different types of obligations from auto loans to derivatives transactions, credit risk takes many forms. Institutions manage it in different ways. In assessing credit risk from a single counterparty, an institution must consider three issues: *Default probability* which is the likelihood that the counterparty will default on its obligation either over the life of the obligation or over some specified horizon, such as a year, *Credit exposure* which is in the event of a default, how large will the outstanding obligation be when the default occurs and the *Recovery rate* which is in the event of a default, what fraction of the exposure may be recovered through bankruptcy proceedings or some other form of settlement.

Every risk comprises two elements: exposure and uncertainty. For credit risk, credit exposure represents the former, and credit quality represents the latter.

Prior to extending credit, a bank or other lender will obtain information about the party requesting a loan. In the case of a bank issuing credit cards, this might include the party's annual income, existing debts, whether they rent or own a home, etc. A standard formula is applied to the information to produce a number, which is called a credit score. Based upon the credit score, the lending institution will decide whether or not to extend credit.

Capital requirement for market risks*: 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. Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risk positions subject to capital charge requirement are:

- * The risks pertaining to interest rate related instruments and equities in the trading book; and
- * Foreign exchange risk (including open position in precious metals) throughout the bank (both banking and trading books).

As an initial step towards prescribing capital requirement 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 the open position limits on foreign exchange and gold; and
- iii) build up Investment Fluctuation Reserve up to a minimum of five per cent of the investments held in Held for Trading and Available for Sale categories in the investment portfolio.

The interim measures adopted in India represent a broad brush and simplistic approach. Besides, over a period of time, banks' ability to identify and measure market risk has improved. Keeping in view the ability of banks to identify and measure market risk, it was decided to assign explicit capital charge for market risks. Banks are required to maintain capital charge for

* Market Risk: Market risk is the risk that is common to an entire class of assets or liabilities. The value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market. Asset allocation and diversification can protect against market risk because different portions of the market tend to underperform at different times. Market risk is also known as Systematic Risk.

market risks in a phased manner over a two year period, as detailed below:

- (a) Banks were required to maintain capital for market risks on securities included in the Held for Trading category, open gold position, open forex position, trading positions in derivatives and derivatives entered into for hedging trading book exposures by March 31, 2005. Consequently, the additional risk weight of 2.5% towards market risk on the investment included under Held for Trading category is not required.
- (b) Banks should maintain capital for market risks on securities included in the Available for Sale category also by March 31, 2006. Consequently, the additional risk weight of 2.5% towards market risks maintained at present on the investment included under Available for Sale and Held to Maturity categories would not be required with effect from the above date or from an earlier date from which bank provides capital for market risk for securities held in the Available for Sale category.

Return on Total assets: $\text{Profit after Tax} \div \text{Total Assets} \times 100$

Return on Equity: $\text{Profit after Tax} \div \text{Total Capital and Reserves} \times 100$

Cost / Income ratio: $\text{Operating expenses} \div (\text{Total income} - \text{Interest expenses}) \times 100$

Operating expenses: Total expenses - interest expenses

Net interest income: Interest income net of interest tax - interest expenses

Net profit: Profit after tax.

Bank groups: Banks are be broadly categorized into:

- i. Public sector banks comprising:
 - a. Nationalised banks: 14 banks were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. Further,

in 1980, six corresponding new banks were nationalised under the the Banking Companies (Acquisition and Transfer of Undertakings) Act 1980. Prior to their nationalization, these banks were in the Private sector. The minimum shareholding of the Government of Indian in these banks is 51 percent. IDBI converted itself into a bank w.e.f. October, 2004. It was included as 'Other Public Sector Bank'.

- b. **State Bank of India and Associate Banks (SBI group):** State Bank of India (SBI) was established under the State Bank of India Act, 1955 and it took over the undertaking of the Imperial Bank of India established in 1921. SBI has 7 associate banks established under the State Bank of India (Subsidiary Banks) Act of 1959 by taking over the banking undertakings of certain former princely States in India.

- ii. **Private sector banks consists of:**
- a. *Old Private Sector banks:* These are the banks existing in the private sector before the issue of new guidelines for entry of private banks in 1993. These banks are registered under the Companies Act.
- b. *New Private Sector banks:* These are banks that were established under the new guidelines in 1993 which enforces relatively stricter entry point norms.
- iii. **Foreign banks:** These banks operate through branches only. The 'tests of entry' as applicable to Indian banks are also applied to branches of foreign banks. Besides, the RBI insists on prior consent of home country regulator and ensures that the laws of the home country do not discriminate in any way against banks incorporated in India.
- iv. **Local Area Banks:** Local area banks were

set up in private sector to cater to the credit needs of the local people and to provide efficient and competitive financial intermediation services in their area of operation. They are registered as a public limited company under the Companies Act, 1956 and licensed under the Banking Regulation Act, 1949 and will be eligible for including in the Second Schedule of the Reserve Bank of India Act, 1934. The minimum paid up capital for such a bank shall be Rs.5 crore. The promoters' contribution for such a bank shall at least be Rs.2 crore. The area of operation of the proposed bank shall be a maximum of three geographically contiguous districts.

2.1.4.3 Statistics on Interest Rates and Sectoral Deployment of Credit

2.1.4.3.1. Data on Interest Rates

Data on interest rates offered on deposits / charged on credit by the scheduled commercial banks are collected by the Monetary Policy Department (MPD) of RBI on a regular basis. For a variety of reasons, data on interest rates is of vital importance to the Reserve Bank. For example, interest rates have a major influence on the demand and supply of bank deposits and credit, saving / investment behaviour, having close linkages with output, prices, etc.

2.1.4.3.1.2. Measurement needs, Concepts, Definitions and Classification

2.1.4.3.1.2.1. Credit

As a step towards deregulation of interest rates and providing more operational flexibility to banks, Prime Lending Rate (PLR) was introduced in October 1994 on advances with credit limits over Rs. 2 lakh. Since then, the norms relating to the operation of PLR by banks had been rationalised. Banks were given freedom to declare their own PLRs along with a maximum spread in April 1999, banks were provided the freedom to offer tenor linked PLRs. Until the announcement of Monetary and Credit Policy in April 2001, PLR served as the ceiling rate for credit limits up to Rs.2 lakh (other than consumer credit) and as floor rate for loans above

Rs.2 lakh. In April 2001 Monetary and Credit Policy, the PLR was converted to a reference or benchmark rate for banks, which allowed banks to offer loans at sub-PLR rates to exporters or other creditworthy borrowers including public enterprises on the lines of a transparent and objective policy approved by their Boards. Nevertheless, the practice of treating PLR as the ceiling for loans up to Rs.2 lakh continued, given the prevailing condition of the credit market in India and the need to continue with concessionality for small borrowers.

With the change in PLR norms, the Reserve Bank, monitors the trend in PLR of commercial banks as also the actual trend in lending rates. For this purpose, the information system on PLR had been modified so as to collect information on PLR as well as minimum and maximum lending rate and also the share of outstanding credit at, below and above PLR to facilitate monitoring the actual trend of lending rates in India vis-à-vis PLR.

The Reserve Bank, in the Monetary and Credit Policy for 2002-03 on April 2002, indicated its intention of collecting maximum and minimum interest rates on advances charged by banks and place the same in the public domain to enhance transparency. Accordingly, Reserve Bank is receiving actual lending rates from scheduled commercial banks (excluding RRBs).

2.1.4.3.1.2.2. Deposits

Banks were given freedom to determine their rates for deposit with maturity of over 2 years with effect from October 1, 1995. Effective from July 2, 1996, the rates of deposits for over 1 year, were freed and minimum maturity period was reduced to 30 days from 46 days. Effective October 22, 1997, banks were given the freedom to determine their interest rates on term deposits of 30 days and over. The Reserve Bank has also encouraged the banks to put in place a flexible interest rate system for deposits with reset at six-monthly intervals, along with the fixed rate option for depositors in its Monetary and Credit Policy Statement, 2002-03. Banks were allowed at their discretion to reduce the minimum tenor of retail domestic term deposits (under Rs.15

lakh) from 15 days to 7 days with effect from November 1, 2004.

2.1.4.3.1.3. Sources and Systems

The data on interest rates in respect of different types deposits and credit are collected on fortnightly/monthly/quarterly basis from the SCBs in pre-defined formats. For deposits, the classification is based on domestic deposits, NRE and NRNR deposits and is maturity period-wise. In the case of quarterly data on credit, the major account types are cash credit, demand loans and term loans with maturity period-wise break-up. For each of these categories, data includes PLR, minimum and maximum rates charged (excluding extreme values), interest rate range at which 60 per cent or more business is contracted and amount outstanding below PLR, at PLR and above PLR*. Data on export credit (in Rupee terms) is collected for - pre-shipment and post-shipment export credit, which are further categorized according to duration as per export credit norms.

Interest rates on term deposit for various tenors can be known from which the interest rate range according to the groups of the banks can be worked out.

Monthly data on deposit rates offered by Public sector banks, Private sector banks and Foreign

* **BPLR:** Banks are free to fix Benchmark Prime Lending Rate (BPLR) for credit limits over Rs.2 lakhs with the approval of their respective Boards. BPLR has to be declared and made uniformly applicable at all the branches. The banks may authorize their Asset-Liability Management Committee (ALCO) to fix interest rates on Deposits and Advances, subject to their reporting to the Board immediately thereafter. The banks should also declare maximum spread over the BPLR with the approval of the ALCO/Board for the advances.

Sub BPLR: Downward flexibility of PLR emerged in the recent past as a significant policy issue for the RBI, especially with respect to credit delivery to small and medium borrowers, at reasonable costs. Sub-PLR lending had enabled corporates to raise funds at competitive rates from banks without incurring any additional cost towards stamp duty, dematerialisation costs or fee payments to issuing/paying agents. The BPLR was introduced to bestow larger transparency in pricing of bank credit. However, with sub-PLR lending, the spreads between minimum and maximum lending rates have risen in a significant manner.

banks of various maturities are published in RBI's various publications such as Bank's Annual Report, Report on Trend & Progress of Banking in India, Macroeconomic & Monetary Developments, etc.

The quarterly lending rates data of Scheduled commercial banks are available on the RBI website since quarter ended June 2002. The data are also available bank-group wise consolidated position on the range of actual lending rates of credit, with credit limit of Rs.2 lakh and above, other than export credit; bank-group wise range of median interest rates on credit, with credit limit of Rs.2 lakh and above other than export credit; bank-group wise range of actual lending rates; bank-group wise median interest rates on export credit; lending rates of individual banks on export credit as well as other credit, having credit limit Rs.2 lakh and above under demand and term loans.

2.1.4.3.1.4. Ensuring Quality Standards

Good quality data is a pre-requisite for any informed decision-making process. Appropriate system for ensuring data quality is in place.

2.1.4.3.2. Sectoral Deployment of Credit

Statistics on flow of gross bank credit to different sectors of the economy, viz.; agriculture, industry, etc., is collected and compiled through BSR 1 return on an annual basis. In view of the need for such information on a more frequent intervals and with minimum time lag in the context of formulation of policy, Monetary Policy Department collects provisional information on sectoral deployment of credit from select banks on a monthly basis, in addition to the annual data collected through BSR system. Such information provides an indication of the movements in flow of bank credit across various sectors and industries and provides inputs for analysis. The consolidated information based on the data is published in various publications of the RBI.

2.1.4.3.2.1. Measurement Needs of the Area

The data on flow of bank credit to different sectors of the economy are useful in analysis

the direction of credit flows, portfolio changes, linkages with the other macroeconomic variables and for providing inputs for policy making. The data can also be of use to the researchers.

2.1.4.3.2.2. Concepts, Definitions and Classification

The broad concept of gross bank credit is the same as in BSR. The concepts and classification are broadly in alignment with that of BSR/NIC, except in the case of loans to construction sector. Besides, these data provide more details of personal loans. The data are collected for total non-food gross bank credit divided into four major sectors, viz.; Agriculture, Industry, Services and Personal Loans with further classification on select sub-sectors and also on credit to the priority sectors. Industrial classification includes data on major industries including infrastructure. The classification of data on sectoral deployment of credit has changed from time to time with structural shifts in sectoral deployment of credit. Some features of the classification is given below:

- a. *Agriculture*: Includes direct as well as indirect credit to agriculture.
- b. *Industry*: Credit given to manufacturing sector. It includes credit given to food processing, textiles, petroleum, chemicals, cement, metals, engineering, vehicles, gems and jewellery, construction and infrastructure industries.
- c. *Services*: Include credit given to transport operators (excluding water transport), computer software, tourism, hotels and restaurants, shipping (water transport), professional and other services, etc. Real estate loans include credit given to individuals/firms engaged in development of real estate activities (like preparation of residential/ commercial buildings/ complexes, land development, etc. for the purpose of purchase/ sale/ lease of real estate, etc.).
- d. *Personal Loans*: Include credit given to individuals for their own consumption purpose; loans to individuals for purchase

of consumer durables; residential house; for education; personal loans given against security of fixed deposits or share/debentures; credit card outstandings, etc. Credit given to individuals as business loans is not included in personal loans, but they are classified into the respective business activity (industry/ service).

- e. *Priority Sector*: The loans under priority sector are classified as per the extant definition given by the RBI from time to time. The details of credit to agriculture, small scale industry, housing, transport operators, computer software under priority sector criteria are required to be shown separately.

Aggregate data for all reporting banks is published for the sectoral classification.

2.1.4.3.2.3. Sources and Systems

The data are collected monthly from the selected banks in a pre-defined specific format on outstanding credit as on last reporting Friday of the month. The selection of banks is based on the size of their business and includes public sector banks, select private sector and foreign banks. Banks with large business are included in the sample so as the total non-food gross bank credit of all select banks comprises above 90 per cent of the total non-food gross bank credit of all the scheduled commercial banks. The returns are received in printed form through e-mail. There are plans to receive these data on-line from banks.

2.1.4.3.2.4. Ensuring Quality Standards

Good quality data is a pre-requisite for any informed decision-making process. Appropriate system for ensuring data quality is in place. In order to improve quality of data, the coverage is also extended from time to time. The last such revision in classification of data and coverage of banks is effective since September 2005.

2.2 Statistics on Cooperative Banks

The cooperative movement in India started and originated as a measure against rural poverty, aggravated by chronic

indebtedness of the farmers and practice of usuary at its worst by the moneylenders. Agrarian disturbances in 1875 in the Deccan against the moneylenders necessitated the enactment of Taccavi Legislation by the government and also led to the concept of the cooperative approach. The Northern India Taccavi Loan Act, 1875, the Land Improvement Loans Act, 1883, the Agriculturist Loans Act, 1884, etc. were, all enacted to facilitate the availability of credit to farmers. In 1892, Sir Federick Nicholson recommended the establishment of rural cooperative credit societies on German pattern. The Famine Commission (1901) recommended introduction of cooperatives in the country. In 1904, the Cooperative Credit Societies Act was enacted by the Imperial Government to facilitate organisation of credit cooperatives and confer upon them special privileges and facilities, the scope of which was subsequently enlarged by the more comprehensive Cooperative Societies Act of 1912. Under the Government of India Act, 1919, the subject of Cooperation was transferred to the then Provinces, which were authorized to enact their own cooperative laws. Under the Government of India Act, 1935, cooperatives remained a provincial subject. In order to administer the operations of cooperative societies where membership was from more than one province, the Government of India enacted the Multi-Unit Cooperative Societies Act, 1942, which was subsequently replaced by the Multi-state Cooperative Societies Act, 1984, under entry 44 of the Union List.

The societies were not in a position to extend loans to farmers so that the farmers may liquidate past debts, redeem their land and other assets from usurious moneylenders. Loans from cooperative societies were also not enough to enable farmers to improve upon their land and augment their incomes. It was felt that the long term (LT) loans needed by farmers

for these purposes would have to be met by a separate set of institutions. This realization led to the establishment of the cooperative land mortgage banks (LMBs) in the early 1920s. The first cooperative LMB was set up in Punjab in 1920, followed by two more in the Madras Presidency in 1925.

Later, the All India Rural Credit Survey Committee (AIRCSC) recommended establishment of a separate institution, which could provide LMBs the resources for long term lending to farmers for the development of agriculture. The recommendation led to the establishment of the Agricultural Refinance Corporation in 1963 and enabled the LT structure to expand rapidly and change from being land 'mortgage' banks to land 'development' banks (LDBs).

2.2.1. Structures of Cooperative Banks

Co-operatives are structured into two separate arms namely short-term (for providing Production Credit) and long-term institutions (for providing Investment Credit). The short-term co-operative credit structure has at its base the Primary Agricultural Credit Societies (PACS). The long-term co-operative credit structure comprises the Primary Agricultural and Rural Development Banks. These ground level institutions cater to villages using funds received from higher financing institutions.

The short-term cooperative credit structure consists of 31 State Cooperative Banks (SCBs), 367 District Central Cooperative Banks (DCCBs) and 1,05,735 Primary Agricultural Credit Societies (PACS) as on 31 March 2005. The long-term co-operative credit structure consisted of 20 State Cooperative Agriculture and Rural Development Banks (SCARDBs) (8 unitary and 12 federal/mixed structures) with 727 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) as on 31 March 2005.

2.2.2. Data Dissemination

National Bank for Agriculture and Rural Development (NABARD) is the major source of data on cooperatives in India.¹ Besides data on cooperative movements, NABARD brings out four regular publications. Title-wise contents of these publications are discussed below:

Dossier on Cooperatives: This publication presents data on Cooperative credit Structures, viz., Short Term and Long Term on yearly basis. Consolidated information of SCBs, DCCBs and SCARDBs and PCARDBs on various parameters, viz., Resources, Investment, Outreach, Recovery, Management, Profitability, Classification of Assets, Erosion in Assets, Dividend paying Banks, and Market share of Business are also presented.

Overview on Cooperatives: This publication is brought out annually by NABARD (Institutional Development Department (IDD)), on the performance of Cooperative credit Structures in the country. The performance is reviewed on the various parameters with reference to previous year.

Financial Parameters and Financial Ratio Analysis: This publication presents an analytical overview of performance of cooperatives based on the annual balance sheet information. Various important ratios on financial parameters, viz., Financial Return, Financial Cost, Financial Margin, Cost of Management, Operating Margin, Risk Cost, Miscellaneous Income, and Net Margin, etc., are analysed. In addition, Credit-Deposit Ratio, Recovery and Non-Performing Assets (NPAs) to Loans Outstanding are also presented.

The major source of information for the abovementioned publications is the Balance-Sheet (as at the end of the financial year i.e., March 31). Sometime un-audited data are also considered. The information/details are collected by Regional Offices of NABARD from the SCBs/SCARDBs in the prescribed format. Regional Offices consolidate the information separately by

¹ The data on Urban Cooperative Banks are, however, disseminated by RBI in its key publications.

ST/LT structure and thereafter forward to Head Office for consolidation at the national level. Recovery position giving the details of Demand, Collection and Balance (DCB) of loans is collected as at the end of 30 June every year. The DCB has worked out for each institution as also a consolidated position for the institutions as a whole, in particular structure for a State. Regional Offices compile the details on the basis of audited figures and in case the details are unaudited, they indicate specifically so that such of the details can be checked up with audited figures and rectified at subsequent validation. Client institutions, viz., SCBs, DCCBs, SCARDBs and PCARDBs are advised to include the subject of data compilation in their Training Programmes as well.

Statistical Statements Relating to Cooperative Movement in India: This publication is brought out in two parts - *Part I* relates to Credit Societies (SCBs, CCBs, ICBs, PACS, GBs, PCBs, PNACS, SCARDBs and PCARDBS) and *Part II* relates to Non-Credit Societies (All Marketing Societies, All Processing Societies, Farming, Fisheries, Weaver, Housing, Consumer Co-operative, Forest Labourer, Other Industrial Societies, etc. The contents of the Publication includes statistical data like number, membership, liabilities, assets, operations, etc., in respect of both Credit and Non-credit societies based on audited Balance Sheet and Profit & Loss accounts for a particular year pertaining to the respective co-operative societies. The source of data for the publication is SCBs, CCBs, ICBs, SCARDBs, RCS, etc., for Credit Co-operative Societies and

RCS and Functional Registrars in respect of Non-Credit Co-operative Societies.

The work pertaining to compilation of the statements was originally being done by the Department of Commercial Intelligence and Statistics, GoI since 1932 and published by the Manager of Publications, Delhi. It was subsequently entrusted by them to RBI in March 1942, with effect from the issue for 1940-41 as they considered that the Agricultural Credit Department of the Bank, being in close touch with the Co-operative Movement in the country, was in the best position to undertake the work,

especially as, in the normal course of its duties, it was already collecting data, statistical and otherwise, relating to the working of various classes of co-operative societies and considerable duplication of effort would be avoided. This work was then transferred to NABARD in 1982 by RBI consequent upon the transfer of the regulatory function of RBI in respect of Cooperative Credit structure to NABARD.

The Department of Agriculture and Co-operation under the Ministry of Agriculture, GoI, is concerned with the development of cooperatives and ensuring uniform spread of cooperative movement in the country. To have an understanding of the developments of Cooperatives and for implementation of various cooperative development schemes, the vital information was sought to be compiled at one place. These Statements serve as database for Government of India and Reserve Bank of India in policymaking and also as a source material for internal use and other publications. The scope of the publication has increased over time with the diversification of activities, under Co-operative Movement in the country.

A Standing Committee known as "Review Committee on Co-operative Statistics" - Co-operative Movement in India" under the Ministry of Agriculture is entrusted with the responsibility of rationalizing the system of collection of statistical data and suggesting ways and means for early collection and publication of the same.

The publication upto the period 1942-43 included statistics in respect of the Co-operative Movement in British India and only nine Indian States were included in the Publication. Subsequently, from the period 1943-44, all the states where at least one hundred and more co-operative organizations existed, were also included in the publication. A new set of forms to make the statistics more comprehensive and clear, were approved by the GoI and the revised forms were adopted for 1949-50. Some of the modifications introduced from 1949-50 were:

- a. The data relating to credit and non-credit societies - agricultural as well as non-agricultural, were separately presented.

- b. A new table, showing separately the operations of provincial and central non-credit societies was included.
- c. Several new pictorial and graphical illustrations, and figures at a glance were introduced.

From the publication for the year 1950-51 onwards, the statistical data for all the constituent states of the Indian Union were available and there was uniformity in the period to which the data relate, i.e., the statistical statements in respect of all States except Jammu and Kashmir pertained to one uniform period, viz., the year ended 30 June.

From 1955-56 onwards, few additional features were added in the publication, viz., data relating to marketing societies were given separately and three new abstract tables showing the progress made by PACS, DCCBs and SCBs during the five-year period 1951-56.

The structure and contents of statistical statements were reviewed and redrawn in the year 1995 by the Review Committee on Cooperative Statistics' set up by Government of India. The input formats for collection of data of Credit and Non-Credit Co-operatives which were originally hundred (100) in number were revised and reduced to fifty one by removal of duplicate formats by merging similar formats, Omission of formats that are not widely used and exclusion of redundant items. The following new items were added to serve the requirements in present structure of Co-operatives.

- a. To assess the fixed assets, depreciation values and other related information, input items on land, building, plant and machinery were added.
- b. Items on membership break up as SC, ST and Women have been added.
- c. In credit societies' formats, items on Debentures were added.
- d. In non-credit sector formats, many new classes of societies under Industrial Co-operatives, Processing Societies, Weavers' Societies, Fisheries Co-operatives, etc., were added.

- e. Period of reporting has been changed from end of June to end of March (i.e. financial year).

The broad contents of Part I and Part II of the publication are given in *Annex 2.13*. The publication attempts to ensure quality standard, and for the purpose the following steps are undertaken:

- i. Compilation of data on the basis of audited data submitted by the State level and District level agencies.
- ii. Sensitising officials of offices/agencies providing data for compilation of the Statistical Statements, by organizing zonal workshops, to facilitate accurate, complete and prompt submission of data.
- iii. Validation, by comparison of the output tables with previous year's tables. In case of discrepancies, clarification is sought from the concerned agency.
- iv. Validation of entries by rechecking of vital data vis-à-vis annual report and balance sheets received from agencies.

2.3. Statistics on Regional Rural Banks published by NABARD

In 1972, the Banking Commission observed in their report that despite the massive expansion of network of commercial Banks, there would still be the need and possibility of having specialised network of bank branches to cater to the needs of the rural poor. This led to the concept of "rural bank" by 1975, when the structure of rural money lenders was regulated under the Government's efforts to eradicate rural indebtedness as a part of its 20 point economic programme, and an urgent need was felt for an alternative institutional mechanism to reach the rural poor particularly the small and marginal farmers, artisans and agricultural labourers. Consequently, GOI, vide, its notification dated 1 July 1975, constituted a Working Group on rural banks under Chairmanship of Shri M Narasimhan.

The working group submitted its report on 31 July 1975 and recommended for setting up of state sponsored, region based, rural oriented commercial banks which would blend the rural touch, local feel, familiarity with rural problems and low cost profile with the professional

discipline, ability to mobilise deposits and access to central money markets and the modernised outlook of rural commercial banks. The role as perceived for this new institution was to supplement and not supplant the existing financial institution in the rural sector. Further, it was envisaged that this institution would help in reducing regional imbalances by mobilising and simultaneously deploying resources in the same region. It was asserted that these banks would cover primarily the small and marginal farmers, landless labourers, rural artisans, small traders and other weaker sections of the rural society for the productive credit needs and to limited extent, the consumption credit needs.

Based on the recommendations of the working group of rural banks, the first 5 RRBs were established on 2 October 1975 under presidential ordinance that followed by the promulgation of the Regional Rural Banks Act in April 1976. The RRBs were required, in particular, to undertake the business of providing credit facility to the poorer sections of rural society, generally referred to as 'target group'. The basic objective of setting of RRBs was provision of credit facility for crop production and allied purposes to the rural poor, who had very limited access to the formal credit system as it existed in early seventies. As such, 85 RRBs were set up by 1980 and the number of RRBs stood at 196 as on 31 March 2005.

2.3.1. Measurement Needs of the area

To improve the RRBs' financial health, NABARD is instrumental in preparation of Development Action Plan (DAP) and is having commitment for its execution by the RRBs after signing an MoU with the respective sponsor bank. NABARD also introduced a comprehensive monitoring and review mechanism w.e.f. 01 April 1995 by suitably modifying the formats for Quarterly Progress Report to collect the required data and information through statutory statements.

2.3.2. Concepts, Definition and classification

Based on the information received through the above statements, following publications are published by NABARD for fulfilling the requirements of statute, use of the owners and for the use of customers and all other shareholders.

Review of Performance of RRBs: The publication contains performance of RRBs with sustainable viability, current viability and loss making RRBs. This information is provided for two years in the form of state-wise and sponsor bank-wise data for RRBs. This also comprises the write up on various important parameters like deposits, borrowings, investments, loans and advances and profit and loss position of RRBs for two years. This data is used by GOI for inclusion in their annual report.

Key Statistics of RRBs: This publication contains important broad parameters and financial ratio analysis for the financial year. This information is compiled and finalised from the statement Quick Review Report (QRR) which is obtained from all RRBs irrespective of their audits. These data are given both state-wise, sponsor bank-wise and each individual RRB-wise. Certain salient features of the banks are provided for 5 years period for the purpose of assessing progress.

Financial Statements of RRBs: Based on the information received from all RRBs through their annual reports and audited balance sheets, the assets and liability position of the RRBs is published statwise, sponsor bank wise and individual RRB wise for a period of 2 years (current and previous). It also comprises of various financial ratios and other important information like NPA, Gross NPA, Net NPA, CD ratio, recovery percentage, etc., for the same period.

Statistics on RRBs: This publication comprises 22 statements providing detailed information on the performance of RRBs during the financial year. Details of the statements are presented in Annex 2.14.

2.3.3. Sources and Systems

The sources of information are Quick Review Report (QRR), Monitoring and Review Mechanism (MRM) Statements, Demand Collection and Balance (DCB) statements, Audited Balance Sheets and /or Annual Reports of the banks as at the end of financial year, i.e., 31 March. The figures may be audited or unaudited. The information / details are collected through the sponsor bank and NABARD's Regional Offices

are also involved for follow up with the RRBs so as to receive the data in prescribed format. Information received from RRBs are compiled and consolidated at HO level.

2.3.4. Ensuring Quality Standards

All the data are checked with reference to consistency, wide variations and are accepted only with adequate explanation. All the above publications are available in printed form till the year March 2003 and these publications are available in CD form from March 2004 onwards.

2.4. Statistics on Urban Cooperative Banks

Urban Cooperative Banks (UCBs), also referred to as primary cooperative banks, play an important role in meeting the banking needs of urban and semi urban areas of the country. They mobilise savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society and thereby fill up an important gap in the mechanism for delivery of financial services. The data collected from the UCBs in Urban Banks Department (UBD) of RBI through On-site inspection and Off-site Surveillance are mostly used for supervision. While On-site Inspection is the predominant mode of supervision, Off-site Surveillance (OSS) was started for 55 scheduled banks in April 2001. The scheduled banks were required to submit 10 OSS returns to RBI. Subsequently, these returns were rationalized with the objective of increasing the breadth and depth of information being obtained from UCBs, while reducing the volume of data required to be submitted by them. Thus, from March 2005, the number of OSS returns was reduced from 10 to 8 (7 quarterly and one annual). Number of returns required to be submitted by UCBs to RBI varies with their size & scheduled status, as under:

Scheduled UCBs	32
Non Scheduled UCBs with deposits > Rs. 100 crore	26
Tier II Non Scheduled UCBs with deposits > Rs. 50 crore	26
Tier I & Tier II banks with deposits < Rs. 50 crore	18

Box: 2.1

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:
 - Capital to risk-weighted asset ratio (CRAR): one per cent below the prescribed norms; or
 - Net non-performing assets (NPAs) of 10 per cent or more but below 15 per cent; or
 - Incurred net loss in the previous financial year; or
 - 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:
 - CRAR below 75 per cent of the minimum prescribed but 50 per cent or above the level required.
 - Net NPAs of 10 per cent or more but less than 15 per cent.
 - Incurred net losses for two years out of the last three years.
- (d) Grade IV: Banks meeting the following conditions:
 - CRAR less than 50 per cent of the prescribed limit; and
 - Net NPAs of 15 per cent or more as on March 31 of the previous year.

In addition, as required under the Banking Regulation Act, the Balance Sheet data are obtained from UCBs at monthly intervals. The nature of data obtained from banks is detailed in *Annex 2.15*.

2.4.1. Measurement needs of the area

UCBs account for about 5 per cent of deposits and almost equal proportion of advances of the banking system. Despite their small share in business, UCBs contribute significantly towards social and economic development, as instruments of financial inclusion. Presently, the financial position of several UCBs is a matter of concern. RBI has a system of classifying UCBs into four grades based on their performance and strength. While Gr-I banks are considered sound, Grade-II UCBs have minor weaknesses, where response required is limited to minor adjustments, and Grade-III and Grade-IV banks signify weakness/sickness (See Box 2.1).

Out of 1853 UCBs in March 2006, 677 UCBs (37%) were in Grade III and Grade IV signifying weak and sick banks. Also, although UCBs account for 5% of total advances of the banking system, they comprise approximately 20% of total NPAs. Thus, the UCBs are significant both from the point of view of their ability to serve the middle and lower classes and marginalized sections of society, as also because of their importance in maintaining stability of the financial system. As such, it is important to maintain a system of 'continuous supervision' over UCBs and also establish an early warning system, to enable prompt action at an incipient stage of deterioration in the financial position of these banks.

2.4.2. Concepts, Definitions and Classifications

- a. Tier I & Tier II UCBs - UCBs having deposits upto Rs 100 crores, whose operations are limited to a single district, are classified as Tier I banks and other banks are classified into Tier II banks.
- b. Grades - UCBs are classified into different grades based on their performance and strength, as stated earlier (see Box 2.1)
- c. NPA - An asset becomes a non-performing one, when it ceases to generate income for the bank. Earlier an asset was considered as NPAs based on the concept of 'past due'. With effect from March 31, 2001, the

concept of 'past due' has been dispensed with and any amount due to the bank under any credit facility is 'overdue', if it is not paid on the date fixed by the bank. W.e.f March 31, 2004, NPAs are identified based on 90 days overdue norm.

- d. NPA definition is different for Tier I banks vis-à-vis international norms - Banks whose operations are limited to a single district and have deposits of less than Rs.100 crore (Tier -I banks) have been allowed to adopt 180 days delinquency norms for classification of assets as non-performing, instead of the 90 days norm which is applicable for the larger cooperative and all commercial banks.
- e. Net Worth - Paid-up capital + Reserves (Statutory and revaluation reserves) + Unappropriated profits (or minus accumulated loss) - Intangible Assets - Shortfall in provisions for impaired assets - Investment in subsidiaries
- f. Total Assets includes a contra item, viz., Overdue Interest Reserves (OIR)

2.4.3. Sources and Systems

Data relating to UCBs are received through various returns. The returns submitted by UCBs and agencies involved in data collection are presented in *Annex 2.15*. The data submitted by banks are as prescribed by RBI Act and Banking Regulation Act. RBI obtains certain data in exercise of its powers given under Section 27 (2) of BR Act.

2.4.4. Ensuring Quality Standards

In order to maintain the data integrity, the application software adopted for the purpose provides checks for data consistency within and across returns. Quality of data can also be checked through the software for comparing on-site with off-site data for the same period. The quality of data provided by the regional offices is also checked in the form of variance reports compiled across time. Consistency checks across banks of similar size are also done through standard reports.