Report on Trend and Progress of Banking in India for the year ended June 30, 2007 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2006-07

RESERVE BANK OF INDIA

Sale Price:

In India	–	Rs. 600	(Normal)
	–	Rs. 650	(Inclusive of Postal Charges)
	–	Rs. 450	(Concessional)
	–	Rs. 500	(Concessional – Inclusive of Postal Charges)
Abroad	–	US $ 45	(Inclusive of Air Mail Courier Charges)
	–	US $ 40	(Inclusive of Air Mail Book-Post Charges)

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List of Select Abbreviations

AACS	As Applicable to Co-operative Societies
AD	Authorised Dealer
ADR	American Depository Receipt
AFS	Available For Sale
AICCCA	Association of Independent Consumer Credit Counselling Agencies
AIFI	All-India Financial Institution
ALM	Asset-Liability Management
AMC	Asset Management Company
AML	Anti-Money Laundering
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Ltd.
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning Process
BCSBI	Banking Codes and Standards Board of India
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BoP	Balance of Payments
BOS	Banking Ombudsman Scheme
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Payment and Settlement Systems
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange Ltd.
BSR	Basic Statistical Return
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CCCS	Consumer Credit Counselling Service
CCDM	Credit Counselling and Debt Management
CCIL	Clearing Corporation of India Ltd.
CCP	Central Counter Party
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CEO	Chief Executive Officer
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statements
CFT	Combating Financing of Terrorism
CGTSI	Credit Guarantee Trust for Small Industries
CIBIL	Credit Information Bureau of India Limited
CLCC	Central Labour Co-ordination Committee
CLF	Collateralised Lending Facility
CMP	Conflict Management Policy
COBIT	Control Objectives for Information and related Technology
CP	Commercial Paper
CPC	Cheque Processing Centre
CPI	Consumer Price Index
CPOS	Central Point of Supervision
CPPAPS	Committee on Procedures and Performance Audit on Public Services
CPSS	Committee on Payment and Settlement System

CRAR	Capital to Risk-Weighted Assets Ratio
CRCS	Central Registrar of Co-operative Societies
CRR	Cash Reserve Ratio
CSA	Co-operative Societies Act
CSD	Customer Service Department
CSGL	Constituent Subsidiary General Ledger
CSO	Central Statistical Organisation
CTR	Cash Transaction Report
CTS	Cheque Truncation System
CVC	Central Vigilance Commission
D&B	Dun & Bradstreet Information Services India (P) Ltd.
DAPs	Development Action Plans
DCCB	District Central Co-operative Banks
DLIC	District Level Implementation Committee
DCRR	Department for Co-operative Revival and Reforms
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DLIC	District Level Implementation and Monitoring Committee
DMA	Direct Marketing Agent
DNSS	Deferred Net Settlement System
DPSS	Department of Payment and Settlement Systems
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DSA	Direct Sales Agent
DTL	Demand and Time Liability
DvP	Delivery *versus* Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECS	Electronic Clearing Service
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
ESOP	Employee Stock Option Plans
ETF	Empowered Task Force
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FAQs	Frequently Asked Questions
FBT	Fringe Benefit Tax
FCAC	Fuller Capital Account Convertibility
FCNR	Foreign Currency Non-Resident
FCNR (B)	Foreign Currency Non-Resident (Banks)
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEDAI	Foreign Exchange Dealers Association of India
FFI	Foreign Financial Institution
FFMC	Full Fledge Money Changer
FI	Financial Institution
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FINO	Financial Information Network and Operations
FIPB	Foreign Investment Promotion Board
FIU-IND	Financial Intelligence Unit - India
FMC	Forward Market Commission
FMD	Financial Markets Department
FRA	Forward Rate Agreement
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System
FSAP	Financial Sector Assessment Programme
FSR	Financial Stability Report
FST	Financial Sector Technology
GCC	General Credit Card
GCS	Gold Card Scheme
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product

GDR	Global Depository Receipt
GFD	Gross Fiscal Deficit
GIC	General Insurance Corporation of India
GLC	General Lines of Credit
GSA	Graded Supervisory Action
HFC	Housing Finance Companies
HFT	Held for Trading
IADI	International Association of Deposit Insurers
IBS	International Banking Statistics
ICAI	Institute of Chartered Accountants of India
ICCOMS	Integrated Currency Chest Operations and Management System
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company
IDL	Intra-Day Liquidity
IDRBT	Institute for Development and Research in Banking Technology
IAS	Internal Accounting System
IFCI	Industrial Finance Corporation of India Ltd.
IFR	Investment Fluctuation Reserve
IFSC	Indian Financial System Code
IIBI	Industrial Investment Bank of India
IIP	Index of Industrial Production
IMD	India Millennium Deposit
IMGC	Indian Mortgage Guarantee Company
INFINET	Indian Financial Network
IPA	Issuing and Payment Agent
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offering
IRB	Internal Rating Based
IRDA	Insurance Regulatory and Development Authority
IRDP	Integrated Rural Development Programme
IRS	Interest Rate Swap
IS	Information System
IT	Information Technology
ITGGSM	Internal Technical Group on Government Securities Market
ITGI	IT Governance Institute
ITIL	IT Infrastructure Library
JPC	Joint Parliamentary Committee
KCC	*Kisan Credit Card*
KVIB	Khadi and Village Industries Board
KYC	Know your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LIBOR	London Inter-Bank Offer Rate
LIC	Life Insurance Corporation of India
LME	London Metal Exchange
LOLR	Lender of Last Resort
LTCCS	Long-Term Co-operative Credit Structure
M_3	Broad Money
MAP	Monitorable Action Plan
MLRO	Money Laundering Reporting Officer
MEDP	Micro Enterprise Development Programme
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
MLRO	Money Laundering Reporting Office
MMBCS	Magnetic Media Based Clearing System
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MoU	Memorandum of Understanding
MSS	Market Stabilisation Scheme
MPLS	Multi-Protocol Layer Switching
NABARD	National Bank for Agriculture and Rural Development
NAFCUB	National Federation of Co-operative Urban Banks

NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NDS	Negotiated Dealing System
NDS-OM	NDS Order Matching
NDTL	Net Demand and Time Liability
NEDFi	North Eastern Development Finance Corporation
NEFT	National Electronic Fund Transfer
NFCC	National Foundation for Credit Coun-selling
NFGBC	Non-food Gross Bank Credit
NFS	National Financial Switch
NGO	Non-Government Organisation
NHB	National Housing Bank
NHC	National Housing Credit
NIA	New India Assurance Company Limited
NIC	National Industrial Credit
NIMC	National Implementation Monitoring Committee
NOC	No Objection Certificate
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPFA	Non-Performing Financial Assets
NPL	Non-Performing Loan
NRE	Non-Resident External
NRI	Non-Resident Indian
NSE	National Stock Exchange
OBS	Off-balance Sheet
OBU	Off-Shore Banking Unit
OECD	Organisation for Economic Co-operation and Development
OLRR	On-line Reject Repair
OLTAS	On-line Tax Accounting System
ORFS	On-line Returns Filing System
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
PACS	Primary Agricultural Credit Society
PAIS	Personal Accident Insurance Scheme
PCARDB	Primary Co-operative Agricultural and Rural Development Bank
PD	Primary Dealer
PIO	Principal Inspection Officer
PKI	Public Key Infrastructure
PLR	Prime Lending Rate
PMLA	Prevention of Money Laundering Act
PMRY	Prime Minister Rojgar Yojna
POS	Point of Sale
PSB	Public Sector Bank
PSE	Public Sector Enterprise
QIS	Quantitative Impact Study
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RCS	Registrar of Co-operative Societies
RIDF	Rural Infrastructural Development Fund
RNBC	Residuary Non-Banking Company
ROC	Registrar of Companies
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
SAA	Service Area Approach
SACP	Special Agricultural Credit Plan
SAO	Seasonal Agricultural Operations
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SAR	Self-Assessment Report
SARS	Severe Acute Respiratory Syndrome
SCARDB	State Co-operative Agricultural and Rural Development Bank

SCB	Scheduled Commercial Bank
SC	Scheduled Caste
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBI	Securities and Exchange Board of India
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SEZ	Special Economic Zones
SFAC	Small Farmers Agri-Business Consortium
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SGL	Subsidiary General Ledger
SGSY	*Swarn Jayanti Gram Swarojgar Yojna*
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIPS	Systemically Important Payment System
SJSRY	*Swarna Jayanti Shahari Rojgar Yojna*
SLA	Service Level Agreement
SLAF	Second Liquidity Adjustment Facility
SLBCs	State Level Bankers' Committees
SLEPCS	State Level Export Promotion Committees
SLR	Statutory Liquidity Ratio
SLRS	Scheme for Liberlisation and Rehabilitation of Scavengers
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SSC	Special Sub-Committees
SSI	Small Scale Industry
SSS	Securities Settlement System
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
STP	Straight Through Processing
STR	Suspicious Transaction Report
STRIPS	Separate Trading of Registered Interest and Principal of Securities
ST	Scheduled Tribe
SWIFT	Society for Worldwide Financial Telecommunication
TAFCUB	Task Force for Urban Co-operative Banks
TFCI	Tourism Finance Corporation of India
UCB	Urban Co-operative Bank
UIA	United India Assurance Company Ltd.
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee
VaR	Value at Risk
VCF	Venture Capital Fund
VKC	Village Knowledge Centre
VPN	Virtual Private Networks
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WEO	World Economic Outlook
WGRFIS	Working Group on Future Role of Financial Institutions
WPI	Wholesale Price Index
XBRL	Extensible Business Reporting Language

Chapter I

Overview

Global Economy

Developments during 2006

1.1 The global economy continued on high growth path with a 5.4 per cent growth during 2006 achieving a four year spell of a sustained growth of over 4 per cent that began in 2003[1]. The broad-based expansion in world output could be explained in terms of a resilient US consumption, despite some slowdown in growth in the second half of the year, a broad-based upswing in Europe and Japan and other advanced industrial countries, and continued rapid growth in emerging market economies (EMEs) particularly, China (11.1 per cent), India (9.4 per cent) and Russia (6.7 per cent). The growth in the world output was led by emerging economies which contributed 3.9 per cent to the world GDP growth in 2006, while the advanced economies contributed 1.5 per cent. Growth in the euro area exceeded that in the United States in the second half of last year, for the first time since 2002. In the EMEs, growth continued to remain firm on account of availability of financial resources, strong commodity prices and abundant global liquidity. Concerns have, however, arisen regarding the sustainability of some of these factors. Economic activity in Japan slowed in the middle of 2006, but recovered by the end of the year.

1.2 As output in many countries seemed close to potential, strong demand, in conjunction with strong gains recorded by global commodity prices, was reflected in some inflationary pressures in major economies. Global headline inflation closely tracked movements in energy prices – rising above 3 per cent in the first half of 2006 on the back of rising oil prices, before dropping sharply as energy prices declined towards the end of the year. The consumer price inflation in advanced economies was 2.3 per cent in the calendar year 2006, the same as a year earlier, but higher than that of 1.9 per cent during the preceding 5-year period (2000-04). Inflation in 'developing Asia' rose from 2.6 per cent during 2000-04 and 3.6 per cent in 2005 to 4.0 per cent in 2006.

1.3 With headline inflation crossing the targets/comfort zones in major countries, many central banks pursued monetary tightening to contain inflationary expectations. Amongst the major advanced economies, the US Federal Reserve Board (US Fed), the European Central Bank (ECB), the Bank of England, the Sveriges Riksbank (Sweden), the Reserve Bank of New Zealand, the Reserve Bank of Australia, and the Bank of Japan tightened their policies during the year.

1.4 Fiscal balances in advanced industrial countries showed signs of improvement in 2006. Measures of structural budget deficits, which attempt to remove cyclical effects from headline deficit figures, declined in the United States (by over 1 percentage point of potential GDP), Germany (by 0.8 percentage points) and Japan (by 0.5 percentage points, largely due to one-off changes in capital transfers), and increased marginally only in Italy. Change in German headline balances was even more pronounced, with the deficit decreasing by 1.8 percentage points in 2006.

1.5 While the credit conditions turned tight in the United States, the expansion has continued in most other areas. As a result, global asset prices either continued to rise or were maintained at unusually high levels. Most Asian EMEs have recorded strong growth with reasonably well-anchored inflation expectations, aided by strong global demand for their exports, favourable terms of trade, easy access to external financing and comfortable foreign currency reserves along with reduced external debt as percentage of GDP. Their banking systems have also been strengthened through improved restructuring and supervisory systems. The resilience to external shocks is reinforced by a combination of lower balance sheet exposure to exchange rate risks, lower refinancing risks in debt structures, strong financial systems and greater policy flexibility. Nevertheless, there are areas of concern and many of these countries

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

have felt the need for containing excess volatility in foreign exchange markets through intervention accompanied by sterilisation. However, such policies have their own limitations and such actions have also been accompanied by differing strategies for liquidity management, including raising cash reserve requirements, issuances of central bank securities, ceilings on lending to specific sectors and the use of prudential tools.

1.6 In international financial markets, prices of risky assets continued to rise throughout most of 2006 and early 2007. A number of equity markets reached historical highs, while various credit spreads touched new lows. Government bond yields in the advanced industrial countries levelled off around mid-2006 and then began to move downwards. Long-term bond yields particularly, in the United States, set on a downward trend during the second half of the year, reflecting investor concerns about US growth prospects and expectations of easing monetary policy. The economic outlook in Japan remained more positive, lending some support to bond yields, while the economic outlook for the euro area brightened progressively and eventually brought about rising euro bond yields. An important factor behind the gains in developed equity and credit markets was continued strong earnings growth. Moreover, ongoing changes in capital structure boosted equity markets, as share buybacks rose further, while merger and acquisition activity grew substantially. Similarly, gains in emerging markets coincided with improved credit ratings and generally strong macroeconomic conditions.

1.7 The strong overall performance of financial firms in advanced industrial countries continued during the year, and banks benefited from another year of a generally benign credit environment and strong retail business. Investment banks registered record profits driven by growth in capital market activity and a boom in private equity. Investor inflows into hedge funds were moderate as compared with the previous years, in response to the declining rates of return registered by the funds. Current profits add to already healthy capital cushions, suggesting that financial firms are well placed to withstand the likely sources of strain over the near term.

Developments during 2007

1.8 World GDP growth, which had accelerated to 5.4 per cent in 2006, maintained pace in the first half of 2007 and appears to have broadened across industrial and emerging market countries. According to the World Economic Outlook (WEO) of the International Monetary Fund (IMF) released in October 2007, global real GDP growth was expected to decline from 5.4 per cent in 2006 to 5.2 per cent in 2007 and further to 4.8 per cent in 2008. Although growth in the United States slowed in the first quarter of 2007, preliminary estimates suggest that it rebounded in the second and third quarters. Activity in most other countries continued to expand strongly. In the euro area and Japan, growth has remained above trend with some welcome signs that domestic demand is taking a more central role in the expansions. Emerging market countries have continued to expand robustly, led by rapid growth in China, India and Russia.

1.9 Headline inflation in major advanced economies generally edged up towards the end of the third quarter of 2007, mainly reflecting hardening of food and fuel prices in the US, and clothing and education in the euro area. On the other hand, headline inflation in the UK eased towards the end of third quarter largely due to lower domestic energy price inflation before picking up again in October 2007. Amongst major economies, headline inflation in October 2007 was 3.5 per cent in the US, 2.1 per cent in the UK and 2.6 per cent in the euro area. Inflation was 2.2 per cent in the OECD countries in September 2007 as compared with 2.0 per cent a year ago. Core inflation remained firm in major economies, reflecting strong demand conditions.

1.10 Global credit markets have experienced large volatility since May 2007 as uncertainties about the size and distribution of losses from the US sub-prime mortgage lending made investors to adjust their positions. Since late 2006, conditions in the sub-prime mortgage market sector in the US have deteriorated significantly resulting in reassessment of risk by investors across products and markets. The losses, though largely concentrated in the US, were dispersed quickly to European and Asian investors holding asset-backed securities and collateralised debt obligations. Within Asia, exposure was reported to be concentrated in Japan, China, Taiwan Province of China, South Korea and Australia.

1.11 Short-term rates hardened further in a number of economies, moving broadly in tandem with policy rates. Several central banks such as the Bank of England, People's Bank of China and

Reserve Bank of New Zealand raised their policy rates further during the quarter ended September 2007 to contain inflation and stabilise inflationary expectations. On the other hand, short-term interest rates in the US declined, reflecting cut in the fed funds target rate by 75 basis points to 4.5 per cent by October 31, 2007. The rate cut in the US on September 18, 2007 was the first after a series of 17 consecutive rate hikes by the Federal Reserve that commenced from June 2004 to June 2006 followed by a pause up to August 2007. Short-term rates eased in a few EMEs such as Brazil and Thailand, as central banks in these countries continued to cut policy rates to support growth.

1.12 In contrast to short-term interest rates, long-term Government bond yields softened in major advanced economies during the second quarter of 2007-08, reversing the increasing trend observed in the first quarter. Decline in the bond yields reflected lower investor appetite for riskier assets in the event of deteriorating housing market and turmoil in the credit market. Between end-March 2007 and November 19, 2007, 10-year yield declined by 35 basis points in the US, and 17 basis points in UK and 15 basis points in Japan, while it increased by 11 basis points in the Euro area.

1.13 Global equity markets recorded further gains during Q3 2007, amidst intermittent corrections. Robust corporate earnings, buoyant merger and acquisition activity and increased risk appetite buoyed the equity markets in major emerging economies such as China (69.8 per cent), South Korea (32.2 per cent), Hong Kong (30.7 per cent), Brazil (28.7 per cent), Indonesia (28.5 per cent), Turkey (25.1 per cent) and Thailand (21.3 per cent). However, factors like slump in the US home sales and rising concerns about the US mortgage and corporate lending markets, increase in international crude oil prices, surge in China's inflation rate and contraction in Japan's economy intermittently dampened the market sentiment.

1.14 In the foreign exchange market, the US dollar depreciated against major currencies up to September 14, 2007, reflecting worries in the mortgage market, falling housing sales and weakening consumer confidence. While the pound sterling strengthened against the US dollar and reached a 25-year high level in July 2007, Japanese yen appreciated against US dollar as a result of unwinding of yen carry trade.

Indian Economy

Macro Environment

1.15 The Indian economy continued to record strong growth during 2006-07. Real gross domestic product (GDP) growth rate accelerated to 9.4 per cent during 2006-07 from 9.0 per cent level in the previous year contributed mainly by the sustained expansion in industry and services. Real GDP growth during the Tenth Plan period (2002-03 and 2006-07) averaged 7.6 per cent – the highest average rate of growth during any plan period so far. Real GDP originating from agriculture and allied activities estimated by the Central Statistical Organisation (CSO) registered a lower growth of 2.7 per cent during 2006-07 than that of 6.0 per cent in the previous year. However, the growth of real GDP originating from industry entered the fifth year of expansion as it recorded a double-digit growth of 11.5 per cent during the year (8.2 per cent in 2005-06), which was the highest growth achieved since 1995-96. While industrial growth was mainly driven by the manufacturing sector, both mining and electricity sectors witnessed accelerated growth. In terms of use-based classification, the performance of the capital goods sector was particularly impressive with 18.2 per cent growth. The basic goods and consumer goods sector also recorded a double-digit growth of 10.3 per cent and 10.1 per cent, respectively, during 2006-07. The well-performing industrial sector was also boosted by improved performance of the infrastructure sector, registering 8.8 per cent growth during 2006-07. The services sector recorded double-digit growth consistently in the last three years. It grew by 11.0 per cent during 2006-07 on top of 10.3 per cent growth in 2005-06, which has been the highest growth since 1999-2000 as per the new series.

1.16 High levels of capacity utilisation in a number of industries, along with supply shocks from primary articles, were reflected in a rise in the inflation rate during 2006-07. Headline inflation, measured by year-on-year variations in the wholesale price index (WPI), rose to 5.9 per cent on March 31, 2007 – remaining generally above the upper end of the Reserve Bank's indicative projections of 5.0-5.5 per cent between mid-November 2006 and end-March 2007. Headline inflation moved in a range of 3.7-6.7 per cent during 2006-07; the average WPI inflation moved up to 5.4 per cent during 2006-07 from 4.4 per cent a year ago. Among the major groups, prices of primary articles exerted upward pressure on inflation during 2006-07, reflecting shortfalls in domestic supply of major agricultural crops. Fuel group inflation, which had dominated the inflation outcome during the preceding two years, eased significantly during the second half of the year to reach its lowest rate in over a decade. Measures of consumer price inflation remained above the wholesale price inflation throughout 2006-07, mainly reflecting the impact of elevated food prices.

1.17 The ongoing improvement in the fiscal position was reflected in lower estimates of key deficit indicators of the Central and State Governments in the revised estimates (RE) *vis-à-vis* the budget estimates for 2006-07. As per provisional accounts, the revenue deficit of the Central Government estimated at Rs. 80,410 crore or 1.9 per cent of GDP was lower than 2.1 per cent of GDP in the budget estimates for 2006-07 and 2.6 per cent in 2005-06. The gross fiscal deficit (GFD) for 2006-07 at Rs.1,42,793 crore constituted 3.5 per cent of GDP as against the budget estimates of 3.8 per cent and 4.1 per cent in the previous year. The improvement in key fiscal indicators was enabled by the sustained buoyancy in tax revenue and containment of growth in Plan expenditure. Reflecting the process of fiscal consolidation, the outstanding domestic liabilities of the Central Government declined to 61.5 per cent of GDP at end-March 2007 (RE) from 63.4 per cent at end-March 2006.

1.18 The year-on-year increase in broad money (M3) accelerated to 21.3 per cent at end-March 2007 from 17.0 per cent a year ago and remained above the growth rate of 15.0 per cent projected in the Annual Policy Statement in April 2006. Demand for commercial credit remained strong during 2006-07 for the third successive year, *albeit* with some moderation. The annual growth in bank credit to the commercial sector at 25.4 per cent as on March 31, 2007 was lower than 27.2 per cent a year ago. Commercial banks' credit to Government increased by Rs.74,238 crore as against a decline of Rs.19,514 crore in the previous year, whereas net RBI credit to Government declined by Rs. 2,384 crore as against an increase of Rs.35,799 crore in the preceding year. The banking sector's net foreign exchange assets increased by 25.7 per cent (Rs.1,86,985 crore), primarily reflecting the increase in net foreign exchange assets of the Reserve Bank by 28.7 per cent (Rs.1,93,170 crore).

1.19 The Reserve Bank continued to take measures to increase depth and liquidity in the money, the Government securities and the foreign exchange markets during the year. Financial markets generally remained orderly during most of 2006-07 with some spells of volatility, especially in March 2007 reflecting large capital flows and swings in Government of India's cash balances coupled with high credit demand. Interest rates in the various segments of the financial market hardened in tandem with the policy rate of the Reserve Bank.

1.20 During 2006-07, the financial markets shifted from conditions of easy liquidity to occasional spells of tightness necessitating injection of liquidity through the LAF. The total overhang of liquidity under the LAF, the market stabilisation scheme (MSS) and surplus cash balances of the Central Government taken together increased from an average of Rs.74,334 crore in March 2006 to Rs.92,849 crore in September 2006. With liquidity shortages getting accentuated in the second half of March 2007 in the wake of advance tax payments, net LAF injections rose to a peak of Rs.43,075 crore on March 21, 2007. The overnight rates remained within the corridor set by the Reserve Bank's reverse repo and repo rates during the year, barring some occasions during December 2006-March 2007 (especially, the second half of March 2007), when overnight rates increased sharply as the market experienced temporary tightness. Interest rates in the collateralised segment of the overnight money market also hardened, but remained below the call rate during the year. For the financial year 2006-07, as a whole, interest rates averaged 6.24 per cent (5.34 per cent in 2005-06) in the CBLO segment and 6.34 per cent (5.36 per cent) in the market repo segment, respectively, as compared with 7.22 per cent (5.60 per cent) in the call money market. The weighted average interest rate in the call money, the CBLO and the repo segments rose from 5.43 per cent in 2005-06 to 6.57 per cent in 2006-07.

1.21 The weighted average discount rate (WADR) on commercial paper (CP) increased from 8.59 per cent during the fortnight ended March 31, 2006 to 11.33 per cent during the fortnight ended March 31, 2007, and the WADR of certificate of deposits (CDs) increased from 8.62 per cent at end-March 2006 to 10.75 per cent at end-March 2007 in tandem with the upward movement of other money market interest rates. Deposit and lending rates of scheduled commercial banks (SCBs) increased during 2006-07.

1.22 Yields in the Government securities market hardened during 2006-07. In the current financial year, yields hardened up to mid-June 2007 but declined thereafter. The 10-year yield was 7.97 per cent as on March 31, 2007, 45 basis points higher than the level as on March 31, 2006 (7.52 per cent). However, the yield curve flattened. During 2007-08, yields remained range-bound between 7.97 and 8.19 per cent till end-May 2007 and peaked at 8.30 per cent in mid-June 2007 due to hardening of interest rates globally. Yields softened thereafter and moved between 7.85 and 8.01 per cent till first week of November 2007, reflecting the continued prevalence of easy liquidity conditions. The 10-year yield closed at 7.96 per cent on November 8, 2007, which was 37 basis points higher than the level as on November 8, 2006.

1.23 The stock markets reached record highs during the year 2006-07 interspersed with periodic corrections. The primary market segment of the capital market continued to exhibit buoyant conditions. The BSE Sensex at end-March 2007 increased by 15.9 per cent (year-on-year) on top of the increase of 73.7 per cent a year ago. Strong corporate profitability and continued liquidity support from foreign institutional investors (FIIs) and domestic mutual funds buoyed up the stock markets even as they witnessed sharp corrections on a few occasions (May-June 2006, December 2006 and February-March 2007) in consonance with the trends in global equity markets.

1.24 In the foreign exchange market, the Indian rupee exhibited two-way movements in the range of Rs.43.14 – 46.97 per US dollar during 2006-07 with a strengthening bias from mid-July 2006. The rupee initially depreciated against the US dollar during the year, reaching Rs.46.97 on July 19, 2006, reflecting higher crude oil prices and FII outflows. The rupee, however, strengthened thereafter on the back of moderation in crude oil prices, large capital inflows and weakness of the US dollar in international markets to reach Rs.43.14 per US dollar on March 28, 2007. The exchange rate was Rs.43.60 per US dollar at end-March 2007.

1.25 India's balance of payments position indicated sustained strength and vibrancy in the external sector during 2006-07, reflecting the robust macroeconomic fundamentals. The growth in merchandise export and non-oil import moderated from the strong growth in the previous year. Earnings from exports of software and other business services as well as remittances from Indians working abroad continued to exhibit buoyancy. The net surplus under invisibles expanded further during 2006-07 and continued to finance a large part of the growing merchandise trade deficit. Consequently, the current account deficit remained modest during the year, and, as a proportion of GDP, was at the same level (1.1 per cent) as a year ago. Led by foreign direct investment and external commercial borrowings (ECBs), capital flows (net) to India witnessed a large increase during 2006-07 on the back of strengthening of growth prospects, and buoyancy in domestic investment and import demand. Outward direct investment also witnessed a jump reflecting growing overseas acquisitions by Indian corporates. With net capital flows remaining in excess of the current account deficit, the overall balance of payments recorded a significant surplus, which was mirrored in an accretion of US $ 47.6 billion to foreign exchange reserves during 2006-07. While the stock of external debt rose due to higher ECBs and non-resident deposits, net international liabilities fell, reflecting the continuous build-up of foreign exchange reserves, which rose to reach a level of US $ 199.2 billion by end-March 2007.

Scheduled Commercial Banks

1.26 The banking sector witnessed accelerated growth during 2006-07. The faster growth of the banking sector in relation to the real economy pushed up the ratio of assets of scheduled commercial banks to GDP to 92.5 per cent at end-March 2007. Broad based credit growth with some rebalancing in sectoral credit allocation away from housing and commercial real estate sectors was observed during the year. The accelerated growth of deposits mainly contributed by sharp increase in term deposits, however, obviated the need of unwinding of investment portfolio to finance credit growth by banks as was witnessed in the previous year (Table I.1). However, as a percentage of both total assets and net demand and time liabilities (NDTL), investment by banks in Government securities continued to decline. The consolidation of the banking sector continued with the merger of three old private sector banks, bringing down the total number of SCBs to 82 from 85 at end-March 2006.

Table I.1: Select Financial Sector Indicators: 2006-07

Category	Indicator	2005-06	2006-07
1	2	3	4
1. Scheduled Commercial Banks	a) Growth in Major Aggregates (per cent)		
	Aggregate Deposits	17.8	24.6
	Loans and Advances	31.8	30.6
	Investment in Government Securities	-1.2	9.3
	b) Financial Indicators (as percentage of total assets)		
	Operating Profits	2.0	1.9
	Net Profits	0.9	0.9
	Spread	2.8	2.7
	c) Non-Performing Assets (as percentage of advances)		
	Gross NPAs	3.1	2.4
	Net NPAs	1.2	1.0
2. Urban Co-operative Banks	a) Growth in Major Aggregates (per cent)		
	Deposits	6.3	6.1
	Credit	4.0	9.8
	b) Financial Indicators (as percentage of total assets)@		
	Operating Profits	1.3	1.2
	Net Profits	0.8	0.6
	Spread	2.2	2.3
	c) Non-Performing Assets (as percentage of advances)		
	Gross NPAs	18.9	17.0
	Net NPAs	8.8	7.7
3. Rural Co-operative Banks	a) Number	1,07,497	–
	b) Growth in Major Aggregates (per cent)		
	Deposits	4.9	–
	Credit	6.2	–
	c) Financial Indicators		
	Societies in Profit (Number)	44,968	–
	Societies in Loss (Number)	53,344	–
	Overall Profit/Loss (Rs. crore)	-271	–
	d) Non-Performing Assets (as percentage of advances)*	23.8	–
4. All-India Financial Institutions	a) Growth in Major Aggregates (per cent)[1]		
	Sanctions	41.0	12.9
	Disbursements	47.1	82.8
	b) Financial Indicators (as percentage of total assets)[2]		
	Operating Profits	1.4	2.1
	Net Profits	1.0	1.5
	Spread	1.8	1.6
5. Non-banking Financial Companies	a) Growth in Major Aggregates (per cent)		
	Public Deposits	-32.1	-16.5
	b) Financial Indicators (as percentage of total assets)		
	Net Profits	1.5	1.2
	c) Non-Performing Assets (as percentage of advances)[3]		
	Net NPAs	0.5	0.4
6. Residuary Non-banking Companies	a) Growth in Major Aggregates (per cent)		
	Deposits	21.5	12.1
	b) Financial Indicators (as percentage of total assets)		
	Net Profits	0.7	0.9

– : Not available.
@ : Relating to scheduled urban co-operative banks.
* : Includes overdues amount for PACS.

1 Relating to IFCI, IIBI, SIDBI, IVCF, ICICI Venture, TFCI, LIC, and GIC.
2 Relating to eight FIs, viz., IFCI, IIBI, Exim Bank, TFCI, SIDBI, NABARD and NHB.
3 For reporting companies with variations in coverage.

1.27 Financial performance of SCBs during 2006-07 was underpinned by hardening of interest rates, both on the liability and the asset sides. Both net interest income and non-interest income of banks increased sharply in absolute terms, but declined in relation to total assets. Banks, however, were able to maintain their profitability by containing operating expenses. Unlike last year, provisions and contingencies made by banks increased during the year, although they were a shade lower in relative terms (*i.e.*, as percentage of assets). While return on assets (RoA) of SCBs remained stagnant, their return on equity (RoE) improved during the year. Net profits of SCBs increased sharply, underpinned by the sharp increase in net interest income due to strong growth in credit volumes and containment of operating expenses.

1.28 The asset quality of SCBs improved further during 2006-07, which was reflected in the decline in gross and net non-performing assets as percentage of loans and advances. The trend in absolute gross NPA, however, remained divergent across bank groups. While the absolute gross NPAs of PSBs (particularly, nationalised banks) and old private sector banks declined during the year, those of new private sector banks and foreign banks showed an increase.

1.29 Banks' capital raising efforts kept pace with the asset growth and risk profile of new assets. Hence, the capital to risk-weighted asset ratio of SCBs, a measure of the capacity of the banking system to absorb losses, was at 12.3 per cent at end-March 2007 - same as at end-March 2006.

Co-operative Banks

1.30 Operations of urban co-operative banks (UCBs) witnessed a moderate growth during 2006-07. The growth in loans and advances was higher than the deposits growth. Though the UCBs missed the priority sector lending target, they were able to meet the stipulated sub-target for the weaker sections. Investments by UCBs witnessed a decline during the year due mainly to the decline in SLR investments; non-SLR investments, however, increased during the year. The financial performance of scheduled UCBs improved significantly with higher operating and net profits as well as increase in spread. This indicates the success of the medium-term framework suggested by the vision document. Asset quality of UCBs improved markedly with both gross and net NPA declining in absolute as well as relative terms.

1.31 Balance sheets of all segments of the rural co-operative banking sector, except PACS, expanded during 2005-06. However, their financial performance worsened during the year. Wide variations were also observed in the financial performance of different segments of the rural co-operative banking sector. While the upper tier of both short-term and long-term rural co-operative credit institutions made profits during 2005-06, the lower tier *viz.*, primary agricultural credit society (PACS) and primary co-operative agriculture and rural development banks (PCARDBs), made overall losses. Asset quality of all types of rural co-operative banks deteriorated, except PACS whose recovery performance improved. The recovery performance of district central co-operative banks (DCCBs) and PCARDBs worsened during the year.

Financial Institutions

1.32 Financial assistance disbursed by All-India Financial Institutions (AIFIs) witnessed a sharp rise during 2006-07 despite slowdown in financial assistance sanctioned by them. Financial assistance sanctioned and disbursed by FIs increased by 12.9 per cent and 82.8 per cent, respectively, during 2006-07 as compared with a rise of 41.0 per cent and 38.0 per cent, respectively, witnessed during the previous year. The sharp rise in disbursements was accounted for mainly by a rise in disbursements by investment institutions and specialised financial institutions, while the slowdown in sanctions was mainly due to lower sanctions by all-India term-lending institutions.

1.33 Net interest income of AIFIs registered a marginal growth of 1.7 per cent during 2006-07 as compared with a growth of 20.2 per cent during 2005-06. Non-interest income of FIs increased significantly during the year. However, in contrast with the sharp increase in the previous year, the operating expenses of FIs registered a decline of 55.9 per cent during the year. As a result, the operating profit increased sharply by 73.6 per cent during the year. This was also reflected in the significant increase in net profit of FIs, despite higher provisions earmarked for taxation. The capital adequacy ratio of FIs continued to be significantly higher than the prescribed norm of 9 per cent.

Non-Banking Financial Companies

1.34 The assets/liabilities of deposit taking NBFCs (NBFCs-D) expanded at a much higher rate of 26.9 per cent during 2006-07 as compared with the moderate rise of 5.1 per cent during 2005-06. Borrowing which is the major source of funds for NBFCs-D, increased by 30.6 per cent during the year, while public deposits declined by 16.5 per cent. Financial performance of NBFCs-D turned around during 2006-07 entirely on account of sharp rise in fund based income, which offset the sharp rise in operating expenditure and financial expenditure. As a result both operating profits as well as net profit witnessed a rise. The asset quality also improved significantly. While the proportion of NBFCs-D with CRAR above 30 per cent declined, the proportion of NBFCs-D with CRAR of less than 12 per cent also declined over the year. Among NBFC groups, AFCs held the largest share in total assets/liabilities (51.5 per cent), followed by hire purchase finance companies (35.7 per cent), loan companies (8.7 per cent) and investment companies (3.4 per cent).

1.35 Information based on the returns received from 173 non-deposit taking systemically important NBFCs with asset size of Rs.100 crore and above (NBFCs-ND-SI) for the year ended March 2007 showed an increase of 14.7 per cent in their liabilities/assets over the year ended March 2006. Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 26.8 per cent to Rs.2,11,986 crore during the year ended March 2007, constituting 66.7 per cent of their total liabilities. NBFCs-ND-SI earned a profit of Rs.7,460 crore during the year ended March 2007, which was higher by 73.4 per cent as compared with the profit earned during the year ended March 2006 (Rs. 4,301 crore), partly reflecting the increase in number of companies in this category.

Developments during 2007-08

1.36 According to the estimates released by the CSO in August 2007, the Indian economy continued to grow at a high rate with the real GDP growth of 9.3 per cent during the first quarter of 2007-08 compared with 9.6 per cent during Q1 2006-07. The growth in real GDP was backed by double-digit growth in the manufacturing and services sectors, while the agricultural sector showed signs of recovery.

1.37 Inflation, measured by variations in the WPI, on a year-on-year basis, eased from 5.9 per cent at end-March 2007 to 3.0 per cent by October 27, 2007. The annual inflation rate for all major groups, primary articles, fuel group and manufactured products was lower at 5.1 per cent, (-)1.5 per cent and 3.9 per cent, respectively, as on October 27, 2007 as compared with 10.7 per cent, 1.0 per cent and 6.1 per cent, respectively, at end-March 2007. Pre-emptive monetary measures since mid-2004 accompanied by fiscal and supply-side measures helped in containing inflation. Consumer price inflation remained firm during the second quarter of 2007-08 and continued to be above the WPI inflation, mainly reflecting the impact of higher food prices.

1.38 The key deficit indicators of combined finances of the Central and State Governments for 2007-08 are budgeted to decline over the revised estimates for 2006-07, both in absolute terms and proportion to GDP. The surplus in the revenue account of the State Government was the most significant development on the fiscal front. The envisaged improvement in revenue account is expected to bring down the combined GFD by 0.8 per cent of GDP in 2007-08. Available information on Central Government finances for the first six months of 2007-08 (April-September 2007) indicates that as a percentage of budget estimates, GFD and gross primary deficit (net of cost of acquisition of RBI stake in SBI and transfer of profit from RBI to the Union Government) were placed lower that those in April-September, 2006[2]. Revenue deficit during April-September, 2007 was lower as percentage of GDP over the comparable period a year ago. However, as per cent of budget estimates it was somewhat higher than last year despite the higher revenue receipts growth of 22.6 per cent mainly due to lower budgeted amount envisaged for revenue deficit.

1.39 During the fiscal year 2007-08 (up to October 26, 2007), M3 increased by 9.0 per cent as compared with an increase of 7.9 per cent in the corresponding period of the previous year. On a year-on-year basis, money supply (M3) increased by 22.5 per cent as compared with 18.4 per cent

[2] The surplus transfer on account of transfer of Reserve Bank's stake in SBI (Rs. 34,308 crore) was included under non-tax revenue for April-August 2007. However, this transaction has been recorded under non-debt capital receipts for April-September 2007 by the Controller General of Accounts (CGA) as indicated in the Union Budget for 2007-08.

a year ago. Thus, M3 growth continued above the indicative trajectory of 17.0-17.5 per cent for 2007-08 set out in the Annual Policy Statement (April 2007). Net bank credit to the Government increased by 1.7 per cent during the financial year (up to October 26, 2007) as compared with an increase of 5.6 per cent in the corresponding period of the previous year. Bank credit to the commercial sector increased by 5.1 per cent compared with 9.0 per cent during the corresponding period of the previous year. Commercial banks' investments in Government and other approved securities as percentage of their NDTL increased to 29.4 per cent as on September 14, 2007 from 28.0 per cent at end-March 2007. Reserve money expanded by 26.7 per cent, year-on-year, as on November 2, 2007 (17.1 per cent adjusted for the first round effects of the hikes in the CRR) as compared with 15.6 per cent a year ago. The liquidity pressures built up from mid-April 2007 onwards on account of hikes in CRR, but gradually began to ease from May 28, 2007, reflecting increase in Government expenditure and net purchase of foreign exchange from authorised dealers by the Reserve Bank. During the second quarter of 2007-08 (up to mid-September), the Reserve Bank continued to absorb liquidity using the reverse repo window under the liquidity adjustment facility (LAF).

1.40 Scheduled commercial banks' non-food credit expanded by 23.0 per cent, year-on-year, as on October 26, 2007 as compared with 28.4 per cent at end-March 2007 and 29.7 per cent, a year ago. The deceleration in credit growth coupled with the acceleration in deposits growth led to a reduction in the incremental credit-deposit ratio (y-o-y) of SCBs to 62.9 per cent as on October 26, 2007 from 98.3 per cent in the corresponding period of the previous year. The sectoral deployment data available up to August 17, 2007 show that about 41 per cent of incremental non-food credit (y-o-y) was absorbed by industry, around 13 per cent by agriculture and nearly 22 per cent by personal loans. Within the industrial sector, the demand for credit was led by infrastructure (power, port, telecommunication, *etc*.), textiles, iron and steel, engineering, petroleum, food processing, chemicals, vehicles and construction. The infrastructure sector alone accounted for over 27 per cent of the incremental credit to the industry. Growth in loans to commercial real estate remained high.

1.41 Indian financial markets have generally remained orderly during 2007-08 so far. As a result of easing of liquidity conditions, call money rates during April-July 2007, remained below the reverse repo rate between June-July 2007. However, consequent upon the withdrawal of the ceiling of Rs.3,000 crore on daily reverse repo with effect from August 6, 2007, call money rates firmed up. During September-October 2007, call money rates remained by and large within the corridor set by reverse repo and repo rate. Issuances of commercial paper (CP) increased to Rs.38,495 crore as on October 15, 2007 from Rs.17,688 crore at end-March 2007. The WADR on CP declined from 8.93 per cent at end-June 2007 to 7.99 per cent on October 15, 2007 and the most preferred maturity of CP was for periods ranging from '61 to 90 days' and '181 days and above'. Leasing and finance companies continued to be the major issuers of CPs. The outstanding amount of certificates of deposit (CDs) increased to Rs. 1,18,481 crore (5.55 per cent of aggregate deposits of issuing banks) by September 28, 2007 from Rs.93,272 crore at end-March 2007 (4.8 per cent). The WADR on CDs declined to 8.57 per cent as on September 28, 2007 compared with 10.75 per cent at end-March 2007.

1.42 In view of easing inflation and in sync with the trends in the money market segment, the primary yields on 91-day Treasury Bills declined to 7.11 in October 2007 from 7.73 per cent in March 2007. The yield spread between 364-day and 91-day Treasury Bills widened slightly to 26 basis points in October 2007 from 23 basis points in March 2007. The 10-year yield remained almost unchanged at 7.96 per cent as on November 8, 2007 from the level at end-March 2007 (7.97 per cent). The spread between 1-10 year yields narrowed to 21 basis points at end-October 2007 from 42 basis points at end-March 2007.

1.43 Deposit rates of SCBs declined from July 2007 to August 2007, particularly at the upper end of the range for various maturities. Interest rates of PSBs on deposits of maturity of one year to three years were placed in the range of 7.25-9.00 per cent in August 2007 as compared with 7.25-9.75 per cent in June 2007 (7.25-9.50 per cent in March 2007), while those on deposits of maturity of above three years were placed in the range of 7.75-9.50 per cent in August 2007 as compared with 7.75-9.75 per cent in June 2007 (7.50-9.50 per cent in March 2007). While BPLRs of PSBs and foreign banks remained unchanged during the second quarter of 2007-08, those of private sector banks softened to the range of 13.00-16.50 per cent in August 2007 as compared with 13.00-17.25 per cent in June 2007.

1.44 During 2007-08, the Indian rupee, which had appreciated *vis-à-vis* the US dollar till end-May 2007, exhibited a two-way movement during the second quarter. During the financial year 2007-08 (up to November 8, 2007), the rupee moved in the range of Rs.39.26-43.15 per US dollar. During 2007-08 (up to November 8, 2007), the Indian rupee appreciated by 10.8 per cent against the US dollar, 3.6 per cent against the Pound sterling, 1.0 per cent against the Euro and 6.2 per cent against the Japanese yen.

1.45 Continuing the upward trend during 2007-08, the BSE Sensex closed at an all-time high level of 19976 on November 2, 2007, an increase of 52.82 per cent over end-March 2007. The S&P CNX Nifty also reached a record high of 5932 on November 2, 2007. Liquidity support from foreign institutional investors (FIIs), strong GDP growth, robust corporate profitability, decline in annual domestic inflation rate, upward trend in major international equity markets and rise in metal prices enthused the market sentiment. However, after November 2, 2007, the domestic stock markets witnessed some corrections mainly due to downward trend in major international equity markets on account of renewed concerns over sub-prime losses and credit crunch in the US and Europe and depreciation of US dollar against major currencies. Increase in global crude oil prices to record high levels, net sales by FIIs in the Indian equity market, appreciation of rupee against the US dollar, decline in global metal prices and other sector and stock specific news also dampened the market sentiment.

1.46 India's balance of payments position has remained comfortable during 2007-08 so far. While merchandise exports witnessed some moderation during April-September 2007, overall growth in imports during the same period remained high. Oil imports, however, witnessed a sharp deceleration from the strong growth recorded during the corresponding period of the previous year. The surplus in the invisibles account during the first quarter of 2007-08, led by higher growth in private transfers moderated the current account deficit at US $ 4.7 billion in Q1 of 2007-08, broadly the same level as in the first quarter of 2006-07. Reflecting large flows under portfolio investment and external commercial borrowings, net capital inflows were substantially higher at US $ 15.3 billion in Q1 of 2007-08 compared with US $ 10.6 billion in the corresponding period 2006-07. Foreign exchange reserves increased further to US $ 236 billion as on September 21, 2007 from US $ 199.2 billion at end-March 2007.

Chapter II

Policy Developments in Commercial Banking

Introduction

2.1 The banking industry the world over has undergone a profound transformation since the early 1990s. The changed operating environment for the banking sector, underpinned by globalisation, deregulation and advances in information technology, has resulted in intense competitive pressures. Banks have responded to this challenge by diversifying through organic growth of existing businesses as well as through acquisitions. This has exposed the banking sector to newer risks and posed serious regulatory challenges. Regulatory and supervisory policies are, therefore, being continuously refined to meet the emerging challenges. The focus of regulatory initiatives has been on strengthening the financial institutions by aligning the prudential norms with the international standards, identifying systemic risks and adopting appropriate risk mitigating policies. While continuously striving to strengthen the prudential framework, regulators in recent years have also focussed on improving bank governance and information disclosures that enhance market discipline. In most cases, the regulatory initiatives have been guided by international best practices, adapted suitably to the domestic conditions. The major challenge facing the banking system and the supervisory authorities continues to be the maintenance of financial stability. This has become increasingly evident in the recent financial market turmoil following the unfolding of the US sub-prime mortgage crisis.

2.2 In the context of the rapidly evolving financial landscape, the Reserve Bank has also been suitably reorienting its regulatory and supervisory framework. It has also been the endeavour of the Reserve Bank to improve credit delivery and customer service by banks. The Reserve Bank has simultaneously focussed on financial inclusion and extension of banking services to the unbanked areas of the economy. Various initiatives by the Reserve Bank from time to time have imparted strength, resilience and dynamism to the financial system.

2.3 During 2006-07, renewed emphasis was placed on further strengthening of the prudential and exposure norms. In conformity with the commitment to ensure a smooth transition to Basel II, a number of measures were initiated. Apart from the release in April 2007 of the final guidelines for implementation of the New Capital Adequacy Framework (Basel II) by banks, some of the major initiatives included issuing guidelines on stress testing by banks, and enhancement of disclosure norms to strengthen Pillar 3 (Market Discipline) of the new framework. In order to maintain asset quality in the face of rapid credit growth, risk weights and provisioning requirements for lending to sensitive sectors were enhanced. Other major initiatives taken during the year included modification in the existing guidelines on banks' exposure to the capital market, issuance of comprehensive guidelines on derivatives, revised framework for managing the attendant risks in outsourcing, issuance of prudential norms on creation and utilisation of floating provisions, and modifications in the guidelines on sale/purchase of NPAs. In order to improve credit delivery, the guidelines on the priority sector were revised. The Reserve Bank also initiated several measures to provide basic banking services, especially in the less developed regions.

2.4 This chapter provides an account of various policy measures undertaken by the Reserve Bank in the Indian commercial banking sector during 2006-07 (July-June) and 2007-08 (up to October 2007). The stance of monetary policy as it evolved during 2006-07 and 2007-08 (up to October 2007), together with monetary policy measures, is presented in Section 2, followed by a review of the measures initiated in the area of credit delivery in Section 3. Section 4 details the various measures initiated to promote financial inclusion. Initiatives taken in the areas of prudential regulation and supervision are set out in Section 5 and Section 6, respectively. Section 7 sets out the policy developments in the area of financial markets, *i.e.*, the money market, the Government securities market and the foreign exchange market. This is followed by an account of measures initiated in the area of customer service by banks in Section 8. Policy measures relating to the payment and settlement systems and technological developments are outlined in Section 9 and Section 10, respectively. Section 11 details the measures undertaken to strengthen the legal infrastructure.

2. Monetary Policy

2.5 The conduct of monetary policy during 2006-07 was set against the backdrop of evolving changes in the institutional framework as also by the sudden shifts in both global and domestic conditions, particularly towards the latter part of the year, which posed threats to price and financial stability. Accordingly, even while the Annual Policy Statement for 2006-07 and its subsequent quarterly reviews (in July, October 2006 and January 2007) were the principal means of communicating the policy assessment, policy measures for the year 2006-07 as in the recent period, were undertaken outside the policy review cycle in response to the evolving situation. Another important development in 2006-07 in the context of institutional architecture was the reconstitution of Technical Advisory Committee on Monetary Policy (TACMP) in January 2007. The role of TACMP is advisory in nature, and it provides guidance in the process of formulating monetary policy from time to time. As such, the responsibility, accountability and time path for decision making by the Reserve Bank are not formally constrained by the deliberations of the TACMP.

2.6 With the sharp acceleration of growth in 2006-07 accompanied by inflation rising on the back of food as well as some manufactured products' prices, the major policy challenge facing the Reserve Bank during the year was that of managing the transition to a higher growth path while containing inflationary pressures. Aggregate demand/pressures generated by quickening growth warranted a higher priority than before to price stability and the anchoring of inflation expectations, since they were being amplified by supply constraints. Furthermore, in the context of the high uncertainty surrounding the evolving domestic and global developments, the Third Quarter Review of January 2007 alluded to the burdens, complexities and constraints on the conduct of monetary policy at that juncture. Excess liquidity flowing out of mature economies and the enduring strength of foreign exchange inflows have complicated the conduct of monetary policy through the consequent expansion of liquidity potentially reducing the efficacy of monetary policy tightening. Furthermore, monetary policy in India has to contend with continuing fiscal dominance, lags in supply response to demand pressures as also the burden of protecting inadequately prepared segments of the economy from volatility in financial markets often related to sudden shifts in capital flows. The conduct of monetary policy is also affected by several complexities – globalisation, fuzziness in reading underlying macroeconomic and financial developments, particularly in detecting and measuring inflation and inflation expectations; high and persisting global macro-imbalances; elevated crude oil and asset prices; and sizeable movements in major international currencies with pass-through to domestic inflation being muted. The operation of monetary policy in India is also constrained by uncertainties in the transmission of policy signals due to the existence of administered interest rates, incentives for some elements of capital flows provided by public policy setting, and the predominantly public sector ownership of the banking system which plays a critical role in other public policy considerations.

2.7 Even though domestic factors continued to be the most significant influence in fashioning the monetary policy stance, global factors varied in importance as the year went by. The Reserve Bank took note of the resilience of global growth as well as a number of downside risks that loomed over the global economy which had implications for the medium-term prospects of countries like India. In the first half of 2007, a number of these risks appear to have materialised. It is in the context of these extraordinary developments that monetary policy for 2007-08 accord priority to orderly and sound markets and institutions to emphasise the need for ensuring the availability of appropriate liquidity in the system through flexible use of policy instruments at its disposal so that all legitimate requirements of credit are met, consistent with the objective of price and financial stability (Box II.1).

Annual Policy Statement for 2006-07

2.8 The Annual Policy Statement for the year 2006-07, which was issued in April 2006, was framed against stronger than expected performance of the Indian economy in the previous year with inflation contained well within the projected range and inflation expectations anchored and stability in financial markets and

Box II.1: Stance of Monetary Policy during April 2006 to October 2007

Annual Policy Statement for 2006-07 (April 2006)

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

First Quarter Review for 2006-07 (July 2006)

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

Mid-term Review for 2006-07 (October 2006)

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

Third Quarter Review for 2006-07 (January 2007)/ Annual Policy Statement for 2007-08 (April 2007)/ First Quarter Review for 2007-08 (July 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations, [financial stability (in July 2007 Statement)] and the growth momentum.

Mid-Term Review for 2007-08 (October 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations, financial stability and the growth momentum.
- To be in readiness to take recourse to all possible options for maintaining stability and the growth momentum in the economy in view of the unusual heightened global uncertainties, and the unconventional policy responses to the developments in financial markets.

external sector payments developments having evolved in concert with the strength of the macroeconomic fundamentals. It noted, however, that while domestic factors continued to be significant, the global factors were gaining greater importance in determining the monetary policy response. While global growth had exhibited considerable resilience in the face of high and volatile oil prices, geo-political tensions supply shocks and the housing boom had started to flatten out in several countries across the world. In the international financial markets, investors' appetite for risk had driven down risk premia on a wide variety of risky assets, suggesting a disconnect between medium-term risks and perceptions thereof with implications for financial stability worldwide.

2.9 The Annual Policy Statement placed GDP growth in the range of 7.5-8.0 per cent during 2006-07 while resolving to contain the year-on-year inflation rate of 2006-07 in the range of 5.0-5.5 per cent. The expansion in M3 was projected at around 15.0 per cent with growth in aggregate deposits at around Rs.3,30,000 crore and non-food bank credit growth at around 20 per cent. Against this backdrop, it was noted that a key factor was the assessment of the risks in as accurate a manner as was feasible and to be in readiness to act as warranted to meet the challenges posed by the evolving situation, given the unfolding of the risks. While domestic macroeconomic and financial conditions supported prospects of sustained growth momentum with stability in India, it was recognised that the balance of risks was tilted towards the global factors and that it was necessary to assign more weight to global factors than before while formulating the policy stance. In accordance with this assessment and consistent with the stance set out for the year (refer Box II.1), the Annual Policy Statement left the key policy instruments, *i.e.*, the Bank Rate, the repo/reverse repo rates under the LAF and the cash reserve ratio unchanged while committing to continue with its policy of active demand management of liquidity to ensure that appropriate liquidity was maintained in the system and all legitimate requirements of credit were met, consistent with the objective of price and financial stability. On June 8, 2006 the LAF reverse repo/repo rates were increased by 25 basis points each to ensure that inflationary expectations were anchored for supporting economic growth and financial stability.

First Quarter Review for 2006-07

2.10 The First Quarter Review, which was issued in July 2006, took note of the optimistic near-term outlook for the Indian economy while underscoring the need to remain on guard against risks to inflation from the incomplete pass-through of international crude as well as from food prices. It also noted that since the announcement of the Annual Policy Statement, financial markets were repricing risks in an environment of uncertainty and monetary policy had been tightened further in some advanced economies as well as in some emerging economies. The overall macroeconomic and geo-political global environment appeared to be indicative of marked downside risks. In the First Quarter Review of 2006-07, as a pre-emptive action, the reverse repo rate under the LAF was increased further by 25 basis points while keeping the repo rate unchanged.

Mid-term Review for 2006-07

2.11 The Mid-term Review of the Annual Policy Statement for 2006-07, which was issued in October 2006, was formulated against the background of high GDP growth and high rate of consumer inflation coupled with escalating capital flows, rising asset prices, volatile financial markets and tightening infrastructural bottlenecks which underscored the need to reckon with dangers of overheating and the implications for the timing and direction of monetary policy setting. Demand pressures were visible in the build up of money supply, reserve money as also in the demand for bank credit which was growing at above 30 per cent for the third year in succession. The expanding merchandise trade deficit and the current account deficit despite buoyant export growth and some moderation in the growth of non-oil imports was another area of concern. The Review noted that as monetary policy operates with lags that can be long and variable, the setting of monetary policy required to be forward looking with the full impact of current policy actions coming into play 12 to 18 months later. Against this backdrop, the fixed repo rate under the LAF was increased by 25 basis points from 7.0 per cent to 7.25 per cent.

2.12 Following the Mid-term Review, it was decided on December 8, 2006 to increase the CRR of the SCBs, regional rural banks (RRBs), scheduled state co-operative banks and scheduled primary (urban) co-operative banking system by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, to 5.25 per cent and 5.50 per cent, effective from the fortnights beginning December 23, 2006 and January 6, 2007, respectively, with a view to draining excess liquidity and pre-empting upward pressures on inflation expectations.

Third Quarter Review for 2006-07

2.13 The Third Quarter Review, which was issued in January 2007, expressed renewed concerns about the rapid expansion of bank credit and the surge in capital inflows, and pointed out that the enduring strength of foreign exchange inflows complicated the conduct of monetary policy tightening by expanding liquidity, especially in some specific sectors. Hence, provisioning requirements on standard assets were enhanced and risk weights were increased with regard to exposure to sectors such as real estate, capital markets, consumer loans and systemically important non-banking financial companies (NBFC-SI) with a renewed focus on credit quality. Furthermore, with a view to fortifying liquidity management and ensuring orderly conditions in the financial markets, the ceiling on interest rates relating to Non-Resident Indian (NRI) deposits was reduced. The fixed repo rate under the LAF was also increased by 25 basis points from 7.25 per cent to 7.50 per cent.

2.14 Following the issue of the Third Quarter Review in January 2007, some notable developments prompted a swift reinforcement of the monetary policy stance and, over the remaining part of the year, management of liquidity received priority in the policy hierarchy. Financial markets experienced some volatility in the fourth quarter of 2006-07 alongside sizeable swings in liquidity and a hardening of interest rates across the spectrum. With the pace of growth accelerating further as reflected in the buoyancy in industrial output and non-food bank credit, concerns about the accentuation of excess demand pressures seemed to be considerably heightened, particularly with the tightening of the supply constraints. Headline inflation surged to a two-year peak by end-January 2007, with potential upside risks to inflation expectations warranting an immediate policy response. Aggregate deposit growth rose to 11-year high as banks aggressively mobilised funds to support over-extended credit portfolios. The liquidity adjustment facility (LAF), which had been in an injection mode persistently during January 7 to February 7, 2007 switched into absorption mode in the following week (February 8-13) with additional liquidity absorbed under the MSS. Reflecting the large reversal of liquidity, the call money rate which was ruling 25-85 basis points above the repo rate, eased below the middle of the LAF corridor, indicating easing of liquidity conditions. The Reserve Bank used all policy instruments, including the cash reserve ratio (CRR), to ensure the appropriate modulation of liquidity in response to the evolving situation. To drain excess liquidity, pre-empt the stoking of demand pressures and contain inflation expectations, it was considered necessary on February 13, 2007 to increase the CRR in two stages by 25 basis points each (Table II.1). A ceiling of Rs.3,000 crore was stipulated on daily reverse repo under the LAF with effect from March 5, 2007 and a more flexible use of MSS was made with the help of Treasury bills and dated securities with prior announcement.

Table II.1: Recent Changes in Policy Rates and Cash Reserve Ratio

(Per cent)

Effective From	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio
1	2	3	4
March 31, 2004	4.50	6.00	4.50
September 18, 2004	4.50	6.00	4.75 (+0.25)
October 2, 2004	4.50	6.00	5.00 (+0.25)
October 27, 2004	4.75 (+0.25)	6.00	5.00
April 29, 2005	5.00 (+0.25)	6.00	5.00
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00
October 31, 2006	6.00	7.25 (+0.25)	5.00
December 23, 2006	6.00	7.25	5.25 (+0.25)
January 6, 2007	6.00	7.25	5.50 (+0.25)
January 31, 2007	6.00	7.50 (+0.25)	5.50
February 17, 2007	6.00	7.50	5.75 (+0.25)
March 3, 2007	6.00	7.50	6.00 (+0.25)
March 31, 2007	6.00	7.75 (+0.25)	6.00
April 14, 2007	6.00	7.75	6.25 (+0.25)
April 28, 2007	6.00	7.75	6.50 (+0.25)
August 4, 2007	6.00	7.75	7.00 (+0.50)
November 10, 2007	6.00	7.75	7.50 (+0.50)

Note : 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. Prior to October 29, 2004, repo indicated absorption of liquidity, while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new usage of terms even for the period prior to October 29, 2004.

2. Figures in parentheses indicate change in policy rates.

Annual Policy Statement for 2007-08

2.15 The Annual Policy Statement for 2007-08, which was issued in April 2007, pointed out that the stance of monetary policy in 2007-08 would be conditioned by the patterns in which the global and, more particularly, the domestic environment unfolds. The likely evolution of macroeconomic and financial conditions indicated an environment supportive of sustaining the current growth momentum in India.

2.16 The Annual Policy Statement for 2007-08 envisaged that in view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, the capital flows would be managed actively and in the absence of shocks emanating in the domestic or global economy, the policy endeavour would be to contain inflation close to 5.0 per cent 2007-08. The Statement added that the Reserve Bank's self-imposed medium-term ceiling on inflation at 5.0 per cent had a salutary effect on inflation expectations and the socially tolerable rate of inflation had come down. In recognition of India's evolving integration with the global economy and societal preferences in this regard, it resolved to condition policy and perceptions for inflation in the range of 4.0-4.5 per cent as conducive for maintaining self-accelerating growth over the medium-term. Real GDP growth in 2007-08 was placed at around 8.5 per cent. Monetary expansion was projected in 2007-08 at around 17.0-17.5 per cent with the growth in aggregate deposits at around Rs.4,90,000 crore and a graduated deceleration of non-food credit to 24.0-25.0 per cent from the average of 29.8 per cent over 2004-07. Against this backdrop, it reiterated that the policy preference for the period ahead was strongly in favour of reinforcing the emphasis on price stability and anchoring inflation expectations and that the Reserve Bank would ensure that appropriate liquidity was maintained in the system so that all legitimate requirements of credit were met, particularly for productive purposes, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank would continue with its policy of active demand management of liquidity through open market operations (OMO), including the MSS, LAF and CRR, and use all the policy instruments at its disposal flexibly, as and when the situation warrants.

First Quarter Review for 2007-08

2.17 The First Quarter Review of the Annual Policy Statement for 2007-08, which was issued in July 2007, was formulated in an environment of encouraging response of banks to the sustained policy emphasis and actions for ensuring credit quality and overall financial stability. Rebalancing of banks' balance sheets was underway, captured by movements in key banking aggregates. Beginning the last quarter of 2006-07, a dip in non-food credit growth from the persistent high rates that prevailed during 2004-07 had turned into a steady deceleration, in broad alignment with the indicative trajectory set out in the Annual Policy Statement of April 2007. While the slowdown reflected, in part, the usual seasonal decline in bank credit that occurred at that time of the year, there had also been some deceleration in bank lending to sectors such as real estate, housing, computer software, trade and transport operators in response to rising lending rates, shifts in banks' portfolios in favour of investments in gilts and prudential considerations. On the other hand, there were indications of a pick-up in credit demand from agriculture and industry, in particular, infrastructure. Banks had aggressively mobilised time deposits (including certificates of deposit) with aggregate deposit growth in the first quarter of 2007-08 outstripping the 11-year high recorded in 2006-07. Accordingly, the incremental non-food credit deposit ratio (year-on-year) had come down appreciably from the average level of 115 per cent prevailing in the preceding two years.

2.18 The First Quarter Review noted that while global growth had shown some signs of moderation in the first quarter of 2007, there had been a gain in momentum in the subsequent months, leading to an upward revision in consensus forecasts. Demand pressures appeared to be holding up economic activity in the mature economies, stronger than expected. While headline inflation had remained generally steady, inflationary pressures remained and seemed to be more persistent than before, along with elevated levels of commodity and asset prices. In the global financial markets, volatility was experienced in the first quarter of 2007, triggered by concerns about the US sub-prime mortgage market and potential economy-wide effects. With greater risk aversion going forward, credit quality deteriorating and the widening of credit spreads, the Review underlined that the potential fragility of hedge funds could pose significant risks to financial market stability and to the prospects for financing and growth in the EMEs. In view of the above developments, the CRR was increased by 50 basis points to 7.0 per cent with effect from the fortnight beginning August 4, 2007. It was also decided to withdraw the ceiling of Rs.3,000 crore on daily reverse repo under the LAF with effect from August 6, 2007. The Reserve Bank, however, retained the discretion to re-impose a ceiling as appropriate and also to conduct repo/reverse repo auctions at a fixed rate or at variable rates as circumstances warranted as also the right to accept or reject tender(s) under the LAF. The Second LAF, which was introduced on November 28, 2005 and was conducted between 3.00 p.m. and 3.45 p.m. on a daily basis, was also withdrawn with effect from August 6, 2007.

Mid-term Review for 2007-08

2.19 The Mid-term Review of the Annual Policy Statement 2007-08, which was issued in October 2007, indicated that GDP growth originating in agriculture and allied activities had risen above trend in the first quarter of 2007-08 and was poised to maintain this performance over the rest of the year on the back of a favourable south-west monsoon and improvement in sown acreage. Based on the recent developments, the Review observed some slackening of momentum in the industrial and services sectors. Moreover, global uncertainties might have some moderating influence on the performance of manufacturing as well as services. Overall, these sectors are expected to sustain the momentum of growth. Accordingly, real GDP growth in 2007-08 was placed at 8.5 per cent for policy purposes, as set out in the Annual Policy Statement of April 2007 and reiterated in the First Quarter Review, assuming no further escalation in international crude prices and barring domestic or external shocks. The Review, however, expressed concern about rising and volatile international crude prices and observed that the high levels of food prices posed risks to the inflation outlook. In view of the persisting high levels of the price of the Indian crude basket, some pass-through to domestic petroleum product prices appeared reasonable. The policy resolve going forward, according to the Review, should be to consolidate the success in lowering inflation on an enduring basis so that an environment of stability prevails to nurture and protect the transition to higher growth. Accordingly, in view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, capital flows would be managed actively and in the absence of shocks emanating in the domestic or global economy, the policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08. Furthermore, in recognition of India's evolving integration with the global economy and societal preferences in this regard, the resolve, going forward, would be to condition expectations in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent becomes a medium-term objective consistent with India's broader integration into the global economy.

2.20 At the time of Mid-term Review, money supply had expanded well above the indicative trajectory of 17.0 -17.5 per cent set in the Annual Policy Statement of April 2007. Fiscal spending and foreign exchange market interventions had mainly driven this acceleration as reflected in sizeable reserve money growth. Deposit growth had also run ahead of the projection of Rs.4,90,000 crore for 2007-08 as a whole. Non-food credit (inclusive of non-SLR investments) had decelerated and was close to the projection of 24.0-25.0 per cent given in the Annual Policy Statement. However, moderating the expansionary effects of net capital inflows was warranted so that money supply was not persistently out of alignment with the indicative projections set out in the Annual Policy Statement. On a review of the prevailing macroeconomic condition, the CRR was increased by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007 (Box II.2).

Statutory Pre-emptions

2.21 A significant development during 2006-07 was the legislative amendments in the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, which have enhanced the Reserve Bank's operational flexibility and maneuverability in its monetary management operations. The Reserve Bank, since the early 1990s, has made conscious efforts to move away from direct instruments of monetary control to indirect instruments. Accordingly, the statutory pre-emptions by way of cash reserve ratio and statutory liquidity ratio (SLR) were significantly

Box II.2: Major Policy Announcements in the Mid-term Review of Annual Policy Statement for the Year 2007-08

Monetary Measures

- Bank Rate kept unchanged at 6.0 per cent.
- Repo Rate and Reverse Repo Rate under the LAF kept unchanged at 7.75 per cent and 6.0 per cent, respectively.
- CRR increased by 50 basis points to 7.5 per cent from the fortnight beginning November 10, 2007.

Financial Markets

- Non-competitive bidding scheme in the auctions of State Development Loans (SDLs) to be operationalised by March 31, 2008.
- Repos in corporate bonds to be permitted once corporate bond markets develop and suitable settlement system is put in place.
- Covering of 'Short-sale' and 'When Issued' transactions permitted outside the NDS-OM system.
- Reinstatement of eligible limits under the past performance route for hedging facility provided.
- Oil companies permitted to hedge their foreign exchange exposures to the extent of 50 per cent of their inventory volume as at the end of the previous quarter.
- Importers and exporters allowed to write covered call and put options in both foreign currency/ rupee and cross currency and receive premia.
- ADs permitted to run cross currency options books, as also to offer American options.

Credit Delivery Mechanism

- Internal Working Group to be constituted to examine the recommendations of the Committee on Agricultural Indebtedness (Chairman: Dr. R. Radhakrishna).
- A working group to be constituted to study the recommendations of Sengupta Committee report relevant to the financial system.
- A working group to be constituted for preparing a road-map for migration to core banking solutions by RRBs.
- RRBs and state/central co-operative banks to disclose the level of CRAR as on March 31, 2008 in their balance sheets. A road-map to be evolved for achieving the desired level of CRAR.
- High Level Committee to be constituted to review the Lead Bank Scheme.
- A concept paper to be prepared on financial literacy-cum-counselling centres proposed.

Prudential Measures

- Final guidelines on *Credit Default Swaps* to be issued by end-November 2007.
- Banks to follow prescribed norms while engaging recovery agents and abusive practices followed by banks' recovery agents would invite serious supervisory disapproval.
- A working group to be constituted to draw up a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators.
- The process of consolidated supervision system to be integrated with the financial conglomerate monitoring mechanism for bank-led conglomerates.

Institutional Developments

- Banks urged to ensure that adequate disaster recovery systems are put in palce.
- An action plan to be drawn up for implementation of National Electronic Clearing Service (NECS).
- A working group to be constituted for providing IT support by the Reserve Bank to UCBs.
- The Committee on Financial Sector Assessment (CFSA) to complete the assessment by March 2008.

reduced over the years. The CRR was brought down from a peak of 15 per cent in 1994-95 to 4.5 per cent by June 2003, before the onset of withdrawal of monetary accommodation beginning September 2004.

2.22 The CRR was hiked by a cumulative of 100 basis points during 2006-07 in four equal phases of 25 basis points each. During 2007-08 so far, the CRR has been raised further by another 150 basis points (25 basis points each effective the fortnights beginning April 14 and 28, 2007, 50 basis points effective the fortnight beginning August 4, 2007), and 50 basis points effective the fortnights beginning November 10, 2007 to 7.5 per cent of banks' NDTL (refer Table II.1).

2.23 Section 42 of the Reserve Bank of India Act, 1934 was amended in June 2006 with a view to enhancing the Reserve Bank's operational flexibility and providing it with greater maneuverability in monetary management. The Amendment Act, 2006 gives discretion to the Reserve Bank to decide the percentage of scheduled banks' demand and time liabilities to be maintained as CRR, without any ceiling (20 per cent earlier) or floor (3 per cent earlier). As per the amendment, the Reserve Bank is also not required to make interest payment on CRR balances as it attenuates the effectiveness of the CRR as an instrument of monetary policy. Consequent to the amendment, the Reserve Bank announced the removal of the floor of 3 per cent and ceiling of 20 per cent on CRR. Furthermore, it also announced that no interest would be payable on CRR balances from the fortnight beginning June 24, 2006. The Extraordinary Gazette notification dated January 9, 2007 of the Government of India, however, notified January 9, 2007 as the date on which all the provisions, except Section 3, of the Reserve Bank of India (Amendment) Act, 2006 would come into force. Section 3 of the Reserve Bank of India (Amendment) Act, 2006 provided for the removal of the ceiling and floor on the CRR to be prescribed by the Reserve Bank as also the provisions for interest payment on eligible CRR balances. Pending the notifications of the relevant provisions, the floor and ceiling on CRR were restored and the Reserve Bank decided to pay interest on eligible CRR balances but consistent with the monetary policy stance and measures at relevant periods of time. The Reserve Bank also exempted those banks from payment of penal interest which had breached the statutory minimum CRR level of 3.0 per cent during the period from June 22, 2006 to March 2, 2007. The Government of India in the Extraordinary Gazette notification dated March 9, 2007 notified Section 3 of the Reserve Bank of India (Amendment) Act, 2006 and fixed April 1, 2007 as the date on which the related provisions would come into force. As such, the floor and ceiling on the CRR to be prescribed by the Reserve Bank now no longer exist. In view of the then prevailing monetary conditions, the Reserve Bank decided to maintain *status quo* on the CRR maintenance, including the CRR rate and the extant exemptions. The Reserve Bank also indicated that no interest would be payable on CRR balances of banks with effect from the fortnight beginning March 31, 2007.

2.24 Monetary control is also exercised through the prescription of a statutory liquidity ratio (SLR), which is a variant of the secondary reserve requirement in several countries. It is maintained in the form of specified assets such as cash, gold and ‘approved’ and unencumbered securities – the latter being explicitly prescribed – as a proportion to NDTL of banks. The SLR is also important for prudential purposes, *i.e.*, to assure the soundness of the banking system. The pre-emption under the SLR, which was increased to about 38.5 per cent of NDTL in the beginning of the 1990s, was brought to its statutory minimum of 25 per cent by October 1997. Banks, however, continue to hold Government securities in excess of the statutory minimum SLR, reflecting risk perception and portfolio choice, although the extent of excess holdings has declined in recent years. Commercial banks’ holdings of Government securities, as a proportion of their NDTL, declined further during the year, reaching 28.0 per cent of their NDTL at end-March 2007 from 31.3 per cent at end-March 2006. During 2007-08 so far (up to October 12, 2007), banks’ holding of SLR securities as a percentage of NDTL, however, increased marginally to 30.0 per cent. Consequent upon the promulgation of the Banking Regulation (Amendment) Ordinance, 2007 on January 23, 2007, Section 24 of the Banking Regulation Act, 1949 was amended, which, *inter alia*, removed the floor rate of 25 per cent for SLR to be prescribed by the Reserve Bank and empowered it to determine the SLR-eligible assets, thereby giving it more flexibility in its monetary management operations. The Ordinance was subsequently repealed and replaced by the Banking Regulation (Amendment) Act 2007 which received the assent of the President on March 26, 2007 and is deemed to have come into force from January 23, 2007.

Interest Rate Structure

2.25 Deregulation and rationalisation of the interest rate structure has been a key component of the financial sector reform process initiated since the early 1990s. This has not only helped in improving the competitiveness and resource allocation process in the financial system but has also facilitated the monetary transmission mechanism. All interest rates, barring select rates such as savings deposits, non-resident India (NRI) deposits, small loans up to Rs. 2 lakh and export credit, have been deregulated.

Bank Rate and Repo/Reverse Repo Rate

2.26 The Bank Rate has served well as a signaling rate for the medium-term stance of monetary policy. Keeping in view the assessment of the economy including the outlook for inflation, the Bank Rate during the year was retained at the existing level of 6.0 per cent; the rate was last revised in April 2003.

2.27 Reforms in the monetary policy operating framework, which were initiated in the late 1980s, culminated into the introduction of

Liquidity Adjustment Facility (LAF) in 2000 (Annex VI). Under the LAF, the Reserve Bank sets its policy rates, *i.e.*, repo and reverse repo rates and carries out repo/reverse repo operations, thereby providing a corridor for overnight money market rates. In view of exogenous influences impacting liquidity at the shorter end, *viz.*, volatile Government cash balances and unpredictable foreign exchange flows, the LAF avoids targeting a particular level of overnight money market rate. Although repo auctions can be conducted at variable or fixed rates on overnight or longer-term, given market preference and the need to transmit interest rate signals quickly, the LAF has settled into a fixed rate overnight auction mode since April 2004. The Second LAF (SLAF), which was introduced from November 28, 2005 to enable market participants to fine-tune their liquidity management during the day, was withdrawn with effect from August 6, 2007. LAF operations continue to be supplemented by access to the Reserve Bank's standing facilities linked to the repo rate: export credit refinance to banks and standing liquidity facility to the primary dealers. The repo and reverse repo rates were revised in the light of the evolving macroeconomic and monetary conditions (refer Table II.1).

Deposit Rates

2.28 Progressive deregulation of interest rates in those segments that have remained regulated has been engaging the attention of the Reserve Bank. Wide consultations have also been held with various stakeholders on the issue. While some interest rates continue to be regulated, it has been the endeavour of the Reserve Bank to modify them in line with the changing scenario. The interest rate on savings bank deposits is regulated by the Reserve Bank and is currently prescribed at 3.5 per cent per annum; the rate was last revised on March 1, 2003.

2.29 Depending on the monetary and macroeconomic developments, the ceilings on interest rates on non-resident external rupee deposits (NRE) and foreign currency non-resident (Bank) [FCNR(B)] deposits are linked to the LIBOR/SWAP rates and are reviewed regularly from time to time. The interest rate ceiling on NRE deposits for one to three year maturity was reduced by 50 basis points each on January 31, 2007 and on April 24, 2007 to LIBOR/SWAP rates for US dollar of corresponding maturities. The interest rate ceiling on FCNR(B) deposits was reduced by 25 basis points to LIBOR/SWAP rates minus 25 basis points for the respective currency/ maturities on January 31, 2007 and further by 50 basis points to LIBOR/SWAP rates minus 75 basis points for the respective currency/maturities on April 24, 2007 (Table II.2).

Table II.2: Interest Rate Prescriptions for NRE/ FCNR(B) Deposits and Foreign Currency Export Credit

Type	Effective From	Ceiling Interest Rate
1	2	3
NRE deposit	November 1, 2004	LIBOR/EURIBOR/ SWAP rates plus 50 basis points.
	November 17, 2005	LIBOR/EURIBOR/ SWAP rates plus 75 basis points.
	April 18, 2006	LIBOR/EURIBOR/ SWAP rates plus 100 basis points.
	January 31, 2007	LIBOR/EURIBOR/ SWAP rates plus 50 basis points.
	April 24, 2007	LIBOR/EURIBOR/ SWAP rates
FCNR (B) deposit	April 29, 2002	LIBOR/EURIBOR/ SWAP rates minus 25 basis points.
	March 28, 2006	LIBOR/EURIBOR/ SWAP rates.
	January 31, 2007	LIBOR/EURIBOR/ SWAP rates minus 25 basis points.
	April 24, 2007	LIBOR/EURIBOR/ SWAP rates minus 75 basis points.
Export Credit in Foreign Currency	April 29, 2002	LIBOR/EURIBOR rates plus 75 basis points
	April 18, 2006	LIBOR/EURIBOR/ rates plus 100 basis points

@ : Interest rates on NRE/FCNR(B) deposits are effective from close of business in India.

Lending Rates

2.30 On July 12, 2007, the Government announced a package of measures to provide relief for a temporary period in terms of interest rate subvention of 2 percentage points per annum on rupee export credit availed of by exporters in nine categories of exports, *viz*., textiles (including handlooms), readymade garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys and to all exporters from SME sectors defined as micro-enterprises, small enterprises and medium enterprises. Accordingly, it was decided that banks would charge interest rate not exceeding benchmark prime lending rate (BPLR) minus 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period April 1, 2007 to December 31, 2007 to all SME sectors and the nine sectors as indicated above.

2.31 On October 6, 2007, the Government of India partially modified the interest rate subvention to exporters to extend the scheme by three months up to March 31, 2008 and increased the coverage of the scheme to include jute and carpets, processed cashew, coffee, tea, solvent extracted de-oiled cake, plastics and linoleum.

3. Credit Delivery

2.32 It has been the endeavour of the Reserve Bank to improve credit delivery and make available basic banking services to a large section of society without procedural hassles. Furthermore, the financing requirements of the economy have also undergone a structural change with the transformation of the economy into a high growth path in the recent past. The Reserve Bank has, therefore, been creating a conducive environment for provision of adequate and timely bank finance at reasonable rates to different sectors of the economy. Some of the initiatives taken in the recent past to improve credit delivery include (i) augmentation of credit flow to the agriculture and other priority sectors as also to distressed farmers and areas stricken by natural calamities; (ii) simplification of systems and procedures; (iii) permitting the use of banking facilitators/correspondents; (vi) information technology to address the last mile problem; and (v) providing greater operational flexibility to regional rural banks (RRBs).

2.33 During the year, some new initiatives were undertaken to improve the credit delivery mechanism. The guidelines on lending to the priority sector were revised to improve credit delivery to those sectors of the society/economy that impact large segment of the population, the weaker section and to the sectors which are employment-intensive such as agriculture and tiny and small enterprises. In order to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States and to make recommendations to the State Governments for improving the legal and enforcement framework in the interest of rural households, a Technical Group (Chairman: Shri S. C. Gupta) was set up. The Group submitted its Report in July 2007, which has been placed in public domain for comments from the general public. These apart, several other measures were initiated with a view to improving credit delivery such as financial inclusion and improvement in 'customer services' which are detailed in the subsequent sections of this Chapter. Measures pertaining to institutional reform, covering revival of regional rural banks and the co-operative structure and development of alternative avenues of credit dispensation such as micro-finance institutions, are discussed in Chapters 3 and 4 respectively.

Priority Sector Lending

2.34 The scope and extent of priority sector lending has undergone a significant change in the post-reform period with several new areas and sectors being brought under its purview. While there had been demands to include new areas, such as infrastructure, within the ambit of priority sector, there is apprehension that it will dilute the definition of the priority sector with the focus on the needy sectors of the economy and weaker sections of society getting completely lost. Against this background, an internal Working Group was set up in the Reserve Bank (Chairman: Shri C. S. Murthy) to examine the need for continuance of priority sector lending prescriptions, review the existing policy on priority sector lending, including the segments constituting the priority sector, targets and sub-targets, and to recommend changes, if any, required in this regard. Based on the draft Technical Paper submitted by the internal Working Group, and the feedback received thereon, the guidelines on lending to the priority sector were revised. The sectors of the society/economy that impact large segments of the population, the weaker sections and the sectors which are employment-intensive, such as agriculture and micro and small enterprises, have been retained as priority sector in the revised guidelines, which came into effect from April 30, 2007. Agriculture, small enterprise, micro credit, retail trade, education loans and housing loans up to Rs. 20 lakh are the broad categories included in the priority sector (Box II.3).

Credit to Agriculture and Allied Activities

2.35 The agriculture and allied sector directly impacts output, wages, employment and consumption patterns of a vast multitude of the population. Though the share of agriculture in the GDP declined from a little over 36 per cent in the 1980s to 18.5 per cent in 2006-07, the number of people dependent on agriculture for their food and livelihood have remained largely unchanged. A number of steps have, therefore, been taken by the Reserve Bank and the Government of India to facilitate credit flow to the agriculture sector. Towards this end, the Union Finance Minister had announced some measures on June 18, 2004 for doubling the flow of credit to the agriculture sector within a period of three years. The actual disbursement of credit by banks had exceeded the targets during all the three years up to 2006-07. Carrying forward this measure, the Union Finance Minister has fixed a target of Rs.2,25,000 crore for disbursements by banks for 2007-08.

Simplification of the Procedures and Processes for obtaining Agricultural Loans

2.36 A Working Group to Examine Procedures and Processes for obtaining Agricultural Loans (Chairman: Shri C. P. Swarnkar) was constituted by the Reserve Bank in December 2006, to suggest measures to further simplify the procedures and thereby reduce the cost and time for obtaining agricultural loans, especially for small and marginal farmers. The Group submitted its Report in April 2007. Based on the recommendations of the Group, all scheduled

Box II.3: Revised Guidelines on Priority Sector Lending

Based on the draft Technical Paper submitted by the internal Working Group (Chairman: Shri C. S. Murthy) and the feedback received thereon from the governments, banks, financial institutions, non-banking financial companies, associations of industries, media, public and Indian Banks' Association, the guidelines on lending to priority sector were revised on April 30, 2007. The guiding principle of the revised guidelines on lending to the priority sector has been to ensure adequate flow of bank credit to those sectors of society/economy that impact large segments of the population, the weaker sections and to the sectors which are employment-intensive, such as agriculture and tiny and small enterprises. The broad categories of advances under the priority sector now include agriculture, small enterprises sector, retail trade, microcredit, education and housing, subject to certain limits.

The major changes made in the guidelines are set out below:

(i) In order to overcome the crowding out effect against small loans, particularly to agriculture, big-ticket loans/advances have been kept out of the direct agriculture segment (loans/advances in excess of Rs. 1 crore granted to corporates, will get only one-third weightage for being counted under direct agriculture).

(ii) With a view to encouraging direct and retail lending by banks, intermediation has been generally discouraged by keeping loans for on-lending, barring a few categories, out of the priority sector fold and by phasing out investment in bonds of financial institutions from the priority sector.

(iii) Some of the banks had a 'nil' or negligible net bank credit (NBC) and were engaging mostly in non-funded business (derivatives). This distortion has been sought to be corrected by linking their targets to the credit equivalent of their off balance-sheet business.

(iv) The overall priority sector lending targets at 40 per cent and 32 per cent for the domestic and foreign banks respectively, as also other sub-targets, have been retained unchanged. However, these are now calculated as a percentage of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures (OBE), whichever is higher, instead of NBC. ANBC includes NBC plus investments made by banks in non-SLR bonds held in HTM category In order to address the problem faced by banks in pursuing a moving target the reference ANBC or credit equivalent of OBE for the purpose of the targets has been stipulated as ANBC or credit equivalent of OBE as on 31st March 31 of the preceding year.

(v) Certain concessions granted earlier for the purpose of priority sector (*i.e.*, exclusion of FCNR(B)/NRNR deposits from NBC) have lost their relevance in an environment of substantially large foreign exchange reserves. Such concessions have, therefore, been withdrawn. The outstanding FCNR (B) and NRNR deposits balances would no longer be deducted for computation of ANBC for priority sector lending purposes.

(vi) The revised guidelines also take into account the revised definition of small and micro enterprises as included in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 (refer Box II.5).

commercial banks (including RRBs) were advised to dispense with the requirement of 'no dues' certificate (NDC) for small loans up to Rs.50,000 for small and marginal farmers, share-croppers and instead obtain a self-declaration from the borrower. Further, in order to overcome the problem of producing identification/status documents by the landless labourers, share-croppers and oral lessees, banks were advised to accept certificates provided by local administration/*panchayati raj* institutions regarding the cultivation of crops in the case of loans to landless labourers, share-croppers and oral lessees. Other recommendations of the Group are being examined by the Reserve Bank.

Measures to Assist Distressed Farmers

2.37 Consequent upon the announcement made by the Reserve Bank in its Annual Policy Statement for the year 2006-07, a Working Group (Chairman: Dr. S. S. Johl) was set up to suggest measures for assisting distressed farmers, including provision of financial counseling services and introduction of a specific credit guarantee scheme (under the DICGC Act) for such farmers. The Group submitted its Report in November 2006. In the light of the recommendation of the Group and in order to assist distressed farmers whose accounts had earlier been rescheduled/converted on account of natural calamities, as also farmers who had defaulted on their loans due to circumstances beyond their control, banks were advised in the Mid-term Review of Annual Policy, released on October 31, 2006 to frame, with the approval of their boards, transparent one-time settlement (OTS) policies for such farmers. It is also proposed to introduce a credit guarantee scheme for distressed farmers (Box II.4).

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

2.38 The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was notified on October 2, 2006. With the inclusion of the services sector in the definition of micro, small and medium enterprises and extension of the scope to medium enterprises, the enactment of the MSMED Act, 2006 has brought about a paradigm shift from small scale industry to micro, small and medium enterprises. The MSMED Act, 2006 has defined micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services (Box II.5).

2.39 Consequent upon the announcement made in the Annual Policy Statement for the year 2007-08, all State Level Banker's Committee (SLBC) Convenor banks were advised on May 8, 2007 to review their institutional arrangements for delivering credit to the SME sector, especially in 388 clusters identified by the United Nations Industrial Development Organisation (UNIDO) spread over 21 States in various parts of the country.

Box II.4: Relief Measures for Distressed Farmers – Credit Guarantee Scheme

- The Working Group to suggest measures to assist distressed farmers (Chairman: Shri S S Johl), had, *inter alia*, suggested the operation of a credit guarantee scheme for distressed small borrowers (agricultural and others) by Deposit Insurance and Credit Guarantee Corporation. The features of the scheme, as recommended by the Group, are as follows:
- All the commercial banks, including RRBs and rural co-operative banks (state and central co-operative banks) have to compulsorily participate in the scheme.
- The scheme will cover only the borrowers affected by 'systemic distress'. Systemic distress, for the purposes of the scheme, will cover extensive loss of crops/assets caused due to natural calamities and pests/locusts on an epidemic scale.
- The scheme will cover those borrowers with aggregate sanctioned limits up to Rs.1 lakh granted after the introduction of the scheme, and whose loans are required to be restructured/rescheduled for the second successive time on account of systemic distress. The earlier restructuring/reschedulement should have been done in terms of Reserve Bank's/NABARD's guidelines.
- Consumption loans will not be covered under the scheme except to the extent included in the Kisan Credit Card (KCC) limit.
- The scheme shall guarantee up to 60 per cent of the amount outstanding in the guaranteed account/s, as on the date of occurrence of the natural calamity, necessitating restructuring/reschedulement for the second successive time. The balance loss should be borne by the bank/s concerned.
- Based on the recommendations of the Group, an Agricultural Loans (Distressed formers) Guarantee Scheme, 2007 has been drafted and forwarded to Government of India. The Scheme is being revised based on Government's Comments.

Box II.5: Salient Provisions of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The MSMED Act, 2006 classifies enterprises broadly into(i) manufacturing enterprises; and (ii) service enterprises. These broad categories are further classified into micro enterprises, small enterprises and medium enterprises, depending upon the level of investment in plant and machinery and equipment as the case may be.

(i) Manufacturing Enterprises

(a) Micro (manufacturing) Enterprises: Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery[1] does not exceed Rs. 25 lakh.

(b) Small (manufacturing) Enterprises: Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore.

(c) Medium (manufacturing) Enterprises: Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.

(ii) Service Enterprises

(a) Micro (service) Enterprises: Enterprises engaged in providing/rendering of services and whose investment in equipment[2] does not exceed Rs. 10 lakh.

(b) Small (service) Enterprises: Enterprises engaged in providing/rendering of services and whose investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore.

(c) Medium (Service Enterprises): Enterprises engaged in providing/rendering of services and whose investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

(iii) The small and micro (service) enterprises include small road and water transport operators, small business, professional and self-employed persons, and all other service enterprises. Although medium enterprises are included in the SME sector, credit to medium enterprises is not included under the priority sector.

(iv) Delayed Payment to Micro and Small Enterprises

The existing provisions of the Interest on Delayed Payment Act, 1998 to small scale and ancillary industrial undertakings have been strengthened under the MSMED Act as follows:

(a) The buyer to make payment on or before the date agreed upon between him and the supplier in writing or, where there is no agreement in this behalf, before the appointed day. The agreement between seller and buyer shall not exceed 45 days.

(b) If the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, from the date agreed upon, at three times of the Bank Rate notified by the Reserve Bank.

(c) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the amount with interest thereon as indicated at (b) above.

(d) In the case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

(v) National Board for Micro, Small and Medium Enterprises (MSME)

The Act also provides for constitution of a National Board for Micro, Small and Medium Enterprises under the chairmanship of the Union Minister for MSME, with wide representation of stakeholders, to (i) examine the factors affecting the promotion and development of micro, small and medium enterprises; and (ii) review the policies and programmes of the Central Government in regard to facilitating the promotion and development and enhancing the competitiveness of such enterprises and the impact thereof on such enterprises, and make recommendations on matter relating thereto.

The Act also provides for the constitution of an Advisory Committee under the chairmanship of Secretary (MSME), Government of India to examine matters referred to it by the National Board and give recommendations thereto, and also provide advice to the Central Government and the State Governments on matters relating to micro, small and medium enterprises.

(vi) Memorandum of Micro, Small and Medium Enterprises

The Act has also laid down the procedure for filing of memoranda by persons intending to establish micro or small enterprises or medium enterprise engaged in manufacture or production of goods or engaged in providing or rendering of services.

2.40 Public sector banks were advised to operationalise at least one specialised SSI branch in every district and centre having a cluster of SSI units. At the end of March 2007, 636 specialised SSI bank branches were operationalised by the banks as against 629 as at the end-March, 2006.

1 Investment in plant and machinery refers to original cost, excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006.

2 Investment in equipment refers to original cost, excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006

Credit to Small and Medium Enterprise (SME) Sector

2.41 The definition of small scale industry and small business enterprises for purposes of inclusion in the priority sector has been aligned with the definition adopted in the MSMED Act, 2006. Further, in order to improve credit delivery to SMEs, banks were urged to review their institutional arrangements for delivering credit to the SME sector, especially in identified clusters in various parts of the country, and to take measures to strengthen the expertise in and systems at branches located in or near such identified clusters with a view to providing adequate and timely credit.

2.42 Consistent with the notification on October 2, 2006 of the MSMED Act, 2006, the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services for the purpose of priority sector lending has been modified, and guidelines were issued to banks in April 2007 and July 2007.

2.43 In order to ensure that credit is available to all segments of small enterprise, banks were advised in July 2007 to ensure that (a) 40 per cent of the total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs.2 lakh; (b) 20 per cent of the total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs.5 lakh but up to Rs.25 lakh, and micro (service) enterprises with investment in equipment above Rs.2 lakh but up to Rs.10 lakh. Thus, 60 per cent of small enterprises advances should go to the micro enterprises.

Foreign Banks' Deposits with Small Industries Development Bank of India

2.44 Foreign banks are at present required to make good the shortfall in achievement of the stipulated 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). As per the revised priority sector guidelines issued in April 2007, foreign banks having shortfall in the stipulated priority sector lending target/sub-targets would be required to contribute to Small Enterprises Development Fund (SEDF) to be set up by SIDBI, or for such other purpose as may be stipulated by the Reserve Bank from time to time. The corpus of SEDF would be decided by the Reserve Bank on a year-to-year basis. The tenor of the deposits shall be for a period of three years or as decided by the Reserve Bank from time to time.

Internal Working Group on Special Relief Measures by Banks in Areas Affected by Natural Calamities

2.45 During calamities in the recent past such as *tsunami*, heavy rains, floods and earthquakes, a number of instances of operational problems relating to functioning of ATMs, opening of accounts of small customers, operations of accounts in the absence of documents and failure of computer networks came to the notice of the Reserve Bank. Following the announcement made in the Mid-term Review of the Reserve Bank's Annual Policy Statement for the year 2005-06, an internal Working Group (Chairman: Shri G. Srinivasan) was set up in the Reserve Bank to look into various issues in respect of areas affected by natural calamities and to suggest suitable revisions and additions to the existing guidelines to make them comprehensive. The Working Group submitted its final report on June 12, 2006.

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

Package of Relief Measures to the Vidarbha Region in Maharashtra

2.47 In order to mitigate the distress of farmers in the six debt-ridden districts in Vidarbha region of Maharashtra, the Hon'ble Prime Minister had announced a rehabilitation package so as to enable the affected borrowers to become immediately eligible for fresh loans from the banking system. Under the package, the entire interest on loans overdue as on July 1, 2006 was waived in the six debt-ridden districts (Amravati, Wardha, Yavatmal, Akola, Washim and Buldhana) and the principal amounts of the overdue loans were rescheduled over a period of 3-5 years with a one-year moratorium. The package also envisaged that an additional credit flow of Rs.1,275 crore would be ensured in these six districts. The total amount of credit of Rs. 1,275 crore envisaged to be released by banks has been allocated by the SLBC among the banks functioning in these districts. The Government of India has sanctioned Rs.356 crore for reimbursing the banks towards waiver of interest in districts of Vidarbha.

Package for Debt Stressed Districts of Andhra Pradesh, Karnataka and Kerala

2.48 The Government of India had approved a package for mitigating the distress of farmers in 25 debt stressed districts of Andhra Pradesh, Karnataka and Kerala. The package, insofar as it relates to agricultural credit, includes the following elements. One, the entire interest on overdue loans as on July 1, 2006 would be waived in the 25 affected districts and all farmers would have no past interest burden as on that date, so that they would immediately be eligible for fresh loans from the banking system. Two, the overdue loans of the farmers as on July 1, 2006 would be rescheduled over a period of 3-5 years with a one-year moratorium. Three, a credit flow of Rs.13,818 crore, Rs.3,076 crore and Rs. 1,945 crore would be ensured in the affected districts of Andhra Pradesh, Karnakata and Kerala, respectively, during 2006-07.

2.49 The Government of India has sanctioned Rs.718 crore, Rs.105 crore and Rs.180 crore for reimbursing the banks towards waiver of interest in the affected districts of Andhra Pradesh, Karnakata and Kerala, respectively.

Technical Group for Review of Legislations on Money Lending

2.50 The All-India Debt and Investment Survey (NSS Fifty-Ninth Round) had revealed that the share of money lenders in total dues of rural households had increased from 17.5 per cent in 1991 to 29.6 per cent in 2002. Considering that high indebtedness to money lenders could be an important reason for distress of farmers, a Technical Group for Review of Legislations on Money Lending (Chairman: Shri S. C. Gupta) as announced in the Annual Policy Statement for the year 2006-07 was set up to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States and make recommendations to the State Governments for improving the legal and enforcement framework in the interest of rural households. The Group submitted its report on June 15, 2007, which has been placed in the public domain for comments from the stakeholders.

2.51 The Group has, *inter alia*, recommended a model law for the consideration and adoption by the State Governments that do not have a comprehensive legislation in place for governing money lending. The proposed model law reflects the significant elements of similar legislation available internationally and domestically. The Group has also recommended some modifications to the existing legislations to facilitate quick, informal and easy dispute resolution and better enforcement. The model legislation provides for (a) a simple and hassle free procedure for compulsory registration and periodical renewal of registration by moneylenders; (b) adoption of the rule of *Damdupat* restricting the maximum amount of interest chargeable by the moneylender; and (c) periodical resetting of the maximum rate of interest in line with market rates by State Governements in consultation with SLBC. The Group has also explored the possibility of establishing a link between the formal and informal credit providers, whereby a moneylender may serve as an 'accredited loan provider', *i.e.*, an additional credit delivery channel for the formal sector, provided there are safeguards in place (Box II.6).

Box II.6: Technical Group to Review the Legislations on Money Lending

The Technical Group (Chairman: Shri S.C. Gupta) made the following recommendations:

- Moneylenders should be registered compulsorily with the State Governments. Unregistered moneylenders will be penalised. The procedure for registration and renewal should be made simple and hassle free.
- In order to focus the legislation on the regulation of money lending transactions, banks, statutory corporations, co-operatives, financial institutions, NBFCs and the Reserve Bank need to be kept out of the purview of the legislation.
- To provide the State Governments with the flexibility of adjusting the rates of interest in accordance with the market realities, the maximum rates of interest to be charged by moneylenders should be notified by the State Governments from time to time. While determining the maximum rate, the range of interest rates and costs and other expenses being charged should be taken into account. In order to prevent usury, the rule of damdupat has been recommended.
- Alternate dispute resolution mechanisms such as Lok Adalat and Nyaya Panchayat for speedy and economical dispensation of justice have been recommended. Alternatively, State Governments may think of setting up of fast-track Courts/designated Courts to deal with disputes relating to lending transactions by money lenders and accredited loan providers. The choice of the forum can be decided by the State Governments depending upon the local conditions.
- In order to ensure that the enforcement/administration of the legislation is properly monitored, a new section has been proposed which would require State Governments to place an annual report on the administration of the legislation before the State Legislature.
- The State Governments should take adequate steps to publicise the maximum rates of interest notified under the Act, the offences under the Act and the dispute redressal machinery provided thereunder.
- A new chapter in the States' money lending legislations, aimed at establishing a link between the formal and informal credit providers, to be called 'Accredited Loan Providers', has been recommended.
- The Technical Group has recommended a set of conditions in the agreement between the banks/financial institutions and the 'accredited loan providers' as safeguard measures.
- The advances made by institutional creditors to accredited loan providers may be treated as priority sector lending. This would encourage the banks to take up the role of institutional creditors and disburse loans through the linkage with accredited loan providers as an additional business.

4. Financial Inclusion

2.52 Financial inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded from the formal banking channel. Despite widespread expansion of the banking sector during the last three decades, a substantial proportion of the households, especially in rural areas, is at present outside the coverage of the formal banking system. The Reserve Bank's broad approach to financial inclusion aims at 'connecting people' with the banking system and not just credit dispensation; giving people access to the payments system; and portraying financial inclusion as a viable business model and opportunity. Efforts towards 'financial inclusion' include sensitising the banks to the banking and financial needs of the common person and ensuring access to basic banking facilities. In consonance with the above approach, the Reserve Bank has undertaken a number of measures in recent years for attracting the financially excluded population into the formal financial system. The Annual Policy Statement for 2006-07 urged all banks to give effect to the measures announced by the Reserve Bank from time to time on financial inclusion at all their branches.

2.53 Introduction of 'zero balance' or 'no frills' accounts has enabled the common person to open bank account. However, providing banking facilities closer to the customer, especially in remote and unbanked areas, while keeping transaction costs low, remains a challenge. This has to be done with affordable infrastructure and low operational costs with the use of appropriate technology. Pursuant to the announcement made in the Annual Policy Statement for the year 2007-08, banks were urged on May 7, 2007 to scale up their financial inclusion efforts by utilising appropriate technology, while ensuring that the solutions developed are: (i) highly secure; (ii) amenable to audit; and (iii) follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. Banks have initiated pilot projects utilising smart cards/mobile technology to increase their outreach. Biometric methods for uniquely identifying customers are also being increasingly adopted.

Pilot Project for 100 per cent Financial Inclusion: Status and Further Action

2.54 The convenor banks of the State Level/ Union Territory Level Bankers' Committees (SLBC/UTLBC) in all States/Union Territories were advised on April 28, 2006 to identify at least one district in each State/Union Territory for achieving 100 per cent financial inclusion by providing a 'no-frills' account and issue of general purpose credit card (GCC). They were also advised that on the basis of experience gained, the scope for providing 100 per cent financial inclusion may be extended to cover other areas/districts. The SLBCs/UTLBCs were further advised to allocate villages to the various banks operating in the State for taking the responsibility for ensuring 100 per cent financial inclusion and also to monitor financial inclusion in the meetings of the SLBC/ UTLBC from September 2006 onwards. So far, 160 districts have been identified and 100 per cent financial inclusion has been achieved in the whole of Union Territory of Puducherry and in 28 districts in eight States (Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Punjab and West Bengal). All districts of Himachal Pradesh have achieved financial inclusion. An evaluation of the progress made in achieving financial inclusion in these districts is being undertaken to draw lessons for further action in this regard.

Services to Depositors and Small Borrowers in Rural and Semi-Urban Areas

2.55 The Annual Policy Statement for the year 2005-06 proposed a survey for assessing customer satisfaction on credit delivery in rural areas by banks. Accordingly, the National Council of Applied Economic Research (NCAER) was entrusted with the job of carrying out a study on the quality of services rendered by branches of commercial banks to their customers (both depositors and small borrowers) in rural and semi-urban areas. The NCAER initiated the study in January 2006 and submitted the Report in October 2007. The study covered 930 bank branches across the country from 30 States/Union Territories, and included 9,300 depositors and 13,950 borrowers. Prompt service delivery at the counter and professional attitude of the bank staff in reaching out to the customers emerged as key determinants for customer satisfaction in rural and semi-urban areas.

Credit Counselling: Setting up of Centres on a Pilot Basis

2.56 The Working Group (Chairman: Prof. S. S. Johl) constituted by the Reserve Bank to suggest measures for assisting distressed farmers had recommended that financial and livelihood counselling are important for increasing the viability of credit. Further, the Working Group constituted to examine the procedures and processes for agricultural loans (Chairman: Shri C. P. Swarnkar) had also recommended that banks should actively consider opening of counselling centres, either individually or with pooled resources, for credit and technical counselling with a view to giving special thrust to credit delivery in the relatively under-developed regions. In the light of the recommendations of these two Groups, as announced in the Annual Policy Statement for the year 2007-08, State Level Bankers' Committee convenor banks were advised to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district. Based on the experience gained, the concerned lead banks may set up such centres in other districts.

Use of Intermediaries as Agents

2.57 In January 2006, the Reserve Bank permitted banks to utilise the services of non-governmental organisations/self-help groups (NGOs/SHGs), micro-finance institutions (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator (BF) and business correspondent (BC) models. The BC model allows banks to do 'cash-in/cash-out' transactions at a location much closer to the rural population, thus, addressing the last mile problem. Banks are also entering into agreements with postal authorities for using the enormous network of post offices as business correspondents, thereby increasing their outreach and leveraging the postman's intimate knowledge of the local population and trust reposed in him.

Working Groups on Improvement of Banking Services in Different States/Union Territories

2.58 The Reserve Bank has been initiating measures to improve the outreach of banks and their services, and promote financial inclusion in less developed States/UTs. During 2005-06, the Reserve Bank had constituted two committees/working groups to examine the problems/issues relating to banking services in the North-Eastern regions (Chairperson: Smt Usha Thorat) and Uttarakhand (Chairman: Shri V.S. Das). During 2006-07, the Reserve Bank constituted four more working groups to look into the banking services in Bihar, Himachal Pradesh, Lakshadweep Islands and Chattisgarh.

2.59 In order to prepare a monitorable action plan for achieving greater financial inclusion and provision of financial services in the North Eastern region, the Reserve Bank had set up a Committee on Financial Sector Plan for the North Eastern region (Chairperson: Smt. Usha Thorat). The Committee submitted its report in July 2006. The Committee had stressed the need for improving the infrastructure, creating a favourable investment climate, focusing on a few sectors of strategic advantage for development and encouraging a favourable credit culture. The implementation of the recommendations of the Committee is being closely monitored by the Reserve Bank. On request from Government of India to include the State of Sikkim while reviewing the credit flow from banks in the North Eastern region, a Task Force for the State of Sikkim was constituted under the chairmanship of the Regional Director, West Bengal and Sikkim, Reserve Bank, to recommend action plan for the State of Sikkim to the Committee on Financial Sector Plan. The Task force forwarded its report on June 22, 2007 to all the stakeholders for implementation of the recommendations.

2.60 A Working Group (Chairman: Shri V. S. Das) was constituted in May 2006 to examine the problems/issues relating to banking services in Uttarakhand and to prepare an action plan for the purpose. The Group submitted its report on August 14, 2006. The action points arising out of the recommendations have been forwarded to the concerned agencies for implementation.

2.61 A Working Group (Chairman: Shri V. S. Das) was constituted to look into the problems faced by the bankers and borrowers in the State of Bihar. The recommendations of the Group are being implemented by the SLBC, banks and the State Government of Bihar. A Working Group under the chairmanship of the Regional Director for Chhattisgarh and Madhya Pradesh, Reserve Bank was also constituted to draw up an action plan for improving the banking services in the State of Chhattisgarh. The recommendations of the Group are under implementation.

2.62 A Working Group was constituted under the chairmanship of the Regional Director for Kerala and the Union Territory of Lakshadweep, Reserve Bank to undertake a study of banking services in the Union Territory of Lakshadweep Islands. The Group is expected to submit its report shortly.

2.63 Another Working Group was constituted under the chairmanship of the Regional Director for the States of Punjab and Himachal Pradesh and Union Territory of Chandigarh, Reserve Bank to review the role of banks and financial institutions in supporting the initiatives taken by the State Government of Himachal Pradesh for promoting economic development of the State and also recommend measures for enhancing greater outreach/penetration of the banking system in the State. The Group submitted its report on September 26, 2007 and its recommendations are under examination.

2.64 In pursuance of the policy to improve banking facilities in certain less developed States/ regions, a Working Group (Chairman: Shri V.S. Das) was constituted in October 2007 to recommend measures to enhance the outreach of banking services in the State of Jharkhand.

Micro-finance

2.65 Recognising the potential of micro-finance to positively influence the upliftment of the poor, the Reserve Bank has been making efforts to create an environment for its orderly development. The Reserve Bank conducted a joint fact-finding study in May 2006 with a few major banks. The study revealed that some of the micro-finance institutions (MFIs) financed by banks or acting as their intermediaries/partners appeared to be focussing on relatively better banked areas. They were also operating in the same area trying to reach out to the same set of poor resulting in multiple lending. Further, many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent. Also, some banks, as principal financiers of MFIs, did not appear to be engaging them for improving their systems, practices and lending policies. An advisory was, therefore, issued to banks in November 2006 communicating these findings and advising them to take corrective action at their end.

2.66 The micro-finance sector has gained momentum in recent years and this has brought into focus the issue of its regulation. A draft Micro-financial Sector (Development and Regulation) Bill, 2007 is under consideration of the Union Government, which envisages regulation of the micro-finance sector. The Bill was tabled in the Lok Sabha on March 20, 2007.

Loans Extended against Gold and Silver Ornaments: Reduction of Risk Weight

2.67 Loans against gold and silver ornaments are commonly availed of by the poorer sections of society in both rural and urban areas. These loans entail relatively low risk as they are extended with adequate margins and the collateral (gold or silver) is easily marketable, particularly where the size of the loan is small. Such loans being in the nature of retail (personal) loans attracted a risk weight of 125 per cent. In the Annual Policy Statement for the year 2007-08, the risk weight on loans up to Rs.1 lakh against gold and silver ornaments was reduced to 50 per cent from the earlier level of 125 per cent for all categories of banks.

5. Prudential Regulation

2.68 The focus of Reserve Bank's regulatory initiatives during 2006-07 continued to be on adopting international best practices and their gradual harmonisation with the Indian practices with a view to reinforcing financial stability. In conformity with the commitment to ensure a smooth transition to Basel II, a number of measures were initiated. Apart from the release of the final guidelines for implementation of the New Capital Adequacy Framework (Basel II) by banks, some of the major initiatives included issuing of guidelines on stress testing by banks, and enhancement of disclosure norms to strengthen Pillar 3 (Market Discipline) of the new framework. Other major initiatives taken during the year included modification in the existing guidelines on banks' exposure to the capital market; issuance of comprehensive guidelines on derivatives, revised framework for managing the attendant risks in outsourcing; issuance of prudential norms on creation and utilisation of floating provisions; and modification in the guidelines on sale/purchase of NPAs.

Capital Adequacy

Basel II – Implementation of the New Capital Adequacy Framework

2.69 The Basel Committee on Banking Supervision (BCBS) framework on capital adequacy in India was introduced in April 1992, when all scheduled commercial banks (including foreign banks) were required to maintain a capital to risk-weighted asset ratio (CRAR) of 8 per cent in a phased manner. The stipulated minimum CRAR was increased to 9 per cent from end-March 2000. Essentially, under the above system the balance sheet assets, non-funded items and other off-balance sheet exposures are assigned prescribed risk weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk weighted assets and other exposures on an ongoing basis. Taking into account the size, complexity of operations, relevance to the financial sector, need to ensure greater financial inclusion and the need for having an efficient delivery mechanism, the capital adequacy norms applicable to various categories of financial institutions have been maintained at varying levels of stringency. In India, a three-track approach has been adopted with regard to capital adequacy rules. On the first track, commercial banks are required to maintain capital for both credit and market risks as per Basel I framework; the co-operative banks, on the second track, are required to maintain capital for credit risk as per Basel I framework and through surrogates for market risk; and the regional rural banks, on the third track, have a minimum capital requirement which is, however, not on par with the Basel I framework.

2.70 On the lines of 'Amendment to the Capital Accord to Incorporate Market Risks' issued by the BCBS in 1996, banks in India were advised in June 2004 to maintain capital charge for market risks. The BCBS released the 'International Convergence of Capital Measurement and Capital Standards: A Revised Framework' on June 26, 2004. Based on the Revised Framework, the draft guidelines for implementation by banks in India were initially placed in the public domain on February 15, 2005 inviting feedback/comments from a wide spectrum of banks and other stakeholders. Comprehensive version of the framework was issued in July 2006. The final guidelines on the revised capital adequacy framework (Basel II) were issued to banks in India on April 27, 2007 after considering the feedback received.

2.71 The Basel II norms address three types of risks, *viz*., credit risk, market risk and operational risk for minimum capital requirements and has a three pillar structure with minimum capital requirements as the first pillar, supervisory review process as the second pillar and market discipline as the third pillar. In terms of the provisions of the final guidelines on the revised framework, all commercial banks in India (excluding local area banks and regional rural banks) migrating to Basel II are required to adopt Standardised Approach (SA) for credit risk and Basic Indicator Approach (BIA) for operational risk, while continuing to apply the Standardised Duration Approach (SDA) for computing capital requirement for market risks. While foreign banks operating in India and Indian banks having operational presence outside India are expected to migrate to the Revised Framework with effect from March 31, 2008, all other commercial banks (excluding local area banks and regional rural banks) are encouraged to migrate to these approaches under Basel II in any case not later than March 31, 2009. Banks are required to obtain prior approval of the Reserve Bank in case they intend to migrate to the advanced approaches for computing risk weights. The pre-requisites and procedure for approaching the Reserve Bank for seeking such approval would be issued in due course.

2.72 Banks are required to maintain a minimum capital to risk-weighted assets ratio (CRAR) of 9 per cent on an ongoing basis. However, taking into account the relevant risk factor and internal capital adequacy assessments of each bank, the Reserve Bank may prescribe a higher level of minimum capital to risk-weighted asset ratio to ensure that the capital held by a bank is commensurate with its overall risk profile. Banks are encouraged to maintain, at both solo and consolidated level, a minimum Tier I ratio of at least 6 per cent. Banks below this level must achieve this ratio on or before March 31, 2010.

2.73 With a view to ensuring smooth transition to the Revised Framework and providing opportunity to banks to streamline their systems and strategies, banks were advised to have a parallel run of the Revised Framework (Box II.7).

Enhancement of Banks' Capital Raising Options

2.74 Under the Basel II framework, Indian banks are expected to have larger capital requirements as they would need to earmark capital for operational risk, apart for credit and market risks. For smooth transition to Basel II and with a view to providing additional options for raising capital funds, banks were allowed in January 2006 to augment their capital funds by issuing innovative perpetual debt instruments

Box II.7: Migration to New Capital Adequacy Framework: Parallel Run Process

With a view to ensuring smooth transition to the Revised Framework and providing opportunity to streamline their systems and strategies, banks in India were advised to have a parallel run of the Revised Framework, which they have been conducting since 2006-07. The boards of the banks were required to review the results of the parallel run on a quarterly basis. The parallel run consists of the following:

(i) Banks are required to apply the prudential guidelines on capital adequacy – both current guidelines and the guidelines on the Revised Framework – on an on-going basis and compute their CRAR under both the guidelines.

(ii) An analysis of the bank's CRAR under both the guidelines is required to be reported to the Board at quarterly intervals. While reporting the above analysis to the Board, banks should also furnish a comprehensive assessment of their compliance with the other requirements relevant under the Revised Framework, which include the following, at the minimum:

(a) Board approved policy on utilisation of the credit risk mitigation techniques, and collateral management;

(b) Board approved policy on disclosures;

(c) Board approved policy on internal capital adequacy assessment process (ICAAP) along with the capital requirement as per ICAAP;

(d) Adequacy of bank's management information system (MIS) to meet the requirements under the New Capital Adequacy Framework, the initiatives taken for bridging gaps, if any, and the progress made in this regard;

(e) Impact of the various elements/portfolios on the bank's CRAR under the revised framework;

(f) Mechanism in place for validating the CRAR position computed as per the New Capital Adequacy Framework and the assessments/findings/recommendations of these validation exercises;

(g) Action taken with respect to any advice/guidance/direction given by the Board in the past on the above aspects.

A copy of the quarterly report to the Board is required to be submitted to the Reserve Bank.

The minimum capital maintained by banks on implementation of Basel II norms is subject to a prudential floor computed with reference to the requirement as per Basel I framework for credit and market risks. The floor has been fixed at 100 per cent, 90 per cent and 80 per cent for the position as at end-March for the first three years of implementation of the Revised Framework.

(IPDI) eligible for inclusion as Tier I capital and debt capital instruments eligible for inclusion as Upper Tier II capital (Upper Tier II instruments). Initially banks were allowed to issue these instruments in Indian Rupees and were required to obtain prior approval of the Reserve Bank, on a case-by-case basis, for issue in foreign currency. Further, the total amount raised by issue of these instruments by banks was reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements.

2.75 The guidelines were reviewed and the following relaxations were introduced in July 2006:

(i) The total amount raised by a bank through IPDIs is not to be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, not to attract CRR/SLR requirements.

(ii) The total amount raised by a bank through IPDIs is not to exceed 15 per cent of total Tier I capital, and the eligible amount is required to be computed with reference to the amount of Tier I capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

(iii) Investment by FIIs in IPDI raised in Indian Rupees is outside the external commercial borrowing (ECB) limit for rupee denominated corporate debt fixed for investment by FIIs in corporate debt instruments.

(iv) Banks can augment their capital funds through the issue of IPDI/Upper Tier II instruments in foreign currency without seeking the prior approval of the Reserve Bank, subject to the compliance with certain requirements. One, IPDI/ Upper Tier II instruments issued in foreign currency should comply with all terms and conditions applicable to the guidelines issued on January 25, 2006, unless specifically modified in July 2006 guidelines. Two, in the case of IPDI, not more than 49 per cent of the eligible amount could be issued in foreign currency. In the case of Upper Tier II instruments, the total amount issued in foreign currency should not exceed 25 per cent of the unimpaired Tier I capital and to be computed with reference to the amount of Tier I capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments. The amount raised by issue of these instruments in foreign currency would be in addition to the existing limit for foreign currency borrowings by authorised dealers. Three, investment by FIIs in Upper Tier II Instruments raised in Indian Rupees shall be outside the limit for investment in corporate debt instruments, *i.e.*, US$ 1.5 billion. However, investment by FIIs in these instruments would be subject to a separate ceiling of US$ 500 million.

2.76 With a view to providing a wider choice of instruments to Indian banks for raising Tier I and Upper Tier II capital, banks were allowed in October 2007 to issue preference shares in Indian Rupees, subject to extant legal provisions through issuance of perpetual non-cumulative preference shares (PNCPS) as Tier I capital. The perpetual cumulative preference shares (PCPS), redeemable non-cumulative preference shares (RNCPS) and redeemable cumulative preference shares (RCPS) were allowed as Upper Tier II capital. The perpetual non-cumulative preference shares will be treated on par with equity, and hence, the coupon payable on these instruments will be treated as dividend (an appropriation of profit and loss account). The Upper Tier II preference shares will be treated as liabilities and the coupon payable thereon will be treated as interest (charged to profit and loss account). The total amount raised by the bank by issue of PNCPS shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR/SLR requirements. The total amount raised by a bank through the issue of Upper Tier II instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements.

Guidelines on Stress Testing

2.77 A well designed and implemented stress testing framework would supplement banks' risk management systems and help in making these systems more robust. The stress testing involves identifying possible events and future economic conditions that could unfavourably impact bank's credit exposures, and making an assessment of the ability of banks to withstand the loss arising out of such events. Internationally, stress testing has become an integral part of banks' risk management systems and is used to evaluate the potential vulnerability to some unlikely, but plausible events or movements in financial variables. There are broadly two categories of stress tests used in banks, *viz*., sensitivity tests and scenario tests. These may be used either separately or in conjunction with each other.

2.78 Sensitivity tests are normally used to assess the impact of change in one variable (for instance, a high magnitude parallel shift in the yield curve, a significant movement in the foreign exchange rates, a large movement in the equity index) on the bank's financial position. Scenario tests include simultaneous movement in a number of variables (for instance, equity prices, oil prices, foreign exchange rates, interest rates, liquidity, *etc*.) based on a single event experienced in the past (*i.e.*, historical scenario – for instance, natural disasters, stock market crash, depletion of a country's foreign exchange reserves), or a plausible market event that has not yet happened (*i.e.*, hypothetical scenario - for instance, collapse of communication systems across the entire region/country, sudden or prolonged severe economic downturn), and the assessment of their impact on the bank's financial position.

2.79 Stress tests are also carried out on the asset portfolio incorporating various scenarios, such as economic downturns, industrial downturns, market risk events and sudden shifts in liquidity conditions. Furthermore, exposures to sensitive sectors and high risk category of assets would have to be subjected to more frequent stress tests based on realistic assumptions for asset price movements. Stress tests enable banks to assess the risk more accurately, thereby facilitating planning for appropriate capital requirements.

2.80 Banks in India are beginning to use statistical models to measure and manage risks. Stress tests are, therefore, relevant for them. Further, the supervisory review process under Pillar 2 of Basel II framework is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. The need for banks in India to adopt 'stress tests' as a risk management tool was emphasised in the Annual Policy Statement for 2006-07. Accordingly, guidelines on stress testing were issued by the Reserve Bank on June 26, 2007. In terms of provisions of the guidelines, banks are required to put in place appropriate stress test policies and the relevant stress test framework for the various risk factors by September 30, 2007.

2.81 Banks have been advised to undertake the stress tests on a trial basis and use the results of these trial tests as a feedback to further refine the framework. It has also been decided to allow some time to banks to refine the stress testing frameworks. Banks are required to ensure that their formal stress testing frameworks, which are in accordance with the guidelines, are operational from March 31, 2008. Guidelines on stress testing, as relevant for the Basel II framework, would be issued separately.

Enhanced Bank Disclosures

2.82 A set of disclosure requirements has been prescribed by the Reserve Bank to encourage market discipline. In view of the Pillar 3 disclosure framework of the BCBS, the disclosure requirements designed for Indian banks are being streamlined in the light of the industry developments and the experience from the ongoing monitoring in this area.

2.83 In order to ensure that the drawdown by banks of their statutory reserves is done prudently and is not in violation of any of the regulatory prescriptions, banks were advised in September 2006 (i) to take prior approval from the Reserve Bank before any appropriation is made from the statutory reserve or any other reserves; (ii) all expenses including provisions and write-offs recognised in a period, whether mandatory or prudential, should be reflected in the profit and loss account for the period as an 'above the line' item (*i.e.*, before arriving at the net profit); (iii) wherever drawdown from reserves takes place with prior approval of the Reserve Bank, it should be effected only 'below the line' (*i.e.*, after arriving at the profit/ loss for the year); and (iv) to ensure that suitable disclosures are made of such drawdown of reserves in the 'notes on accounts' to the balance sheet.

2.84 Scheduled commercial banks (SCBs), excluding RRBs, were required to adopt the three business segments, *viz*., 'treasury', 'other banking business' and 'residual' as the uniform business segments and 'domestic' and 'international' as the uniform geographic segments for the purpose of segment reporting under AS-17 in terms of circular dated March 29, 2003. As the segment of 'other banking business' was very broad, in order to lend sufficient transparency to the balance sheet, it was decided to divide this segment into three categories, *viz.*, corporate/wholesale banking, retail banking and other banking operations. Revised draft guidelines were placed on the Reserve Bank's website on December 19, 2006, for feedback from all the stakeholders. Based on the feedback, final guidelines were issued on April 18, 2007. Accordingly, banks will adopt the following business segments for public reporting purposes, from March 31, 2008: (a) treasury, (b) corporate/ wholesale banking, (c) retail banking, and (d) other banking operations. The segment of 'retail banking' would include exposures which fulfil the four criteria of orientation, product, granularity and low value of individual exposures for retail exposures as laid down in the BCBS document entitled 'International Convergence of Capital Measurement and Capital Standards: A Revised Framework'. Individual housing loans will also form part of the retail banking segment for the purpose of reporting under AS-17. The segment of wholesale banking would include all advances to trusts, partnership firms, companies and statutory bodies, which are not included under 'retail banking'. The segment 'others banking business' would include all other banking operations not covered under 'treasury', 'wholesale banking' and 'retail banking' segments. It will also include all other residual operations such as para-banking transactions/activities. Banks will also be required to report any additional segments, which fulfill the criteria laid down under AS-17. The disclosure requirement will come into force from the reporting period ending March 31, 2008.

Exposure Norms and Risk Weights

2.85 The Reserve Bank has prescribed regulatory limits on banks' exposure to individual and group borrowers to avoid concentration of credit, and has advised banks to fix limits on their exposure to specific industries or sectors (real estate) to ensure better risk management. In addition, banks are also required to observe certain statutory and regulatory limits in respect of their exposures to the capital market. In pursuance to the announcement made in the Mid-term Review of Annual Policy Statement for the year 2005-06, prudential capital market exposure norms prescribed for banks were rationalised in terms of base and coverage.

2.86 Aggregate exposure (both fund and non-fund based) of banks to the capital market in all forms under direct and indirect exposures was revised in terms of the guidelines issued on December 15, 2006, which came into effect from April 1, 2007. The aggregate exposure of a bank/ consolidated bank to the capital market in all forms (both fund based and non-fund based) cannot exceed 40 per cent of its net worth as on March 31 of the previous year. In terms of the revised guidelines, net worth consists of (i) paid-up capital plus free reserves including share premium but excluding revaluation reserves; (ii) investment fluctuation reserve (IFR); and (iii) credit balance in profit and loss account *less* the debit balance, accumulated losses and intangible assets. General or specific provisions are included in the computation of net worth. The guidelines also laid down norms for computation of exposure norms for loans and advances against shares; bank financing to individuals against shares to joint holders or third party beneficiaries; margins on advances against shares/issue of guarantees; investments in venture capital funds (VCFs); intra-day exposures; enhancement in limits; and transitional provisions.

2.87 Considering the higher risks inherent in banks' exposure to VCFs, the Reserve Bank, on August 23, 2006, revised the prudential framework governing banks' exposure to VCFs. Under the revised framework, all exposures to VCFs (both registered and unregistered) are deemed on par with 'equity' and hence, are reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure) and the limits prescribed for such exposure are also applied to investments in VCFs. While the investment in quoted equity shares/bonds/units of VCFs in the bank's portfolio are required to be held under 'available for sale' (AFS) category and valued as per the valuation norms applicable for AFS portfolio.

2.88 Investments in unquoted shares/bonds/ units of VCFs made after issuance of these guidelines are required to be classified under 'held to maturity' (HTM) category for an initial period of three years and valued at cost during this period. After three years, the unquoted units/shares/ bonds have to be transferred to AFS category.

2.89 While significance of venture capital activities and need for banks' involvement in financing venture capital funds is well recognised, there is also a need to address the relatively higher risks inherent in such exposures. Therefore, the risk weight for exposure to VCFs was increased to 150 per cent (specific risk charge in the case of investments held in AFS portfolio raised to 13.5 per cent).

2.90 The supervisory review process (SRP) undertaken with respect to select banks having significant exposure to sensitive sectors revealed that real estate exposure increased across banks, mainly on account of individual housing loans (Box II.8). In recognition of the risk facing banks due to their exposures to the real estate sector, provisioning requirements and risk weights on real estate exposures were tightened. In July 2005, the Reserve Bank increased the risk weight on exposures to commercial real estate from 100 per cent to 125 per cent. Given the continued rapid expansion in credit to this sensitive sector, the risk weight was raised further to 150 per cent in April 2006.

2.91 The risk weights on housing loans extended by banks to individuals against mortgage of housing properties and investments in mortgage backed securities (MBS) of housing finance companies (HFCs), recognised and supervised by National Housing Bank (NHB) were increased to 75 per cent for capital adequacy purposes in December 2004 (Box II.9). As mentioned in the Annual Policy Statement for the year 2007-08, banks on May 3, 2007 were advised to tighten their credit administration in the area of housing loans. Banks were also advised to reduce the risk weight in respect of housing loans up to Rs.20 lakh to individuals against the mortgage of residential housing properties from 75 per cent to 50 per cent. Similarly, the risk weight for banks' investment in mortgage backed securities which are backed by housing loans, would now qualify for 50 per cent risk weight. The risk weight on mortgage backed securities issued by the housing

Box II.8: Supervisory Review Process

The Mid-term Review of the Annual Policy Statement for the year 2005-06 had stated that a supervisory review process (SRP) would be initiated with select banks having significant exposure to some sectors, viz., real estate, highly leveraged NBFCs, venture capital funds and capital markets, in order to ensure that effective risk mitigants and sound internal control systems are in place. In the first round, a framework was developed for monitoring the systemically important individual banks.

The second round of SRP has been directed to analyse the exposure to sensitive sectors, in particular to the real estate sector, of select banks. Ten banks were identified as outliers based on the real estate and capital market exposure in excess of 200 per cent and 25 per cent, respectively, of their net worth. The second round of SRP was conducted in two phases. Under Phase I, detailed information on exposure to sensitive sectors, including real estate sector as per the revised definition, was sourced from the banks, followed by discussions with their senior officials. Phase II of the SRP was based on on-site focused examinations to assess the risk exposures of identified individual outlier banks with reference to their actual control environment, procedures, and compliance with internal and regulatory norms. The on-site scrutiny focused on large lending towards real estate and other sensitive sectors, companies involved, branch-wise large individual exposures, and other related matters.

The initial analysis revealed that real estate exposure increased across all the banks and individual housing loans constituted the bulk of real estate loan portfolio of all the banks. These banks had real estate exposure of more than 200 per cent of their net worth. Growth in individual housing loans largely accounted for the spurt in real estate exposure. Commercial real estate exposure has also risen in varying degrees across all the banks. Although exposure to the capital market showed an increasing trend, none of the banks, however, breached the regulatory limits. Exposure to highly leveraged NBFCs was found to be minimal in majority of the identified banks and wherever banks had exposures, majority of them were in the public sector. The initial analysis revealed that, prima facie, all the banks under review had some risk management policies, systems and controls in place to tackle the risks posed by the exposure to sensitive sectors. However, in the case of real estate exposure, certain lapses were observed with regard to the implementation of banks' own approved policies. Necessary instructions were, therefore, issued by the Reserve Bank on July 26, 2007 to all commercial banks excluding RRBs, indicating the need for better management of risk by banks at operating levels. Besides providing the banks with an indicative list of deficiencies and irregularities observed from the study, it was prescribed that the loan policy of the banks should explicitly contain the following norms:

- Internal ceilings and sub-ceilings for exposure to the real estate sector.
- Minimum internal rating required for builders and developers.
- Minimum contribution of the promoter in a project to be financed by the bank.
- Requisite security cover a bank should keep for this type of exposure.
- Preparation of panel of approved valuers for valuation of securities.
- Procedure for registration of documents and also for verification by the bank that registration with the appropriate authorities has been done.

Box II.9: Reverse Mortgage - Recent Developments in India

In the Union Budget 2007-08, the Finance Minister announced the introduction of a novel product for senior citizens - the 'reverse mortgage'. This product enables a senior citizen, who is the owner of a house, to avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan. Conceptually, reverse mortgage seeks to monetise the house as an asset and specifically the owner's equity in the house. A reverse mortgage is just the opposite of a forward mortgage which requires the payment of the principal loan amount along with interest on a monthly basis. This helps a borrower in retaining his home equity and hence increasing the home value. But with reverse mortgages, there are no such monthly repayments and so the debts go on increasing. The home equity, therefore, reduces to an extremely low value unless the property value keeps increasing. Therefore reverse mortgages are often known as 'rising debt and falling equity'.

The genesis of reverse mortgage can be traced to developed countries where, due to higher standards of living, better access to health care and higher life expectancy, people above 65 years constitute a major chunk of the population. The ever-rising cost of pensions and health care for the old prompted insurance companies to introduce the reverse mortgage in the US, the UK and Australia. In India, the National Housing Bank (NHB) has recently laid down the guidelines on reverse mortgage loans (RML) for senior citizens. RMLs are to be extended by primary lending institutions (PLIs), viz., scheduled banks and housing finance companies (HFCs) registered with NHB. The PLIs would have the freedom in this matter according to their individual perception of the borrower and commercial judgements.

The reverse mortgage scheme would have the following features. The lender makes periodic payments (including lump sum payments) to the borrower, *i.e.*, the payment stream is 'reversed', as compared to a conventional mortgage. The payment mode in such a scheme might be of following types: either periodic payments (monthly, quarterly, half-yearly, annual) to be decided mutually between the PLI and the borrower upfront or lump-sum payments in one or more tranches or line of credit, with an availability period agreed upon mutually, to be drawn down by the borrower. The loan is not required to be serviced, *i.e.*, no payment of installment or interest, as long as the borrower is alive and in occupation of the property. The loan will be repaid on the death of the borrower and the spouse (usually a co-obligant) or on permanent movement through sale of property. After adjusting the principal amount of the loan and accumulated interest, surplus will go to the Estate of the deceased. The loan can be for a maximum period of 15 years and can be prepaid together with accumulated interest at any point in time without any prepayment charges. The interest rate (including the periodic rest) to be charged on the RML to be extended to the borrower(s) may be fixed by PLI in the usual manner based on risk perception, the loan pricing policy and specified to the prospective borrowers. Fixed and floating rate of interest may be offered by the PLIs subject to disclosure of the terms and conditions in a transparent manner, upfront to the borrower.

Principal benefits of the scheme are that it enables senior/elderly citizens owning a house but having inadequate income to meet unexpected lump sum expenditure needs such as renovation/repairs to house, hospitalisation, *etc*. Even after the demise of the borrower, the spouse can continue to stay in the house. If the spouse is co-borrower, he/she will continue to receive payment (up to 15 years from grant of loan). Payment received from a reverse mortgage is considered as 'loan' and not 'income' from tax angle. Such a scheme can be a partial substitute for a social security scheme for home owning senior citizens and it will be particularly useful to those with no/unwilling family to support them. However, the scheme involves re-valuation of the property mortgaged to the lender at intervals that may be fixed by the lender depending upon the location of the property and its physical state. Therefore, the success of such a scheme would depend upon an appropriate valuation/pricing of the property by the lender.

finance companies regulated by the NHB was also reduced from 75 per cent to 50 per cent.

2.92 Keeping in view the market conditions, the Reserve Bank on September 20, 2006 decided that the exposure of banks to entities for setting up special economic zones (SEZs) or for acquisition of units in SEZs which included real estate would be treated as exposure to commercial real estate sector and banks would have to make provisions as also assign appropriate risk weights for such exposures as per the existing guidelines.

Exposure to Inter-Bank Liability

2.93 In order to reduce the extent of concentration on the liability side of the banks, the following measures were prescribed on March 6, 2007: (a) The Inter-Bank Liability (IBL) of a bank should not exceed 200 per cent of its networth as at end-March of the previous year. Individual banks may, with the approval of their boards of directors, fix a lower limit for their inter-bank liability, keeping in view their business model; (b) The banks whose CRAR is at least 25 per cent more than the minimum CRAR of 9 per cent, *i.e.*, 11.25 per cent as on March 31 of the previous year, are allowed to have a higher limit up to 300 per cent of the net worth for IBL; (c) The limit prescribed above will include only fund based IBL within India (including inter-bank liabilities in foreign currency to banks operating within India), in other words, the IBL outside India are excluded; (d) The above limits will not include collateralized borrowings under CBLO and refinance from NABARD, SIDBI, *etc*.; (e) The existing limit on call money borrowings prescribed by the Reserve Bank will operate as a sub-limit within the above limits; (f) Banks having high concentration of wholesale deposits should be aware of potential risk associated with such deposits and may frame suitable policies to contain the liquidity risk arising out of excessive dependence on such deposits.

Risk Management

2.94 Risk management is critically important for banks and in the emerging economic scenario, there is a greater need for banks to implement risk-based practices. In view of the growing need for banks to be able to identify, measure, monitor and control risks, appropriate risk management guidelines have been issued from time to time by the Reserve Bank, including guidelines on asset-liability management (ALM). These guidelines are intended to serve as a benchmark for banks to establish an integrated risk management system. However, banks can also develop their own systems compatible with the type and size of their operations as well as risk perception and put in place a proper system for covering the existing deficiencies and requisite upgradation. Detailed guidance notes on the management of credit risk, market risk, operational risk, among others, have also been issued to banks by the Reserve Bank. The progress made by banks is monitored on a quarterly basis. With regard to risk management techniques, banks are at different stages of (i) drawing up a comprehensive credit rating system; (ii) undertaking a credit risk assessment on a half-yearly basis; (iii) pricing loans on the basis of risk rating; and (iv) adopting the risk-adjusted return on capital (RAROC) framework of pricing. Some banks stipulate a quantitative ceiling on aggregate exposures in specified risk categories and analyse rating-wise distribution of borrowers in various industries.

Outsourcing

2.95 In keeping with the international trend, banks in India too have been extensively outsourcing various activities which expose them to various risks. Further, outsourcing activities need to be brought within the regulatory purview and the interests of banks customers have to be protected. Against this background, the Reserve Bank had issued draft guidelines on December 6, 2005 laying down a framework for managing the attendant risks in outsourcing. On the basis of the suggestions received from all concerned, the draft guidelines were suitably modified and scheduled commercial banks (excluding RRBs) were advised the following guidelines on November 3, 2006. One, it is entirely for banks to take a view on the desirability of outsourcing as a permissible activity related to financial services having regard to all relevant factors, including the commercial aspects of the decision, subject to necessary safeguards for addressing the risks inherent in such outsourcing being in place. Two, the guidelines are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to banking services such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records. Three, audit-related assignments to Chartered Accountant firms would continue to be governed by the instructions/policy as laid down by the Reserve Bank. Four, the outsourcing agreements should include enabling clauses to allow the Reserve Bank or the persons authorised by it to access the relevant information/records with the service provider relating to outsourced activities within a reasonable time.

Financial Derivatives

2.96 The use of financial derivatives has brought the issue of risk management to the fore. Though forward foreign exchange contracts in India have existed for several decades, credit derivatives are of recent origin (Box II.10). Efforts are also afoot for an appropriate design for interest rate futures and foreign exchange futures. As indicated in the Mid-term Review of Annual Policy for year 2006-07, an Internal Group was constituted by the Reserve Bank to review the existing guidelines on derivatives and formulate comprehensive guidelines on derivatives by banks. Draft comprehensive guidelines on derivatives based on the recommendations of the Group were placed on the Reserve Bank's website for comments from all concerned. Based on the feedback received, the guidelines were suitably revised and issued on April 20, 2007. The guidelines enunciate the broad principles for undertaking derivative transactions, *i.e.*, the major requirements for undertaking any

Box II.10: Credit Derivatives

The credit derivatives belong to the class of credit risk transfer instruments which enable transfer of credit risk from one party to another. The credit default swap (CDS) is the cornerstone of the credit derivatives market. The vast majority of credit derivatives take the form of the *credit default swap* (CDS), which is a contractual agreement to transfer the default risk of one or more *reference entities* from one party to the other. One party, the protection buyer, pays a periodic fee to the other party, the protection seller, during the term of the CDS. If the reference entity defaults, declares bankruptcy, or another specified *credit event* occurs, the protection seller is obligated to compensate the protection buyer for the loss by means of a specified *settlement* procedure. The reference entity is not a party to the contract, and it is not necessary for the buyer or seller to obtain the reference entity's consent to enter into a CDS.

Credit Derivatives Market

In the global OTC market, the notional amount outstanding against the CDS increased from US$ 13,908 billion in December 2005 to US$ 28,828 billion in December 2006 (BIS, May 2007).

A CDS may specify that on occurrence of a credit event the protection buyer shall deliver the reference obligation to the protection seller, in return for which the protection seller shall pay the face value of the delivered asset to the protection buyer. This type of settlement is known as *physical settlement*. This settlement takes place in a CDS where the protection is bought on a specific reference obligation. It is also possible that the CDS contract may specify a number of alternative obligations of the reference entity that the protection buyer can deliver to the protection seller. These are known as *deliverable obligations* and this may apply in a CDS contract where the protection is bought on the reference entity instead of a specific obligation of the reference entity. Where more than one deliverable obligation is specified, the protection buyer will deliver the cheapest of the list of deliverable obligations. This is referred to as the *cheapest to deliver* contract. This type of settlement is also known as *payment of par value*.

A CDS may specify that on occurrence of a credit event the protection seller shall pay difference between the nominal value of the reference obligation and its market value at the time of credit event. This type of settlement is known as cash settlement or payment of par less recovery. A calculation agent plays an important role in the process of settlement.

CDS Mechanics

Product Variations in CDS

- For the simplest form of CDS, the single name CDS, the reference entity is an individual,corporation or government.
- A CDS with more than one (usually, between three and ten) reference entity is known as a *basket CDS*. In the most common form of basket CDS, *the first to default CDS*, the protection seller compensates the buyer for losses associated with the first entity in the basket to default, after which the swap terminates and provides no further protection.
- CDS referencing more than ten entities are sometimes referred to as portfolio products. Such products are generally used in connection with synthetic securitisations, in which a CDS transfers credit risk of loans or bonds to collateralised debt obligation (CDO) note holders in lieu of a true sale of the assets as in a cash securitisation.
- A major source of credit derivatives growth since 2004 has been index CDS, in which the reference entity is an index of as many as 125 corporate entities. An index CDS offers protection on all entities in the index, and each entity has an equal share of the notional amount. The two main indices are the CDX index, consisting of 125 North American investment grade firms, and the iTraxx index, consisting of 125 euro zone-based firms, mainly investment grade.
- Recent innovations in CDS have extended the protection to reference obligations instead of entities. CDS on asset-backed securities (ABS), for example, provides protection against credit events related to securitised assets, usually securitised home equity lines of credit. In addition, CDS can specify CDO notes as reference obligations.

Credit events

With regard to credit events, the confirmation of a CDS deal specifies a standard set of events that must occur before the protection seller compensates the buyer for losses; the parties to the deal decide which of those events to include and which to exclude. First, the most commonly included credit event is failure to pay. Second, bankruptcy is a credit event for corporate reference entities, but not for sovereign entities. Third, restructuring, which refers to actions such as coupon reduction or maturity extension undertaken in lieu of default, is generally included as a credit event for corporate entities. Restructuring is sometimes referred to as a 'soft' credit event because, in contrast to failure to pay or bankruptcy, it is not always clear what constitutes a restructuring that should trigger compensation. Fourth, repudiation or moratorium provides for compensation after specified actions of a government reference entity and is generally relevant only to emerging market reference entities. Finally, obligation acceleration and obligation default, which refer to technical defaults such as violation of a bond covenant, are rarely used.

derivative transaction from the regulatory perspective. The emphasis is on the proper risk management framework and appropriate corporate governance practices. The focus is also on 'suitability' and 'appropriateness' of derivative products being offered by market-makers to customers (users) as also 'customer appropriateness'. The guidelines also cover extant instructions relating to rupee interest rate derivatives. It was indicated that the guidelines relating to forex derivatives would be issued separately.

Income Recognition, Asset Classification and Provisioning

2.97 During 2006-07, prudential norms relating to provisioning were further refined with a view to bringing them on par with the international best standards. In the light of high credit growth and with a view to ensuring credit quality and improving the stability of the financial system, the provisioning norms were streamlined and the guidelines for floating provisions were reviewed.

Projects Involving Time Overrun

2.98 Infrastructure projects require heavy fund outlays with long gestation periods due to many inherent factors such as statutory/regulatory clearances, land acquisition, resettlement/ rehabilitation of the displaced people, among others. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring/ reschedulement by banks. In terms of extant instructions in respect of the projects to be financed by banks, the date of completion of the project should be clearly spelt out at the time of financial closure of the project. In case the date of commencement of commercial production extends beyond a period of six months after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard asset. It was decided to partially modify the asset classification norms for infrastructure projects alone, involving time overrun. Accordingly, banks were advised on April 12, 2007 that the asset be treated as sub-standard only if the date of commencement of commercial production extended beyond a period of one year (as against six months earlier) after the date of completion of the project, as originally envisaged. The revised instructions came into force with effect from March 31, 2007.

Provisions against Standard Asset

2.99 The continued high credit growth in the real estate sector, personal loans, credit card receivables, and loans and advances qualifying as capital market exposure and a higher default rate with regard to personal loans and credit card receivables, emerged as a matter of concern during the year. In May 2006, the general provisioning requirement for banks (excluding RRBs) on standard advances in respect of specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans was increased to 1.0 per cent from 0.40 per cent. Banks were further advised on January 31, 2007 to increase the provisioning requirement, with immediate effect, in respect of standard assets in the following categories of loans and advances from the earlier level of one per cent to two per cent: (i) personal loans (including credit card receivables); (ii) loans and advances qualifying as capital market exposure; and (iii) real estate loans (excluding residential housing loans). Further, the provisioning requirements for loans and advances in the standard asset category to systemically important non-deposit accepting (NBFC-ND-SI) was revised from 0.40 per cent to 2.00 per cent. In order to ensure continued and adequate availability of credit to the highly productive sectors of the economy, the provisioning requirement for all other loans and advances, which are standard assets has been kept unchanged, *viz.*, (i) direct advances to the agricultural and SME sectors at 0.25 per cent; and (ii) all other loans and advances at 0.4 per cent. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

Prudential Norms on Creation and Utilisation of Floating Provisions

2.100 Considering that higher loan loss provisioning improves the overall financial strength of banks and the stability of the financial sector, banks were urged to voluntarily set apart floating provisions, *i.e.*, provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirement for provisions for standard assets. As some banks were found using floating provisions to set-off provisions required to be made as per the extant prudential guidelines with a view to smoothening their profits, the extant guidelines were reviewed. Revised instructions on utilisation, creation, accounting and disclosures of floating provisions were issued on June 22, 2006.

2.101 Banks were advised that the floating provisions should not be used for making specific provisions in respect of non-performing assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of the Reserve Bank. The banks' boards of directors should lay down approved policy regarding the level to which the floating provisions can be created. A bank may voluntarily make specific provisions for advances at rates which are higher than the rates prescribed under existing regulations provided such higher rates are approved by the board of directors, and consistently adopted from year to year. Such additional provisions are not to be considered as floating provisions.

2.102 Floating provisions cannot be reversed by credit to the profit and loss account. They can only be utilised for making specific provisions in extraordinary circumstances as alluded to earlier. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk-weighted assets.

2.103 In order to enable banks' boards to evolve suitable policies in the context of following floating provisions, it was clarified on March 13, 2007 that extraordinary circumstances refer to losses which do not arise in the normal course of business, and are exceptional and non-recurring in nature. These extraordinary circumstances could broadly fall under three categories, *viz*., general, market and credit. Under general category, there can be situations where bank is put unexpectedly to loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics may also be included in the general category. Market category would include events such as general meltdown in the markets, which affects the entire financial system. Among the credit category, only exceptional credit losses would be considered as an extraordinary circumstance.

Valuation of Properties - Empanelment of Valuers

2.104 Different banks follow different policies for valuation of properties and appointment of valuers for the purpose. The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of their implications for correct measurement of capital adequacy position of banks. Recognising the need for putting in place a system/procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose, banks were advised on January 4, 2007 that (i) they should have a board approved policy in place for valuation of properties including collaterals accepted for their exposures; (ii) valuation should be done by professionally qualified independent valuers, *i.e.*, the valuer should not have a direct or indirect interest; (iii) banks should obtain minimum two independent valuation reports for properties valued at Rs.50 crore or above; (iv) banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'; (v) banks may prescribe a minimum qualification for empanelment of valuers taking into account the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957; and (vi) banks may also be guided by the relevant accounting standard (AS) issued by the Institute of Chartered Accountants of India (ICAI).

2.105 In addition to the above, banks may also keep the following aspects in view while formulating policy for revaluation of their own properties. One, the extant guidelines on capital adequacy permit banks to include revaluation reserves at a discount of 55 per cent as a part of Tier II capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy should, *inter alia*, cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets and policy for sale of such revalued assets. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets, subject to revaluation and accounting treatment for appreciation/depreciation. Two, as the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. Banks are required to adhere to these principles scrupulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

NPA Management by Banks

2.106 Keeping in view the fact that the chances as well as the extent of recovery of NPAs reduce overtime, the Reserve Bank took several measures in recent years to expedite recovery of NPAs by banks by strengthening the various channels of NPA recovery such as debt recovery tribunals (DRTs), *Lok Adalats*, corporate debt restructuring (CDR) mechanism and the SARFAESI Act, 2002.

2.107 In order to review and align the existing guidelines on restructuring of advances (other than under CDR mechanism and SME debt restructuring mechanism) on the lines of provisions under the revised CDR mechanism, a Working Group comprising members from commercial banks, Indian Banks' Association (IBA) and the Reserve Bank was constituted. The Working Group suggested adoption of the regulatory framework prescribed under CDR mechanism to other categories of advances (those extended to non-CDR/non-SME borrowers) with suitable modifications. On the basis of the recommendations made by the Working Group and the feedback received, the draft prudential guidelines on restructuring/rescheduling were issued in June 2007.

2.108 With a view to providing an additional option and developing a healthy secondary market for NPAs, guidelines on sale/purchase of NPAs were issued in July 2005 covering the procedure for purchase/sale of non-performing assets (NPAs) by banks, including valuation and pricing aspects; and prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy, exposure norms, and disclosure requirements. The guidelines were partially modified in May 2007, whereby it was stipulated that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years.

2.109 Consequent upon the enactment of the Credit Information Companies (Regulation) Act, 2005, the Reserve Bank constituted a Working Group (Chairman: Shri Prashant Saran) to frame draft rules and regulations for implementation of the Act. The draft rules and regulations were prepared and placed on the Reserve Bank's website for wider dissemination and comments. On the basis of the responses received, the draft rules and regulations were prepared and notified in December 2006 in consultation with the Government of India (Box II.11).

Corporate Governance

2.110 Corporate governance has assumed crucial significance for ensuring the stability and soundness of the financial system in recent years. In order to protect the interests of depositors and integrity of the financial system, it is necessary that owners and managers of banks are persons of sound integrity. Keeping these considerations in view, the Government of India at Reserve Bank's initiative, carried out amendments to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and the State Bank of India (Subsidiary Banks) Act, 1959 to include new sections providing for applicability of 'fit and proper' criteria to elected directors on the boards of public sector banks. The process of preparing necessary guidelines in this regard is underway.

2.111 Two new sections Section 9 (3AA) and (3AB) were included in the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/1980 (as amended in 2006) effectively introducing the applicability of 'fit and proper' criteria to the elected directors on the boards of nationalised banks. In terms of the provisions of the above sections a notification and a circular dated November 1, 2007 introducing 'fit and proper' criteria for elected directors on the boards of nationalised banks were issued. Similarly, Sections 25(2) and (3) were included in State Bank of India (Subsidiary Banks) Act, 1959 (as amended in 2007) introducing the applicability of 'fit and proper' criteria to the elected directors on the boards of Subsidiary Banks of State Bank of India. The process of issuing necessary guidelines in respect of subsidiary banks of State Bank of India is underway.

Know Your Customer Guidelines and Anti-Money Laundering Standards

2.112 Guidelines on know your customer (KYC) and anti-money laundering (AML) standards were issued by the Reserve Bank in November 2004. The provisions of the Prevention of Money Laundering Act (PMLA), 2002 came into effect from July 1, 2005. In terms of the Rules, the Financial Intelligence Unit – India (FIU-IND) was set up to collect, compile, collate and analyse the cash and suspicious transactions reported by banks and financial institutions. Reporting

Box II.11: Credit Information Companies (Regulation) Act, 2005 — Rules and Regulations

The Credit Information Companies (Regulation) Act, 2005 was passed in Parliament in May 2005. The rules and regulations for the implementation of the Act were notified on December 14, 2006. The Act was enacted with a view to strengthening the legal mechanism and enabling the credit information companies to collect, process and share credit information on the borrowers of banks and financial institutions. The Act also covers, *inter alia*, responsibilities of credit information companies, rights and obligations of the member credit institutions and safeguarding of privacy rights. The salient features of Credit Information Companies Rules and Regulations are set out below:

I. Salient features of Credit Information Companies Rules

(i) A credit information company whose application for certificate of registration has been rejected or whose certificate of registration has been cancelled, can approach the appellate authority designated by the Central Government for the purpose.

(ii) Every credit institution and the credit information company should formulate appropriate policy and procedure, duly approved by its board of directors, specifying therein the steps and security safeguards with regard to (a) collecting, processing and collating of data relating to the borrower; (b) steps for security and protection of data and the credit information maintained at their end; (c) appropriate and necessary steps for maintaining an accurate, complete and updated data; and (d) transmitting data through secure medium. Further, the credit institution or the credit information company should ensure that the credit information is accurate and complete with reference to the date on which such information is furnished or disclosed to the credit information company or the specified user as the case may be.

(iii) In order to prevent unauthorised access, every credit information company, credit institution and specified user should adopt policy and procedures to:

- (a) secure confidentiality of data;
- (b) allow access to only to authorised managers or employees on a need to know basis;
- (c) ensure control access to the data at terminals, network by means of physical barriers including biometric access control and logical barriers by way of passwords;
- (d) ensure that the passwords are changed regularly and frequently;
- (e) ensure that the best practices in relation to deletion and disposal of data especially the disposal of records or discs off-site or by external contractors are followed;
- (f) ensure protection against unauthorized modification or deletion of data;
- (g) ensure maintenance of log of all accesses to data, all unsuccessful attempts and all incidents involving a proven or suspected breach of security
- (h) protection against pilferage of information while passing through the public and private networks.

II. Salient features of Credit Information Companies Regulations

(i) The Regulations indicate which companies can obtain credit information as specified users (insurance company, cellular/phone company, credit rating agency, stock broker, trading member, SEBI, IRDA, among others) in addition to those provided under section 2(l) of the Act.

(ii) Every application by a company for grant of certificate of registration for continuing/commencing business of credit information should be made in 'Form A' to the Reserve Bank. On carrying out scrutiny of the application, the Reserve Bank may grant 'in-principle approval' to such applicant company and provide time to the company, not exceeding three months, for fulfilling the conditions included therein and may grant the certificate of registration to the company thereafter.

(iii) The regulations provide for the form of business in which credit information companies can engage (providing Data Management Services to members, collection/dissemination of information on investments made by members in securities, fraud, money laundering *etc.*) in addition to those provided under section 14(l) of the Act.

(iv) The privacy principles formulated to guide the credit Information companies, credit institutions and specified users include the following:

- (a) Care in collection of credit information: The credit information shall be properly and accurately recorded, collected and processed and shall be protected against loss, unauthorised access, use, modification or disclosure.
- (b) Access to and modification of credit information: Every credit information company upon request from a person shall disclose to him, his own credit information report, subject to satisfactory identification. Further, every credit information company, credit institution and specified user shall take prompt action in relation to updating of credit information with proper coordination amongst them within prescribed time limit.
- (c) Data use limitation: Obligation to disclose by the specified user to a borrower or client as the case may be within thirty days in case credit is denied to him.
- (d) Length of preservation of credit information: Credit information shall be preserved for a minimum period of seven years.

(v) Regulations provide for the principles and procedures relating to personal credit information in respect of manner and purpose of collection of personal data, solicitation of personal data, accountability in transferring data to third party, redressal of grievances of individuals and length and preservation of personal data, among others.

(vi) Maximum fee leviable by a credit information company is as under:

- Rs.15 lakh – Membership fee for credit institution and credit information company;
- Rs.50,000 and Rs.15 lakh – annual fee for credit institution and credit information company, respectively.
- Rs.100 for proving an individual his own credit report
- Rs.500 and Rs.5,000 for providing credit report on individual and non-individuals, respectively to specified users.

formats for suspicious transactions and currency transactions were finalised in consultation with the FIU-IND and, accordingly, banks were advised to report cash and suspicious transactions as prescribed under the PMLA, 2002 to FIU-IND. The KYC/AML/combating of financing of terrorism (CFT) regime put in place by the Reserve Bank is consistent with the international best practices and recommendations of the Financial Action Task Force (FATF). The country as a whole and financial sector, in particular, were evaluated by the Asia Pacific Group on Money Laundering (APGML) in 2005 and India has now secured the status of 'Observer' in the FATF.

2.113 Banks use wire transfers as an expeditious method for transferring funds between bank accounts. Wire transfers include transactions occurring within the national boundaries of a country or from one country to another. As wire transfers do not involve actual movement of currency, they are considered as a rapid and secure method for transferring value from one location to another. In this regard, Guidelines on KYC/AML/CFT were issued to banks on April 13, 2007 on the lines of FATF Special Recommendation (SR) VII, which aims at preventing terrorists and other criminals from misusing wire transfers for movement of their funds across boarders. The salient features of a wire transfer transaction include: (a) all cross-border wire transfers must be accompanied by accurate and meaningful originator information; (b) information accompanying cross-border wire transfers must contain the name and address of the originator and where an account exists, the number of that account in the absence of an account, a unique reference number, as prevalent in the country concerned, must be included; (c) where several individual transfers from a single originator are bundled in a batch file for transmission to beneficiaries in another country, they may be exempted from, including full originator information, provided they include the originator's account number or unique reference number as at (b) above; (d) information accompanying all domestic wire transfers of Rs.50,000 and above must include complete originator information, *i.e.*, name, address and account number, unless full originator information can be made available to the beneficiary bank by other means; (e) if a bank has reason to believe that a customer is intentionally structuring wire transfers to below Rs. 50,000/- to several beneficiaries in order to avoid reporting or monitoring, the bank must insist on complete customer identification before effecting the transfer; and (f) when a credit or debit card is used to effect money transfer, necessary information as (d) above is required to be included in the message. Further, the record of originator information accompanying a wire transfer should be kept for ten years, as required under PMLA, 2002. In case, any overseas ordering bank fails to furnish information on the remitter, the receiving bank should restrict or even terminate its business relationship with the ordering bank.

2.114 These instructions are also applicable to domestic wire transfer transactions. An amendment to the PMLA Rules was also notified by the Government on May 24, 2007, which has broadened the definition of suspicious transaction by including suspicion on account of probable terrorist financing as one of the grounds for making an suspicion transaction report (STR) by banks to FIU-IND.

Committee on Financial Sector Assessment

2.115 Building up a resilient and well-regulated financial system is widely acknowledged as *a sine qua non* for macroeconomic and financial stability. It has, therefore, been the endeavour of regulatory authorities in India to develop a safe, sound and efficient financial system in line with the best standards prevailing internationally, suitably adapted to the domestic conditions. Besides voluntarily participating as one of the earliest member countries in the Financial Sector Assessment Programme (FSAP) of the World Bank and the International Monetary Fund (IMF) in 2001, India also undertook a self-assessment of all the areas of international financial standards and codes by the Committee on International Financial Standards and Codes (Chairman: Dr. Y.V. Reddy). Drawing upon the experience gained during the 2001 FSAP and recognising the relevance and usefulness of the analytical details contained in the Handbook on Financial Sector Assessment jointly brought out by the World Bank and the IMF, in September 2005, the Government of India, in consultation with the Reserve Bank of India, decided to undertake a comprehensive self-assessment of the financial sector. Accordingly, in September 2006, a Committee on Financial Sector Assessment (CFSA) was constituted (Chairman: Dr. Rakesh Mohan; Co-Chairman: Dr. D. Subbarao) (Box II.12).

Box II.12: Committee on Financial Sector Assessment

A Committee on Financial Sector Assessment (CFSA) was constituted by the Government of India in September 2006 (Chairman: Dr. Rakesh Mohan; Co-Chairman: Dr. D. Subbarao) with the following terms of reference:

- To identify the appropriate areas, techniques and methodologies in the Handbook on Financial Sector Assessment brought out by the IMF/World Bank and also in any other pertinent documents for financial sector assessment relevant in the current and evolving context of the Indian financial sector;
- To apply relevant methodologies and techniques adapted to the Indian system and attempt a comprehensive and objective assessment of the Indian financial sector, including its development, efficiency, competitiveness and prudential aspects;
- To analyse specific development and stability issues as relevant to India;
- To make available its report(s) through Reserve Bank of India/Government of India websites.

The central plank of the assessment is based on three mutually reinforcing pillars, *viz*., (i) financial stability assessment and stress testing; (ii) legal, infrastructural and market development issues; and (iii) assessment of the status and progress in implementation of international financial standards and codes. To assist in the process of assessment, the CFSA has constituted four Advisory Panels for the assessment of (i) Financial Stability and Stress Testing; (ii) Financial Regulation and Supervision; (ii) Institutions and Market Structure; and (iv) Transparency Standards. The Advisory Panels will prepare separate reports covering each of the above aspects. The Advisory Panels comprise of non-official experts with domain knowledge in respective areas and officials with similar expertise represented as special invitees. The panels would have the option of co-opting as special invitees any other experts as they deem fit.

The Advisory Panel on Financial Stability and Stress Testing (Chairman: Shri M.B.N. Rao) would conduct macro-prudential surveillance (including system-level stress testing) to assess the soundness and stability of the financial system and suggest measures for strengthening the financial structure and system and its development in a medium-term perspective.

The other three panels would (i) identify and consider the relevant standards and codes as currently prescribed and applicable to different areas; (ii) evaluate their implementation in the Indian context; (iii) identify gaps in adherence to respective standards; and (iv) suggest possible roadmaps towards compliance in a medium-term perspective. The Advisory Panel on Financial Regulation and Supervision (Chairman: Shri M.S. Verma) would consider the relevant standards and codes applicable for financial regulation and supervision pertaining to the banking sector, financial markets and insurance. The Advisory Panel on Institutions and Market Structure (Chairman: Shri C.M. Vasudev) would consider the relevant standards and codes applicable to bankruptcy laws, accounting and auditing, payment and settlement systems and corporate governance policies. The Advisory Panel on Transparency Standards (Chairman: Shri Nitin Desai) would consider the relevant standards and codes applicable for transparency in monetary, financial, fiscal and data dissemination policies.

To provide the Panels with technical notes and background material, the CFSA has set up Technical Groups consisting of officials representing mainly regulatory agencies and the Government in all the above subject areas which have progressed with technical work and assisting Advisory Panels in respective areas.

With a view to enhancing credibility of self assessment, the assessment of the Advisory Panels are proposed to be peer received by international experts. The views of the peer reviews would be taken on board while finalising Advisory Panels Reports.

The CFSA would publish Advisory Panel reports and also its own report. Based on an objective analysis of the present strengths and weaknesses of the financial sector and the status with regard to standards, the CFSA is expected to lay down a roadmap for further reforms in a medium-term perspective. The CFSA is expected to complete the assessment by March 2008.

6. Supervision and Supervisory Policy

2.116 The Reserve Bank has been paying special attention to supervisory aspects within the financial sector with a view to improving efficiency and soundness of the regulated entities and stability of the markets. The Board for Financial Supervision (BFS) was constituted on November 16, 1994 to pay undivided attention to supervision. During July 2006-June 2007, the BFS held twelve meetings. The BFS not only suggested the course of action to be pursued in respect of institution-specific supervisory concerns, but also provided guidance on several regulatory and supervisory policy matters. A detailed account of the working of the BFS during 2006-07 is set out at Annex II-1.

Significant Changes in the Monitoring Mechanism of Financial Conglomerates

2.117 The supervisory processes for the financial conglomerates (FC) the world over are in evolving stage. A beginning was made in India when a FC monitoring framework was put in place following the acceptance of the report of an Inter-regulatory Working Group (Convenor: Smt. Shyamala Gopinath) on monitoring of systemically important financial intermediaries (SIFI - more commonly known as FCs) in June 2004. Based on the experience gained, several initiatives have been taken in consultation with other regulators to strengthen the FC monitoring framework. In this regard, two major initiatives were taken during 2006-07. One, the criteria for identification of FCs were revised. Many of the identified FCs not only had very few entities within their fold, but also had limited operations beyond one market segment. There were fewer intra-group transactions in these conglomerates. Merger of housing finance arm and primary dealer subsidiary in some of the conglomerates had further reduced the number of entities in the group. It was, therefore, felt that it was not necessary to subject such systemically less important groups to focussed FC monitoring. The criteria for identification of FCs were, thus, revisited in order to focus on major financial groups which are of supervisory interest. As per the revised criteria, a FC is defined as a cluster of companies belonging to a Group[3] which has significant presence in at least two financial market segments. Banking, insurance, mutual fund and NBFC (deposit taking and non-deposit taking) are considered as financial market segments. Two, FC returns were revised in order to appropriately focus on the supervisory issues. Receipt and analysis of quarterly FC return is an important plank of the FC monitoring system. The FC return, while focusing on intra-group transactions and exposures, elicited information on financial parameters, exposures to various markets, cross-linkages, and commonality of back-office arrangements. The format of the quarterly FC return was amended to include information on gross/net NPA and provisions held for the impaired assets, bad debt, fraud in any group entity, 'holding out' operations undertaken by the group, other assets and change in accounting policies, among others. While the FC monitoring framework looks at the specified financial intermediaries (SFIs), *i.e.*, entities which are regulated by the Reserve Bank, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) or National Housing Bank (NHB), the format of the returns has been suitably modified to capture intra-group transactions and exposures involving regulated and unregulated entities of the group in order to have a better appreciation of systemic risk emanating from the group as a whole.

Compliance Function in Banks

2.118 As compliance function is an integral part of governance along with the internal control and risk management process, guidelines on compliance function of banks were issued on April 20, 2007 (Box II.13)

Preventive Measures Taken by the Reserve Bank against Frauds

2.119 For centralised monitoring of frauds detected in regulated entities of the Reserve Bank, *viz.*, commercial banks, urban co-operative banks, financial institutions and non-banking financial companies, a Fraud Monitoring Cell (FrMC) under the administrative control of the Department of Banking Supervision was set up in June 2004. All commercial banks file fraud reports on-line through Fraud Monitoring and Reporting System (FRMS) to FrMC. The Reserve Bank monitors the progress in criminal cases filed by the banks, recovery of the dues, examination of staff accountability and rectification of deficiencies in the system and controls in banks in order to reduce the incidence of frauds, through quarterly statements submitted by banks.

2.120 The *modus operandi* in credit card frauds included cloning, and obtaining credit cards from banks based on fake documents. In view of the reported incidents of attempts made by some persons to use plastic cards other than credit/ debit cards at ATMs to effect withdrawal of cash, guidelines were issued to banks for focussed customer education and operational/security measures to be taken by them so as to avoid recurrence of such frauds. Detailed instructions were issued to banks in February 2006 to help prevent *phishing*[4] attacks by certain persons/ entities. Cloning mostly through skimming

[3] Group: An arrangement involving two or more entities related to each other through any of the following relationships: Subsidiary - parent (defined in terms of AS 21), joint venture (defined in terms of AS 23), associate (defined in terms of AS 27), promoter-promotee, a related party (defined in terms of AS 18), common brand name, and investment in equity shares 20 per cent and above. group entity: any entity involved in the above arrangement.

[4] Phishing involves hijacking of brand names of banks, e-retailers and credit card companies wherein an e-mail is sent to a user, falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that is used for identity theft. The e-mail directs the user to visit a website where he is asked to update personal information such as passwords and credit card, social security and bank account numbers. The website, however, is fake and set up only to steal the user's information. The information, thus, obtained is used to commit frauds.

Box II.13: Compliance Function in Banks

Compliance function in banks is perceived as one of the key elements in their corporate governance structure. Based on the recommendations of the Ghosh Committee, banks in India have already put in place compliance processes. However, the processes and the organisational structures have not kept pace with the increased complexities and sophistication in the banking business. In a large number of banks, the compliance function is yet to reckon the 'compliance risk' and the reputational risk arising out of compliance failures causing huge economic costs. The need for the management of the compliance risk by banks as one of the key facets of integrated risk management or enterprise-wide risk management framework at banks was recognised. Accordingly, the Annual Policy Statement for the year 2006-07 stressed the need for strong compliance standards in banks. A Working Group set up by the Reserve Bank with participation from the banking industry to review the present system of compliance machinery in banks recommended a number of measures for strengthening the compliance function. Based on the recommendations, guidelines on compliance function of the banks were issued on April 20, 2007. The guidelines sought to introduce certain principles, standards and procedures relating to compliance function consistent with the high level paper on 'Compliance and the Compliance Function in Banks' issued by the Basel Committee of Banking Supervision as also the operating environment in India. The guidelines articulate the Reserve Bank's view that the compliance function is an integral part of governance, along with the internal control and risk management process. The guidelines are also intended to guide the bank-led financial conglomerates in managing their 'group-wide compliance risk'. The salient features of the guidelines are as under:

- Each bank will put in place a formal compliance function and designate a compliance officer for its bank. It will be the responsibility of the bank's compliance officer to assist the top management in managing effectively the compliance risks faced by the bank.
- A robust compliance system in a bank should include a well documented compliance policy, outlining the philosophy of the bank, role and set up of the compliance department, composition of its staff and their specific responsibilities. The policy should be reviewed annually by the bank's board.
- Depending on its branch network, size and complexity of the business operations, sophistication of products and services offered, every bank should decide on the organisational structure and composition of its compliance unit. The structure may, however, be laid down within the overall framework of these guidelines and should avoid all potential conflicts of interest.
- The compliance department at the Head Office should play the central role in the area of identifying the level of compliance risk in each business line, products and process and issue instructions to operational functionaries and formulate proposals to mitigate such risk. It should periodically circulate the instances of compliance failures among staff along with the preventive instructions.
- The responsibilities of the compliance function should be carried out under a compliance programme that sets out its planned activities. The compliance programme should be risk-based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions. The compliance function should advise and assist the senior management on compliance laws, rules and standards. It should also put up to the senior management information on developments by establishing written guidance to staff on the appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
- Banks may choose to carry on business in various jurisdictions for a variety of legitimate reasons. In such cases, it should be ensured that they comply with the applicable laws and regulations in all such jurisdictions and that the organisation and structure of the compliance function and its responsibilities are consistent with local legal and regulatory requirements. It is for local businesses to ensure that compliance responsibilities specific to each jurisdiction are carried out by individuals with the appropriate local knowledge and expertise, with oversight from the head of compliance in co-operation with the bank's other risk management functions.

involved transferring data from a genuine credit card to the magnetic stripe of a counterfeit credit card using certain skimming devices. In June 2006, the Reserve Bank issued guidelines to commercial banks listing out various measures that could be initiated by them to combat skimming.

2.121 The Reserve Bank, in May 2006, circulated to banks some of the best practices which could be adopted in order to reduce the incidence of frauds in areas of housing loans. The *modus operandi* adopted by the fraudulent borrowers involved availing multiple finance by submission of fake documents of properties, fake salary slips and income tax certificates. Several instances have also come to the notice of the Reserve Bank wherein builders used gullible borrowers to avail of loans and then diverted the proceeds. Further, funds were also siphoned off through fictitious accounts opened in the name of builders.

2.122 Certain instances of fraudulent transfer of funds from non-resident accounts through fake e-mails and fax messages were reported by banks. The Reserve Bank, in November 2006, alerted banks to be cautious while remitting funds from the accounts of non-residents based on requests received through e-mail/fax messages. They were asked to put in place appropriate systems to verify the authenticity of the messages thoroughly before effecting remittance.

2.123 A number of cases of frauds in the area of financing against warehouse receipts were reported to the Reserve Bank during the year. In such cases, warehouses issued warehouse receipts (WR) representing values much higher than the actual stocks to the borrowers who availed of higher finances against the stock of commodities. The fraud was perpetrated mainly due to the lack of adequate supervision/control over the pledged stock. With a view to alerting all the banks on such financing, guidelines on *modus operandi* were issued by the Reserve Bank in February 2007.

7. Financial Markets

2.124 The Reserve Bank initiated several important measures during 2006-07 to widen and deepen the various segments of the financial market under its jurisdiction. The institutional framework for financial markets was further strengthened in terms of processes, while allowing greater flexibility to market participants to carry out their transactions.

Developments in the Money Market

2.125 In pursuance of the announcement made in the Annual Policy Statement of April 2005, a screen-based negotiated quote-driven system for dealings in call/notice and term money market (NDS-CALL) was developed by the Clearing Corporation of India Ltd. (CCIL), which was launched on September 18, 2006 with participation by market constituents on a voluntary basis. Apart from helping in improving the ease of transactions, the system has brought about greater transparency and efficient price discovery. There has been a growing preference for the NDS-CALL screen, which currrently accounts for around 75 per cent of total call money volumes.

2.126 The Reserve Bank issued comprehensive guidelines in respect of interest rate derivatives in April 2007. In respect of over-the counter (OTC) derivative transactions, it became necessary to have a mechanism for transparent capture and dissemination of trade information as well as an efficient post-trade processing infrastructure to address some of the attendant risks. To begin with, the CCIL was advised to start a trade reporting platform for rupee interest rate swaps (IRS). This reporting module was launched on August 31, 2007.

2.127 Recognising the need for a robust interest rate futures market as an effective instrument for management of interest rate risk and in pursuance of the recommendation of the Reserve Bank's Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, a Working Group on Interest Rate Futures (Chairman: Shri V.K. Sharma) was set up by the Reserve Bank on August 9, 2007 which would review the experience gained so far with interest rate futures with particular reference to product design issues and make recommendations for activating the instrument. The Group would also revisit the recommendations of the earlier Committees in this area and examine regulatory requirements as well as the scope and extent of participation of non-residents while making its own recommendations. The report would be placed on the Reserve Bank's website within three months (by December 31, 2007) after further discussions with the TAC on Money, Foreign Exchange and Government Securities Markets.

Developments in the Government Securities Market

2.128 The provision of the Fiscal Responsibility and Budget Management Act, 2003 prohibiting the Reserve Bank from participating in the primary issuances of Government securities came into effect on April 1, 2006. In order to meet the requirements of the new environment, a number of initiatives were taken during 2006-07 with the objective of further deepening and widening the Government securities market. These measures included extending short selling in Central Government securities to five days, introduction of 'when issued' market, permitting diversification of primary dealer (PD) business, introduction of a revised scheme of underwriting commitment and liquidity support to primary dealers, and extension of the Negotiated Dealing System - Order Matching (NDS-OM) module to new participants.

2.129 In order to further strengthen the debt management framework, the guidelines on 'when issued' (WI) trading in 'reissued' Central Government dated securities were prescribed in May 2006 and trading in this segment commenced from August 2006. At present, the 'WI' trading can be undertaken in Central Government dated securities, both reissued and newly issued securities, on a selective basis. The 'WI' trading is permitted only on the NDS-OM to all NDS members, subject to the open position limits. However, short positions in 'WI' market can be run only by PDs.

2.130 With a view to enabling the market participants to a take two-way view on interest rate expectations and better manage their interest rate risk, the internal Technical Group on Central Government Securities set up by the Reserve Bank had recommended the introduction of short selling in Central Government securities in a phased manner. In the first phase, banks/PDs were permitted intra-day short selling from February 28, 2006. Subsequently, on January 31, 2007, the participants were permitted to keep their short positions open up to five trading days, including the day of trading. With a view to enabling participants to run short positions across settlement cycles, banks/PDs were permitted to use the securities acquired under reverse repo (other than LAF) to meet the delivery obligation of the short sale transaction.

2.131 Pursuant to the recommendations of the Working Group on Screen Based Trading in Government Securities (Chairman: Dr. R. H. Patil) and with a view to providing the Government securities market participants with an advanced and efficient trading platform, the NDS-OM platform was operationalised on August 1, 2005. The system, which initially accommodated trading only in Central and State Government dated securities, was upgraded on July 31, 2006 to handle trading of Treasury Bills. Membership to the NDS-OM, which was initially only for the Reserve Bank regulated NDS members (banks and PDs), was subsequently expanded to include insurance companies, mutual funds and select large provident funds. Furthermore, to encourage retail trading, a separate module on NDS-OM was operationalised to enable trading in odd lots (of sizes less than a standard lot of Rs.5 crore).

2.132 In order to widen the reach of NDS-OM, on May 25, 2007, the access was extended to qualified entities maintaining gilt accounts with NDS members. Qualified entities cover all entities required by law or by regulation to invest in Government securities such as deposit taking NBFCs, provident funds, pension funds, mutual funds, insurance companies, co-operative banks, regional rural banks and trusts. These entities could place orders on NDS-OM through direct NDS-OM members, *viz.*, banks and PDs using the constituents' subsidiary general ledger (CSGL) route. Such trades are settled through the CSGL account and current account of the NDS-OM member. Though the system permits putting through CSGL trades on behalf of all gilt account holders, it is the responsibility of the respective custodians (CSGL account holders) to exercise caution and not to permit any trade on account of entities that were not 'qualified'. They should evolve a mechanism to ensure that the gilt account holder satisfies the eligibility criteria before allowing orders to be placed on the NDS-OM. In the Mid-Term Review of the Annual Policy Statement for 2007-08, it was proposed to include systemically important non-deposit taking NBFCs (NBFC-ND-SI) as qualified entities.

2.133 Pursuant to the recommendations of the Internal Technical Group on Central Government Securities and with a view to consolidating Central Government securities to impart liquidity to the Government Securities market, a scheme of active consolidation was finalised and approved by the Central Government. Under this scheme, securities to be bought back were identified by the liaison group formed for the purpose. In the Union Budget 2007-08, the Central Government provided Rs.2,500 crore towards the premium payment under the scheme. The actual exercise of buying back of securities is expected to be conducted during 2007-08.

2.134 During 2006-07, several instructions/ guidelines having a bearing on the operations of the PDs were also issued. These included entrusting the PDs with the responsibility to underwrite the entire issue and broad-basing and diversification of the PD activity.

Developments in the Foreign Exchange Market

2.135 Against the backdrop of current realities and with a view to suggesting future roadmap for capital account convertibility, the Reserve Bank, in consultation with the Government of India, constituted the Committee on Fuller Capital Account Convertibility (FCAC) (Chairman: Shri S. S. Tarapore), which submitted its report in July 2006. Apart from making several recommendations on the development of financial markets, the Committee recommended that an Internal Task Force should be constituted to re-examine the extant regulations under the Foreign Exchange Management Act (FEMA) and make recommendations to remove the operational impediments in the path of liberalisation already in place. Accordingly, an internal Task Force was constituted and it completed the assigned task in January 2007. Certain recommendations of the Task Force were implemented in the Annual Policy Statement for the year 2007-08 announced on April 24, 2007.

2.136 With a view to simplifying the procedures and providing greater flexibility in foreign exchange transactions, the ceiling for remittances for resident individual under the Liberalised Remittance Scheme for Resident Individuals was enhanced in two stages: from US $ 25,000 (per calendar year) to US $ 50,000 in December 2006 (per financial year) and further to US $ 1,00,000 (per financial year) in May 2007, with some conditions. A uniform period of six months has been allowed for surrender of received/unspent/ unused foreign exchange from the date of receipt/ purchase/acquisition/date of return of the traveller, as the case may be.

2.137 In April 2007, resident individuals were permitted to manage/hedge their foreign exchange exposures, including anticipated exposures by booking forward contracts without production of underlying documents up to an annual limit of US $ 1,00,000 which can be freely cancelled and rebooked.

2.138 The requirement of issue of encashment certificate on security paper if the amount of foreign currency encashed exceeds Rs.15,000 in value has been dispensed with and instead AD category-I banks[5], when requested by the customer, can now issue encashment certificate, duly signed by authorised officials, on their letter head (with their logo printed on it), irrespective of the amount.

2.139 Non-Resident Indians (NRIs) and Persons of Indian Origin (PIO) are permitted to remit up to US $ 1 million per financial year for any bonafide purpose out of the balances in their Non-Resident Ordinary (NRO) accounts. The balance in the NRO accounts could also include the sale proceeds of immovable property acquired by the non-resident out of her/his resources in India, or sale proceeds of property received by way of inheritance or gift. With a view to providing greater flexibility, the lock-in period of 10 years for remittance of sale proceeds of immovable property was dispensed with, from November 2006. Taking into account the sizeable increase in non resident deposits in 2006-07 and reports of large growth in advances being granted against such deposits, and in order to avoid upward pressure on asset prices in sensitive sectors, banks were prohibited from granting fresh loans in excess of Rs. 20 lakh against the NR(E)RA and FCNR(B) deposits, either to depositors or to third parties, effective January 31, 2007. Banks were also advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.

2.140 In order to provide corporates with greater flexibility in their external transactions, certain measures were undertaken. These included, *inter alia*, permitting AD category-I banks to reimburse pre-incorporation expenses incurred in India up to certain limits; permitting AD category-I banks to make remittances on account of donations by corporates for specified purposes, subject to certain limits from April 2007 and raising the limit for remittance for consultancy service procured from outside by Indian companies executing infrastructure projects from US $ 1 million per project to US $ 10 million per project with effect from April 2007.

2.141 Facilities available to exporters/importers were liberalised/simplified further. These, *inter alia*, included (i) allowing all categories of foreign exchange earners to credit up to 100 per cent (50 per cent earlier) of their foreign exchange earnings to their exchange earner's foreign currency (EEFC) account from November 2006; (ii) allowing (in January 2007) project/service exporters to deploy their temporary cash surpluses, generated outside India, in specified instruments/products outside India; and (iii) dispensing with the requirement of repatriation of 30 per cent of the contract value in respect of on-site contracts by software exporter company/firm with effect February 2007. AD Category –I banks were also granted some facilities which, *inter alia*, included (a) extension of time to realise export proceeds beyond the prescribed period of six months from February 2007; and

[5] Banks currently authorised to deal in foreign exchange (namely, scheduled commercial banks, State cooperative banks, and urban co-operative banks) are categorized as AD category I banks. They are authorised to deal in all current and capital account transactions, according to the directions issued by the Reserve Bank from time to time.

(b) permitting these banks to issue guarantee on behalf of their customers, subject to guidelines from November 2006.

2.142 Furthermore, with a view to providing greater flexibility to corporates in regard to their overseas investment, a number of measures were undertaken, which, *inter alia*, included enhancing the overseas investment limit (total financial commitments) for Indian companies; (ii) enhancement of limit for portfolio investment abroad by listed Indian companies in listed overseas companies; and (iii) liberalisation of the limits of remittances for initial/recurring expenses incurred abroad.

2.143 In order to facilitate dynamic hedging of foreign exchange exposures and keeping in view the size of the market in India and the large positions held by FIIs, it was decided to allow rebooking of cancelled contracts in a gradual and phased manner. Accordingly, in February 2007, AD category–I banks were permitted to allow FIIs to cancel and rebook forward contracts up to a limit of two per cent of the market value of their entire investment in equity and/or debt in India. The limit for calculating the eligibility for rebooking is based on the market value of the portfolio at the beginning of the financial year. The outstanding contracts must be duly supported by underlying exposure at all times. The AD bank has to ensure that the total outstanding forward contracts do not exceed the market value of portfolio.

2.144 The Annual Policy Statement of April 2007 proposed to set up a Working Group on Currency Futures to study the international experience and suggest a suitable framework to operationalise the proposal within the existing legal and regulatory framework. Accordingly, an Internal Working Group on Currency Futures (Chairman: Shri Salim Gangadharan) was set up which studied, *inter alia*, the experiences of some emerging market economies where currency futures exchanges have been functioning within an environment of capital controls. The Group considered the views of a wide cross section of stakeholders, including banks, industry associations, domestic and international exchanges, and had extensive and detailed consultations with market participants in the TAC on Money, Foreign Exchange and Government Securities Markets. The Group explored various options for the proposed currency futures exchange, particularly on aspects like participation, clearing and settlement, market intermediaries, margins, contract design and surveillance mechanism. The draft report of the Group was placed on the Reserve Bank's website for comments on November 16, 2007.

8. Customer Service in Banks

2.145 The Reserve Bank initiated several measures during 2006-07 to protect customers' rights, enhance the quality of customer service and strengthen the grievance redressal mechanism in the Reserve Bank as well as in banks. A new department for customer service, 'Customer Service Department', was constituted in the Reserve Bank which became operational on July 1, 2006 mainly to (i) oversee the customer service aspects relating to grievance redressal by banks; (ii) administer the Banking Ombudsman (BO) Scheme; and (iii) liaise with the Banking Codes and Standards Board of India (BCSBI). The department also oversees the level of customer service in the Reserve Bank offices. The data regarding the complaints received at the Reserve Bank offices are collated and analysed at Central Office level on a monthly basis and reviewed by the Local Board on a quarterly basis.

2.146 The 'Code of Bank's Commitment to Customers' was released on July 1, 2006 which signifies the first formal collaborative effort by the Reserve Bank, banks and the BCSBI to provide a framework for a minimum standard of fair practices on various banking transactions for individual customers. Out of 84 scheduled commercial banks, 70 banks are committed to follow the code as members of the BCSBI.

2.147 In order to facilitate easy comparison of service charges of various banks by their customers, banks were advised on July 20, 2006 to place service charges and fees on the homepage of their website at a prominent place under the title of 'service charges and fees'. A weblink to the websites of the banks was provided on the Reserve Bank's website. Banks were also advised that a complaint form, along with the name of the nodal officer for complaint redressal, may be provided on the homepage itself to facilitate complaint submission by the customers.

Reasonableness of Service Charges

2.148 The Working Group set up to formulate a scheme for ensuring a reasonableness of bank charges submitted its Report in August 2006. The

Report examined various issues such as basic banking/financial services to be rendered to individual customers, the methodology adopted by banks for fixing the charges and the reasonableness of such charges. The Working Group identified twenty seven basic banking services relating to deposit accounts, loan accounts, remittance facilities and cheque collection and defined low value transactions for cheque collection and remittance up to Rs.10,000 in each case and up to $500 for foreign exchange transactions. The Working Group indicated broad principles of reasonableness based on (i) lower rates for individuals as compared to non-individual entities; (ii) lower rates for special categories of individuals such as senior citizens, rural customers and pensioners; (iii) charges that are just and supported by reason; and (iv) levy of service charges *ad valorem* only to cover incremental cost, subject to a cap. For basic services rendered to special category of individuals, the Working Group recommended that banks should levy charges on more liberal terms than the terms on which the charges are levied to other individuals.

2.149 The Working Group also recommended that the individual customers be provided upfront and in a timely manner, the complete information on the charges as well as the proposed changes in charges applicable to all basic services. The recommendations of the Working Group have been accepted by the Reserve Bank with certain modifications. Based on the recommendations of the Working Group, the Reserve Bank issued a circular to all scheduled commercial banks on February 2, 2007.

Complaints about Excessive Interest Charged by Banks

2.150 The Reserve Bank and the Banking Ombudsman offices have been receiving several complaints regarding levying of excessive interest rates and charges on certain loans and advances. The issue was examined and banks were advised on May 7, 2007 that though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious, and can neither be sustainable, nor be conforming to normal banking practice. Boards of banks were, therefore, advised to lay down appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks were advised to take into account, *inter alia*, the following broad guidelines: (i) the total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction; and (ii) an appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

Analysis and Disclosure of Complaints

2.151 Based on the recommendation of the Committee on Procedures and Performance Audit of Public Services (CPPAPS) (Chairman: Shri S.S. Tarapore) and for enhancing the effectiveness of the grievance redressal mechanism, banks were advised, on February 22, 2007, to place a statement of complaints before their boards/Customer Service Committees along with an analysis of the complaints received. Banks have also been advised to place the detailed statement of complaints and their analysis on their websites for information of the general public at the end of each financial year. The complaints should be analysed to identify customer service areas in which the complaints are frequently received, frequent sources of complaint, and to identify systemic deficiencies, for initiating appropriate action to make the grievance redressal mechanism more effective.

2.152 Further, banks were also advised to disclose brief details relating to customer complaints such as number of complaints received, number of complaints redressed and number of pending complaints alongwith their financial results. Similarly, banks were also required to disclose brief details relating to ‘awards’ passed by the Banking Ombudsmen such as number of awards passed, number of awards implemented/remaining unimplemented alongwith their financial results.

2.153 With a view to ensuring better governance standards and probity/transparency in the conduct of affairs of public institutions, the Government had, on April 21, 2004, authorised the Central Vigilance Commission (CVC) as the ‘designated agency’ to receive written complaints or disclosure of any allegation of corruption or of misuse of office, and recommend appropriate action. The jurisdiction of the CVC is restricted to employees of the Government or of any corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Government, and hence covers only public sector banks. As private sector banks and foreign banks are outside the purview of the CVC, the Reserve Bank introduced a similar scheme called 'Protected Disclosures Scheme for Private Sector and Foreign Banks' on April 18, 2007. The complaints under the scheme cover areas such as corruption, misuse of office, criminal offences, suspected/actual fraud, failure to comply with existing rules and regulations, and acts resulting in financial loss/operational risk, loss of reputation, and acts detrimental to depositors' interest/public interest. Under the scheme, employees of the bank concerned (private sector banks and foreign banks operating in India), customers, stakeholders, NGOs and members of public can lodge complaints (Box II.14).

Right to Privacy of Members of the Public

2.154 Instructions were issued to all card-issuing banks regarding maintenance of 'Do Not Call Registry' with a view to protecting the right to privacy of the members of the public. Keeping in view the continuous complaints from credit card subscribers and the observations of the High Court of Delhi in the context of a public interest litigation (PIL) in this regard, the Telecom Regulatory Authority of India (TRAI) has framed the Unsolicited Commercial Communications (UCC) Regulations, 2007. Based on these regulations as also the guidelines for telemarketers issued by the Department of Telecommunications (DoT), Government of India, the Reserve Bank advised banks on July 3, 2007 on the modalities to be followed in the case of unsolicited commercial communications. The guidelines prescribed the criteria for engaging telemarketers. Banks were advised (i) not to engage telemarketers [direct selling agents (DSAs)/direct marketing agents (DMAs)], who do not have a valid registration certificate from the Department of Telecommunications (DoT), Government of India, as telemarketers; (ii) to furnish a list of telemarketers (DSAs/DMAs) engaged by them alongwith the registered telephone numbers being used by them for making telemarketing calls to IBA to forward the same to TRAI; and (iii) to ensure that all telemarketers

Box II.14: Introduction of Protected Disclosures Scheme for Private Sector Banks and Foreign Banks

Disclosure of information in the public interest by the employees of an organisation is increasingly gaining acceptance by public bodies for ensuring better governance standards and probity/transparency in the conduct of affairs of public institutions. In this context, the Government of India had passed a resolution on April 21, 2004 authorising the Central Vigilance Commission (CVC) as the 'Designated Agency' to receive written complaints or disclosure on any allegation of corruption or of misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to employees of the Central Government or of any corporation established by it or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government. The jurisdiction of the CVC in this regard is restricted to employees of the Central. Thus, the Government of India scheme covers the public sector banks and the Reserve Bank (since it is an entity established under the Central statute).

As a proactive measure for strengthening financial stability and with a view to enhancing public confidence in the robustness of the financial sector, the Reserve Bank, in April 2007, introduced a similar scheme called 'protected disclosures scheme for private sector banks and foreign banks'. The salient features of the scheme are as under:

(i) As public sector banks are covered under the scheme of Government of India, this scheme would cover all private sector banks and foreign banks operating in India.

(ii) The complaints under the scheme would cover the areas such as corruption, misuse of office, criminal offences, suspected/actual fraud, failure to comply with existing rules and regulations such as Reserve Bank of India Act, 1934, Banking Regulation Act 1949, and acts resulting in financial loss/operational risk, loss of reputation, detrimental to depositors' interest/ public interest.

(iii) Under the scheme, employees of the bank concerned, customers, stake holders, NGOs and members of public can lodge complaints.

(iv) Anonymous/pseudonymous complaints will not be covered under the scheme and such complaints will not be entertained.

(v) The Reserve Bank will be the nodal agency to receive complaints under the Scheme. The Reserve Bank would keep the identity of the complainant secret, except in cases where complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant as mentioned in point (vi) below.

(vi) The institution against which complaint has been made can take action against complainants in cases where motivated/vexatious complaints are made under the scheme, after being advised by the Reserve Bank. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action. Final action taken by the Reserve Bank on the complaint will be intimated to the complainant.

(DSAs/DMAs) already engaged by them register themselves with DoT as telemarketers. As IBA will be the co-ordinating agency at the industry level to ensure compliance with the requirements of TRAI regulations, banks were advised to actively co-operate with the IBA in this regard. Subsequently, based on a clarification received from TRAI, banks were advised by the Reserve Bank that in addition to DSAs/DMAs, banks/their call centres, who make solicitation calls, are also required to be registered as telemarketers with the DoT. Banks were advised that banks / their call centres, while registering themselves as telemarketers, will be required to give the details of the telephone numbers used for telemarketing.

Guidelines on Fair Practices Code for Lenders - Reasons for Rejection of Loans

2.155 In terms of guidelines issued by the Reserve Bank on May 5, 2003 on 'Fair Practices Code for Lenders', banks/FIs were required to ensure that loan application forms in respect of priority sector advances up to Rs. 2 lakh contain comprehensive information about the fees/charges and any other matter which affects the interests of the borrower. The guidelines also required banks/FIs to convey in writing the main reason/ reasons for rejection of loan applications in the case of small borrowers seeking loans up to Rs. 2 lakh. The guidelines were revised on March 6, 2007 and banks/FIs were advised to ensure that all loan applications in respect of all categories of loans, irrespective of the amount of loan sought by the borrower, contain comprehensive information about fees/charges. The revised guidelines also required banks/FIs to convey in writing the main reasons for rejection of the loan application in the case of all categories of loans, irrespective of any threshold limits, including credit card applications (Box II.15).

Doorstep Banking

2.156 In order to ensure transparency in respect of rights and obligations of customers, to bring about uniformity in approach and clearly delineate the risks involved, it was decided to lay down general principles and broad parameters to be followed by banks for offering doorstep services to their customers. Accordingly, guidelines were issued in February 2007 to banks permitting them to prepare a scheme for offering doorstep banking services to their customers with the approval of their boards. Under the scheme, banks were permitted to offer doorstep services such as pick up of cash/instruments, delivery of cash against cheques received at the counter and delivery of demand drafts to corporates/Government departments/PSUs and pick up of cash/ instruments and delivery of demand drafts to individual customers. In May 2007, banks were also permitted to offer delivery of cash to individuals. Further, the delivery of cash/draft to individuals/ corporates/Government departments/ PSUs was permitted against requests received through any secure convenient channels, subject to the banks adopting technology and security standards and procedures laid down by the Reserve Bank. The Reserve Bank directed all SCBs and RRBs on May 24, 2007 to comply with the amended Banking Ombudsman Scheme, 2006 while offering doorstep banking products.

Housing Loans: Fairness and Transparency

2.157 It had come to the notice of the Reserve Bank that some banks, while lending for housing, were not fully transparent in indicating the circumstances and factors governing the benchmark in respect of floating rates as well as with regard to reset clauses. Banks were, therefore, urged to review all practices which are less than fair or transparent. They were also urged to afford an opportunity to borrowers to obtain fair and transparent terms consistent with the legal requirements and fair practices.

Pension Payment Services

2.158 The Reserve Bank continued with its initiatives to improve services provided by agency banks to pensioners under various schemes announced by the Government of India. Under the 'Scheme for Payment of Pension for Central Government Civil Pensioners through Authorised Banks', a pensioner receives pension through her/ his savings/current account operated individually by her/him. Since June 2006, the Central Pension Accounting Office of the Government of India has allowed crediting of the pension amount to a joint account operated by pensioner with her/his spouse where family pension has been authorised. The Reserve Bank has issued suitable instructions to agency banks in this regard.

Other Banking Services

2.159 Banks (excluding RRBs) were advised on March 30, 2007 to ensure that cheques/drafts

Box II.15: Credit Cards with Special Reference to Consumer Protection

Based on the recommendations of the Working Group on Regulatory Mechanism for Cards set up by the Reserve Bank, comprehensive guidelines on credit card operations of banks were framed in November 2005 for implementation by the credit card issuing banks. These guidelines were updated in July 2007 and *inter alia*, cover areas like transparency in interest rates and other charges, wrongful billing, use of direct marketing agents (DMAs)/direct selling agents (DSAs) and other agents, protection of customer rights, redressal of grievances *etc*. Banks were advised that credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR and regardless of the size.

Customer's rights in relation to credit card operations primarily relate to personal privacy, customer confidentiality and fair practices in debt collection. The areas of consumer protection taken care of in the guidelines are as under:

(i) Banks should be transparent in fixing their interest rate/service charge on credit card dues and include the above in the 'Welcome Kit' and the monthly statements.

(ii) Banks should have a well documented policy and a Fair Practices Code for credit card operations and should adopt the Fair Practices Code for credit card operations of banks released by the Indian Banks' Association.

(iii) The card issuing bank should ensure that wrong bills are not raised and issued to customers. In case, a customer protests any bill, the bank should provide explanation and, if necessary, documentary evidence to the customer within a maximum period of sixty days. The credit card issuing bank may consider providing bills and statements of accounts online, with suitable security built for that purpose.

(iv) While outsourcing the various credit card operations banks have to take care that the quality of the customer service and the bank's ability to manage credit, liquidity and operational risks is not compromised. In the choice of the service provider, banks have to be guided by the need to ensure confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.

(v) The Code of Conduct for Direct Sales Agents (DSAs) formulated by the Indian Banks' Association could be used by banks in formulating their own codes for the purpose. The bank should ensure that the DSAs engaged by them for marketing their credit card products scrupulously adhere to the bank's own Code of Conduct for credit card operations which should be displayed on the bank's website and be available easily to any credit card holder.

(vi) Unsolicited cards should not be issued and unsolicited loans or other credit facility should not be offered.

(vii) The card issuing bank should not unilaterally upgrade credit cards and enhance credit limits. Prior consent of the cardholder should invariably be taken whenever there are any change/s in terms and conditions.

(viii) The card issuing bank should not reveal any information relating to customers to any other person/organisation without obtaining their specific consent. In case of providing information relating to credit history/repayment record of the card holder to a credit information company (specifically authorised by the Reserve Bank), the bank may explicitly bring to the notice of the customer that such information is being provided in terms of the Credit Information Companies (Regulation) Act, 2005. A similar prior notice may be given to the cardholder before reporting default status to the Credit Information Bureau of India Ltd. (CIBIL) or any other credit information Company authorised by the Reserve Bank.

(ix) In the matter of recovery of dues, banks should ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders issued by the Reserve Bank as also IBA's Code for Collection of dues and repossession of security. In case banks have their own code for collection of dues it should, at the minimum, incorporate all the terms of IBA's Code. In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank and that they observe strict customer confidentiality.

(x) Banks/their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

(xi) Generally, a time limit of sixty days may be given to the customers for preferring their complaints/grievances. The card issuing bank should constitute grievance redressal machinery within the bank. The name and contact number of designated grievance redressal officer of the bank should be mentioned on the credit card bills/displayed on the website. The bank should have a system of acknowledging customers' complaints for follow up such as complaint number/docket number even if the complaints are received on phone.

(xii) Option to approach of the Office of the Banking Ombudsman for redressal of grievances relating to Credit Cards has also been provided in the guidelines.

(xiii) The Reserve Bank reserves the right to impose penalty on banks under the provisions of the Banking Regulation Act, 1949 for violation of any of the credit card guidelines.

issued by clients containing fractions of a rupee are not rejected or dishonoured by them.

2.160 Banks were advised on April 5, 2007 to generally insist that the person opening a deposit account makes a nomination. In case the person opening an account declines to fill in nomination the bank should explain the advantages of nomination facility. If the person opening the account still does not want to nominate, the bank should ask him to give a specific letter to the effect that he does not want to make a nomination. In case the person opening the account declines to give such a letter, the bank should record the fact on the account opening form and proceed with the opening of the account, if otherwise found eligible. Under no circumstances, a bank should refuse to open an account solely on the ground that the person opening the account has refused to nominate. Similar guidelines were issued to RRBs on April 13, 2007.

2.161 Based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) for easy operation of lockers, the Reserve Bank reviewed all the guidelines issued on various issues relating to safe deposit lockers/safe custody articles and revised guidelines were issued on April 17, 2007. The guidelines contain instruction relating to (i) allotment of lockers; (ii) security aspects relating to locker; (iii) access to the safe deposit lockers/return of safe custody articles to survivor(s)/ nominees/legal heirs; and (iv) customer guidance and publicity.

2.162 Banks were advised on April 25, 2007 to ensure that none of their bank branches/staff refuses to accept lower denomination notes and/ or coins. Banks were asked to issue strict instructions to all branches that the staff concerned should in no case refuse to accept small denomination notes and coins tendered at the counters. It should also be ensured that all the staff members are made fully conversant with the instructions in this regard and also comply strictly with the same. Stern action would have to be taken in the event of refusal/ non-compliance by any staff member.

2.163 Bank were advised on May 3, 2007 that they need not obtain prior approval of the Reserve Bank for taking up corporate agency business for distribution of insurance products without risk participation. However, a report is required to be sent to the concerned Regional Office of the Reserve Bank within 15 days of commencement of the insurance agency business.

9. Payment and Settlement Systems

2.164 Smooth functioning of the payment and settlement systems is a pre-requisite for stability of the financial system. Payment and settlement systems are also important from the point of view of transmission channels for monetary policy. Any malfunctioning of the system could seriously impair the flow of goods and services and financial assets in the economy. This could have serious implications for financial stability and the transmission mechanism of monetary policy.

2.165 The Board for regulation and supervision of Payment and Settlement Systems (BPSS), the apex body for giving policy direction in the area of payment and settlement systems, has been meeting regularly. The BPSS held four meetings (September 25, 2006, December 21, 2006, April 10, 2007 and June 14, 2007) during 2006-07. The main thrust of the BPSS was on electronification of the payment systems by way of encouragement and information dissemination. Publishing of the frequently asked questions (FAQs) on Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT) and Electronic Clearing Service (ECS) - credit and debit, was a step in the direction of creating awareness among the public at large. Names of branches, which are offering the various payment services operated by the Reserve Bank, were placed in public domain. The charges levied by banks for the electronic payment services being offered are also being published and updated as and when any change is reported by the banks. This has given the customers the option to choose banks, based on services offered and charges levied.

2.166 The Reserve Bank has taken a keen interest in developing robust payment and settlement systems, both retail and large value. The Reserve Bank has also taken a number of measures for improving efficiency of both large value and retail payments systems. The expansion of NEFT and RTGS to cover more centres/branches for retail and large value systems, respectively, has been a step in this direction. Simultaneously, the clearing houses were urged to implement ECS which is used for bulk payments/receipts. The broad structure and features of the retail and large value payment systems as evolved over the years and the oversight of the payment systems are detailed in this Section.

Retail Payment Systems

2.167 The retail payment systems comprise paper-based clearing and electronic clearing systems, *viz*., national electronic funds transfer, electronic clearing service, card payments, e-payment, internet and mobile payments. Technological developments have facilitated innovations in the payment mechanism such as e-purse (Box II.16).

Paper-based Clearing - Extension of MICR and Implementation of Magnetic Media Based Clearing System (MMBCS)

2.168 The paper-based cheque is still the predominant mode of payment. The volume of transactions settled through this mode makes it imperative that the system operates smoothly. The standardisation of cheque in MICR format has been achieved. However, at quite a large number of clearing houses, the processing was manual. Thus, on completing the setting up of MICR Cheque Processing Centres (CPCs) at the 59 identified centres, the need was felt to computerise the settlement operations at the clearing houses where the setting up of a MICR CPC was not a viable option due to lower volumes. A plan was drawn for computerisation of the clearing operations using the Magnetic Media Based Clearing System (MMBCS).

2.169 The MMBCS provides for clearing and settlement based on the MICR code information. The system has been in operation for more than 15 years. It covers presentation clearing, return clearing, high value/high value return clearings and inter-bank clearing, but does not cover inter-city clearing. The system was initially implemented at the four MICR CPCs operated by the Reserve Bank. The same was subsequently implemented at all the clearing houses managed by the Reserve Bank. The member banks present their claims in the form of an electronic file which gets processed on the computer. As a result, the settlement figures are arrived at within 15 minutes compared to 3 or 4 hours under the manual system. In Phase I (clearing house with more than 25 banks), 41 clearing house were identified and computerised. During Phase II (clearing houses with 15 or more member banks), 180 clearing houses were identified for computerisation. Of these, 176 clearing houses were computerised. In addition, another 313 clearing houses were also computerised even though they had less than 15 member banks. Thus, the total number of clearing houses computerized stood at 530 at end-September 2007. Computerisation of the clearing houses has helped in reducing time and errors in the processing of cheques. New clearing houses are operationalised only with MMBCS.

2.170 The cheque truncation system (CTS) was also taken up to improve efficiency of the paper-based payment system. On operationalisation of the CTS, the paper instruments would not travel beyond the presenting bank. Banks would take a business decision at the point of truncating the cheque – branch level or service branch or gateway

Box II.16: E-purse Related Initiatives

The 'survey of developments in electronic money and internet and mobile payments' published in March 2004 by the Committee on Payment and Settlement Systems (CPSS), Bank for International Settlements (BIS) defines electronic money as, 'monetary value as represented by a claim on the issuer which is: (i) stored on an electronic device; (ii) issued on receipt of funds of an amount not less in value than the monetary value issued; and (iii) accepted as means of payment by undertakings other than the issuer'. This definition includes both prepaid cards (sometimes called electronic purse) and prepaid software products that use computer networks (sometimes called digital cash). An electronic purse or e-purse is a stored value or prepaid product in which a record of the funds or value is stored on an electronic device which is in the consumer's possession and is available to the consumer for multipurpose use. The loading of value onto the device is akin to the withdrawal of cash from an ATM. Most of the e-purses relate to use of reloadable cards. The money is loaded on cards by transfer of balances from bank accounts through ATMs or in some cases through the telephone or internet, on receipt of equivalent monetary value. These can be used for making payment for purchases which are generally of low value.

In India, quite a few banks have started issuing prepaid cards. Now a number of non-banks in collaboration with banks/without collaboration of banks are issuing both, limited or multipurpose prepaid cards. Broad categories under which cards have been issued by banks in India are-co-branded pre-paid travel card/foreign travel cards, co-branded pre-paid annuity cards, co-branded pre-paid payroll cards, *etc*. These cards, apart from being used at ATMs, can also be used at point of sale (POS) terminals for making payments. The payment could also be made for transactions done on internet. Slowly, but steadily, usage of these mode of payment is on an increase. Recognising the satential and associate advantages of e-purse, various issues associated with these types of payments are being examined by the Reserve Bank.

level. A pilot project for cheque truncation has been set up to cover the National Capital Region of Delhi. Smaller banks, which may find it unviable to set up this infrastructure, could come together and utilise the services of service bureaus set up for providing this service. A few large banks would set up service bureaus for smaller banks for this purpose.

Electronic Clearing Service

2.171 Electronic clearing service (ECS) is a retail payment system that can be used to make bulk payments/receipts of a similar nature, especially where each individual payment is of a repetitive nature and of relatively small amount. It has two variants - one for direct credit and the other for direct debit. Under ECS (credit) one entity/company makes payments from its bank account to a number of recipients by direct credit to their bank accounts. The direct credit facility enables companies and Government departments to make large volumes of payments such as salary and pension. With the ECS (debit), the organisations such as utility companies (electricity and telecom) and insurance companies collect their bills, insurance *premia* and equated monthly instalment payments of loans directly from the bank account of their customers. ECS is now available at all bank branches at 67 centres.

2.172 In order to broad-base the facilities of electronic funds transfer to centers where the Reserve Bank does not have its offices and to implement public key infrastructure (PKI) - based security system, a variant of the EFT called the national electronic fund transfer (NEFT) system was introduced in November 2005. The NEFT system has become a critical payment system for retail electronic payments after the RTGS was made a system for large value payments. The settlement of NEFT takes place on a 'net' basis; there are 6 settlements on week days (9.30 a.m., 10.30 a.m., 12.00 noon, 1.00 p.m., 3.00 p.m. and 4.00 p.m.) and 3 settlements (9.30 a.m., 10.30 a.m. and 12.00 noon) on Saturdays. The increase in the number of settlements of the NEFT system, which is a deferred net settlement, has made it close to a real time system. There are now 74 banks offering the facility at over 30,000 branches. The Reserve Bank joined NEFT in May 2007. However, the Reserve Bank participates only as a remitting bank.

2.173 Agency banks were advised on April 30, 2007 to provide an enabling environment and facilities to the customers for making Government transactions electronically by providing ECS/ EFT facilities.

Card-based Payment System

2.174 Credit and debit cards have been in use in the country for many years now. However, the card-based usage has picked up only during the last five years. Payment by cards is now becoming a much preferred mode for making retail payments in the country.

e-payment: Internet and Mobile Payment

2.175 The rapid growth of e-commerce and the use of the internet have led to the development of new payment mechanisms capable of exploiting the internet's unique potential for speed and convenience. Similarly, the broader usage of mobile phones has encouraged banks and non-banks to develop new payment services for their customers. Internet payments and mobile payments are defined by the channel through which the payment instruction is entered into the payment system.

National Financial Switch

2.176 National financial switch (NFS) was established by the Institute for Development and Research in Banking Technology (IDRBT) to facilitate apex level connectivity among all banks' ATM switches. This will facilitate ATM connectivity among banks across the country. The CCIL has been designated as the settlement agency for all transactions routed through the NFS. The net settlement obligations of individual members are sent to CCIL by IDRBT. This file is submitted to the Reserve Bank by CCIL for settlement. The settlement in this segment takes place on an 'all-or-none' basis.

Large Value Payment Systems

2.177 The large value payment systems comprise the RTGS, Government securities clearing and forex clearing. The RTGS was operationalised in March 2004. At present, 100 participants (banks, primary dealers and the Reserve Bank) are members of the RTGS system. The RTGS system facilitates customer transactions, apart from inter-bank funds transfer.

2.178 From January 2007, the system has been made a purely high value system and transactions above Rs.1 lakh only can now be put through this system. Integration of the RTGS with the integrated accounting system (IAS) and centralised funds management system (CFMS) has facilitated better funds management by banks and seamless transfer of funds across their accounts with the Reserve Bank. Integration of the RTGS-IAS with the securities settlement system (SSS) has facilitated automatic intra-day liquidity (IDL) availability based on the eligibility conditions.

2.179 The RTGS has the facility of multilateral net settlement batch (MNSB) mode of settlement, which has been implemented for the settlements at Mumbai covering cheque clearing settlements (including high value clearing), ECS and EFT/NEFT. The CCIL settlement is also being done in RTGS. The reach and utilisation of the RTGS is on the rise. At present, 32,768 branches are providing this facility to their customers.

2.180 The Clearing Corporation of India Limited is the central counterparty (CCP) for Government securities clearing as also the forex clearing. The settlement of all secondary market outright sales and repo transactions in Government securities is carried out through the CCIL. All OTC trades in this segment, which are reported on the Reserve Bank's NDS platform and trades which are contracted on the online anonymous trading platform NDS–OM, are accepted by the CCIL for settlement, after the necessary validations. These trades are settled on a DvP III basis, *i.e.*, the funds leg as well as the securities leg is settled on a net basis. The CCIL acts as the CCP for all the transactions and guarantees both the securities and the funds leg of the transactions. The CCIL guarantees settlement of trades on the settlement date by acting as a central counterparty to every trade through the process of novation.

2.181 The Reserve Bank has implemented the CFMS which enables banks to transfer funds across their accounts with the various offices of the Reserve Bank. At present, the system of funds transfer is available at eleven centres – Ahmedabad, Bangalore, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai, Nagpur, New Delhi and Patna.

Oversight of the Payment Systems

2.182 Existence of a sound legal framework is the basis for smooth functioning of the payment and settlement systems. Currently, there is no exclusive legislation in India which vests the Reserve Bank with formal oversight authority over the payment and settlement systems in the country. The Reserve Bank is discharging this role by deriving powers from the existing statutes such as the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.

2.183 The Payment and Settlement Systems Bill has been cleared by the Cabinet. Once the Bill is enacted as an Act, the Reserve Bank would be empowered to regulate and supervise all payment and settlement systems in the country. The Act will also provide legal recognition to multilateral netting and settlement finality, which are the basic tenets of the deferred net settlement (DNS) systems – the mode of settlement of all payment systems in the country, except the RTGS system.

2.184 In order to ensure that operations in the systems do not pose any payment and settlement risk, the Reserve Bank has, in a limited way, started formalising its oversight function. To begin with, the Reserve Bank has prepared the minimum standards of operational efficiency for MICR cheque processing centres (CPCs). The MICR CPCs have to submit a quarterly self-assessment report (SAR) on compliance to these standards. The standards relate to encoding of instruments, time schedule, regulated entry into CPC, maintenance of machines, operational procedures, monitoring of reject rates, speed and accuracy of on-line reject repair (OLRR), checking of settlement reports for supervisory signals, return clearing discipline to be adhered to, enabling banks to download reports/data, on-line reconciliation, customer service, and business continuity planning. The quarterly SARs submitted are analysed and discrepancies observed are informed to the bank managing the clearing house and the compliance monitored. Visits to the clearing house are also undertaken to have on-the spot information.

2.185 The Reserve Bank has also brought out the first report on the oversight of payment systems, which details the compliance of systemically important payment systems (SIPS) to the international standards.

10. Technological and Other Developments

2.186 Technology has been playing an increasingly important role in the banking sector. Recognising the role of technology in reducing the transaction cost and delivering the financial services in an efficient way, the Reserve Bank has been encouraging the use of technology in the banking sector. A holistic approach has been adopted for designing and development of modern, robust, efficient and secure payment system with minimal settlement risks. However, the use of technology has also posed certain challenges, especially relating to security of IT based products/services.

2.187 Information technology (IT) has emerged as a key business facilitator for developing new products and services both by the Reserve Bank and commercial banks. IT has helped in handling large transactional volumes and in meeting the changing customer expectations, apart from providing almost real time information processing for both the managements of banks and the customers.

2.188 The year 2006-07 witnessed the commencement of consolidation of IT based efforts by the financial sector in general and by the commercial banks in particular. The major developments during the year included the setting up of the data centres, migration towards centralised systems and large scale implementation of core banking systems across bank branches.

2.189 Banks in India have started to reap the benefits of introduction of IT which commenced in a small way more than a decade ago. After migrating to the use of stand-alone systems, the older banks in the country started the migration towards core banking systems (CBS). While new private sector banks had commenced operations with a complete IT based backbone (this was one of the pre-requisites insisted upon by the Reserve Bank), public sector banks and old private sector banks which were dependent on manual systems for their operations, had to pass through various stages in their metamorphosis to CBS. Although this resulted in a relative late implementation of the CBS, the banks have benefitted from the application of latest available technology.

2.190 CBS has opened up new vistas for banks to offer a variety of facilities to their customers. Facilities such as 'anywhere and anytime banking' got a fillip due to a centralised information pool available with banks. Constituents are now treated as customers of the bank as a whole instead of being attached to a particular branch alone. In addition, newer delivery channels based on technology have also gained ground. Some of these include internet banking, mobile banking, ATMs and shared ATM networks for availing of banking services on a much broader scale than ever before.

2.191 While new products and services using IT have revolutionised the availability of banking services, these also pose many challenges to be overcome. Apart from staff education and re-orientation, customer awareness and changes in work processes at the banks' own end, security, which is at the base of all IT based initiatives, is a factor which has gained great importance. In order to ensure that the basic requirements of security are taken care of from an IT perspective, banks are being encouraged to not only ensure that the common minimum requirements indicated by the Reserve Bank are complied with, but additional safeguards are also provided for. Commonly accepted international standards for security in IT are at the base of such requirements, which are also subject to regular, periodical review and upgradation, apart from being put through the rigours of information systems audit by the internal auditors/inspectors of the bank and by external/statutory auditors of the banks concerned.

2.192 With large scale dependence on IT for day-to-day operations, the need to ensure uninterrupted availability of such systems attains significance. To this end, business continuity and disaster recovery management are ascribed due importance by the Reserve Bank not only for its own systems but for the systems implemented in the commercial banks as well To this end, the Reserve Bank performs regular, periodical disaster recovery (DR) drills of critical systems hosted by the Reserve Bank where all member banks also participate. This exercise reinforces the DR preparedness of the entire system in respect of critical and systemically important payment system applications. In addition, individual banks are also exhorted to conduct their own DR exercises to ensure that their systems stand the test of any unforeseen contingency.

Technology in Banks and the Role of the Reserve Bank

2.193 To enable banks to plan their IT road maps and ensure best results, the Reserve Bank had published the Financial Sector (FST) Vision in 2005. This document was reviewed in the context of IT developments and the draft document for the medium-term has been placed for public comments before it is finalised. The Mission Statement as 'IT for Efficiency and Excellence' and the corporate objective of 'enabling financial sector to leverage on IT for better customer service, improved housekeeping and overall systemic efficiency' continue to be the guiding principles of the FST Vision.

Technology-Based Services by the Reserve Bank for Banks

2.194 The Reserve Bank continued to function as a business facilitator for deployment of new products and services by banks. The systems provided by the Reserve Bank included the negotiated dealing system (NDS) for Government securities, the real time gross settlement system and the centralised funds management system, [apart from the structured financial messaging system (SFMS) over the Indian Financial Network (INFINET)] and the national electronic funds transfer system.

2.195 Improvements in the software architecture of the NDS have resulted in better throughput and reduced processing times for banks, which are members of the system. Initiatives aimed at hiving off some of the front-end related functions to the CCIL are also underway. The RTGS has stabilised and the usage of the facility for transfer of funds, especially for large values and for systemically important purposes, has been on the rise. More than 35,000 branches of banks now offer RTGS-based funds transfers for their customers.

2.196 The secured website of the Reserve Bank, provides electronic information for authorised users, *viz*., the Government and the commercial banks. This facility, which can be accessed through the internet continued to be used on a large scale. During the year, the transmission of clearing data – both for cheque clearing and for electronic clearing services – was done in many centres through the secured website. In addition, collation of inputs from currency chests as part of the integrated currency chest operations and management system (ICCOMS) was done using the secured website. The secured internet website has been linked to the online return filing system (ORFS) using an extensible business reporting language (XBRL) structure to facilitate a single-stop reporting by banks to the Reserve Bank.

Technological Developments in Banks

2.197 Multi-application smart cards, which are heralding a new vista in banking, have made their presence felt as part of initiatives aimed at financial inclusion in parts of the North-East and the Southern regions (Box II.17).

Box II.17: Multi-Application Smart Cards and their Potential in Banking

A smart card is a card which is similar to a credit/debit ATM card. The distinguishing feature lines in the presence of a chip in the card which can store information. Unlike in the case of magnetic-stripe based cards, the stored information in the chip could either be permanent in nature, or may be subject to change. For instance, the passwords can be changed at any frequency by the cardholder. Because of its additional feature, smart cards find usage not only for financial transaction processing but in a number of other areas as well.

One of the greatest advantages of the smart card technology is its ability to consolidate multiple applications in a single, dynamic card. These cards simplify life for end-users, often replacing up to three other cards for payment and other transactions. Thus, there can be a single card which can function as an identity card, as a driving licence, as a health card and also for other funds related purposes. Because these cards deliver such highly personalised applications, their perceived value among end-users is much higher and helps to build stronger than average customer loyalty.

With Indian banking having embraced IT in a large way, the potential for usage of multi-application smart cards is high. Smart-card-based electronic purse systems, in which value is stored on the card chip and not in an externally recorded account so that machines accepting the card need no network connectivity. Thus, the multi-application cards are beneficial for issuers as well, especially because they provide the prospect to create unique marketing opportunities. They are particularly suitable for financial inclusion in remote parts of the country. For the banks interested in introducing smart cards, another quantifiable benefit is the ability to forecast a reduction in fraud.

Multi-application smart cards also pose several challenges. Managing multiple smart card applications along with their associated scripts, data streams and cryptographic keys is more complex than issuing single-function cards. Open standards and interoperability become more critical. Life cycle management is also much more elaborate, especially post-issuance upgrades to applications. In these environments, establishing a proven, integrated smart card infrastructure will likely mean the difference between ongoing success and failure to capitalise on the most lucrative opportunities. To address these issues, the Reserve Bank has supported pilot projects which would outline the major problems which are likely to be faced and the measures to overcome them, based on which acceptable and implementable standards will emerge.

Box II.18: IT Governance

Information Technology Governance (IT governance) or Information and Communication Technology (ICT governance) is a subset discipline of corporate governance focused on information technology (IT) systems and their performance and risk management. The rising interest in IT governance is partly due to compliance initiatives such as the Sarbanes-Oxley Act and Basel II, as well as the acknowledgement that IT projects can easily get out of control and profoundly affect the performance of an organisation. This is more relevant for the financial sector, including the banking sector, where the lack of IT governance may even lead to catastrophic consequences. IT governance is ideally a sub-set of the broader level of corporate governance.

A recurring theme of IT governance discussions is that the IT capability can no longer be a black box. Owing to limited technical experience and IT complexity, key decisions in the traditional handling of IT management by board level executives are deferred to IT professionals. IT governance implies a system in which all stakeholders, including the board, internal customers and related areas such as finance, provide the necessary input into the decision-making process. This prevents a single stakeholder, typically IT, being blamed for poor decisions. It also prevents users from later complaining that the system does not behave or perform as expected.

IT governance follows many models. While there exist many supporting mechanisms developed to guide the implementation of IT governance, some of the more common ones are:

- The IT Infrastructure Library (ITIL), which is a detailed framework with hands-on information on how to achieve a successful governance of IT.
- Control Objectives for Information and related Technology (COBIT) which is an approach to standardise good information technology security and control practices. This is done by providing tools to assess and measure the performance of 34 IT processes of an organisation. The ITGI (IT Governance Institute) is responsible for COBIT
- The ISO/IEC 27001 (ISO 27001) is a set of best practices for organisations to follow to implement and maintain a security program. It started as the British Standard 7799 (BS7799), which was published in the United Kingdom and became a well known standard in the industry that was used to provide guidance to organisations in the practice of information security.
- The Information Security Management Maturity Model ISM3, which is a process based ISM maturity model for security.
- AS8015-2005- an Australian Standard for Corporate Governance of Information and Communication Technology.
- CMM - The Capability Maturity Model which lays focus on software engineering.
- The Balanced Scorecard (BSC) which is a method to assess an organisation's performance in many different areas.
- Six Sigma which aims to focus on quality assurance.

IT governance is, however, characterised by a few incumbent challenges as well. The manifestation of IT governance objectives through detailed process controls (for instance, in the context of project management) is a frequently controversial matter in large scale IT management. Further, difficulties in achieving a balance between financial transparency and cost-effective data capture in IT financial management (*i.e.*, to enable chargeback) is a topic for which clear conclusions have not yet been arrived at.

Developments in the INFINET

2.198 The Indian Financial Network (INFINET) continued to be the most preferred communication channel for transmission of electronic information by banks for the systemically important inter-bank payment systems of the Reserve Bank. Taking into account the developments in networking technology, the INFINET is being migrated to a multi-protocol layer switching (MPLS) technology which offers economies of scale, apart from the ease of operation.

IT Governance

2.199 The smooth operation of all IT-based products requires good IT governance (Box II.18).

11. Legal Reforms

2.200 During the year, several major amendments were made to the banking related statutes. In addition, some new bills were tabled for enactment.

Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006

2.201 The Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006, which amended the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of

Undertakings) Act, 1980, was passed by the Parliament and came into force with effect from October 16, 2006. The amended Act, *inter alia*, provides for the following changes in the composition of the board : (i) the number of whole-time directors increased from two to four to have more functional directors in view of expansion of activities of the nationalised banks; (ii) the director to be nominated by the Government of India on the reconmmendations of the Reserve Bank will be a person possessing necessary experience and expertise in regulation or supervision of commercial banks, instead of nominating an officer of the Reserve Bank; (iii) removal of the provision for nominee directors from amongst the officials of SEBI/NABARD/PFIs; (iv) nomination of up to three shareholder directors on the board on the basis of percentage of shareholding instead of one to six directors as per the existing provision so as to provide for a more equitable representation on the basis of percentage of ownership (as a result, there will be a maximum of three elected directors in nationalised banks); and (v) elected directors will be persons having 'fit and proper' status as per the criteria notified by the Reserve Bank from time to time; and (vi) the Reserve Bank is empowered to appoint one or more additional directors, if found necessary, in the interest of banking policy/public interest/interest of the bank or the depositors.

2.202 Nationalised banks will be able to raise capital by preferential allotment or private placement or public issue in accordance with the procedure as may be specified by regulation with the prior approval of the Central Government and after consultation with the Reserve Bank. Nationalised banks will also be able to issue preference shares in accordance with the guidelines framed by the Reserve Bank. The Central Government will hold at all times not less than 51 per cent of the paid-up capital consisting of equity shares. Moreover, the voting rights of preference shares of the nationalised banks will be restricted only to resolutions directly affecting their rights. The amendment also restricts the shareholders' voting rights in respect of preference shares held by them to a ceiling of one per cent of total voting rights of all the shareholders holding preference share capital only.

2.203 The amendment has empowered shareholders to discuss, adopt and approve the directors' report, the annual accounts and the balance sheet at the annual general meeting. Nationalised banks are enabled to transfer the unclaimed dividends for more than seven years to Investor Education and Protection Fund established under section 205C of the Companies Act, 1956.

2.204 The Central Government is now empowered to supersede the board of directors on the recommendation of the Reserve Bank in public interest, or for preventing the affairs of the bank being conducted in a manner detrimental to the depositors or bank's interest, or for securing proper management of nationalised banks. Supersession can be for a period not exceeding 6 months which may be extended up to a maximum of one year. The Central Government can appoint an administrator and a committee of three or more members having experience in law, finance, banking, economics or accountancy in consultation with the Reserve Bank to assist it in the discharge of its duties.

The State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007

2.205 The State Bank of Saurashtra Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959 were amended with a view to (i) remove the difficulties faced by the shareholders of the subsidiary banks of State Bank of India; (ii) facilitate increase in the capital of the subsidiary banks; and (iii) enable subsidiary banks to raise resources from the market. The Act of 2007, which came into force with effect from July 9, 2007 amended the said three Acts, *inter alia*, to: (i) increase the authorised capital of subsidiary banks to Rupees five hundred crore and divide the authorised capital into shares of one hundred rupees each or of such denomination as may be decided by the subsidiary banks, with the approval of State Bank of India (SBI); (ii) allow the subsidiary banks to issue share certificates of such denomination as may be prescribed by regulations made by SBI with the approval of the Reserve Bank to the existing shareholders; (iii) allow the subsidiary banks to raise issued capital through preferential allotment or private placement or public issue in accordance with the procedure as may be specified by regulations made by SBI with the approval of the Reserve Bank and to issue preference shares in accordance with the guidelines framed by the Reserve Bank;

(iv) allow reduction of the SBI's shareholding in the subsidiary banks from 55 per cent to 51 per cent; (v) remove the restriction on individual shareholdings in excess of two hundred shares and increase the percentage of voting rights of shareholders (other than the SBI) from one per cent to 10 per cent of the issued capital of the subsidiary bank concerned; (vi) enable the Reserve Bank to nominate one director, possessing necessary expertise and experience in the matters relating to regulation or supervision of commercial banks, and to make provisions for nomination of additional director by the Reserve Bank as and when considered necessary, in the interest of banking policy and depositors' interest; (vii) increase the number of elected directors representing shareholders of subsidiary bank limited to a maximum of three, subject to different percentage of public ownership; (viii) specify the qualification regarding eligibility criteria including 'fit and proper' criteria for elected directors of subsidiary bank and to confer power upon the Reserve Bank to remove elected directors who are not 'fit and proper' and also to allow the board of directors of a subsidiary bank to co-opt any other person who is 'fit and proper' in his place; (ix) confer power upon the Reserve Bank to supersede the boards of directors of subsidiary banks in public interest or depositor's interest, or for securing proper management of the subsidiary banks on the recommendation of SBI and to appoint an administrator and a committee to assist the administrator; (x) enable the board of a subsidiary bank to frame regulation after consultation with State Bank of India and with the previous approval of the Reserve Bank; (xi) enable the banks to hold board meeting through video-conferencing or such other electronic means; and (xii) entitle the share holders present in the annual general meeting to adopt the balance sheet.

The Banking Regulation (Amendment) Ordinance, 2007

2.206 The Government of India promulgated the Banking Regulation (Amendment) Ordinance, 2007 in January 2007 which provides for: (i) amendment to section 24 of the Banking Regulation Act, 1949 to enable the Reserve Bank to specify the statutory liquidity ratio without any floor and the assets which will be maintained in such form and manner by the scheduled banks and (ii) amendment to section 53 of the Banking Regulation Act, 1949 to provide that requirement of laying the draft notification before both Houses of Parliament shall apply in cases of exemptions being granted to institutions/ banks/branches located in special economic zones (SEZs).

2.207 The Ordinance was repealed by the Banking Regulation (Amendment) Act, 2007 which came into effect on January 23, 2007 and was notified on March 28, 2007.

Bills Tabled in the Parliament

2.208 The Banking Regulation (Amendment) Bill, 2005 introduced in the Lok Sabha on May 13, 2005, seeks to amend some of the provisions of the Banking Regulation Act, 1949 with a view to strengthening the regulatory powers of the Reserve Bank. The Bill includes provisions for: (i) removing the restriction on voting rights and introducing the requirement of prior approval of the Reserve Bank for acquisition of shares or voting rights above the specified limit (empowering the Reserve Bank to satisfy itself that the applicant is a 'fit and proper person' to acquire shares or voting rights, and to impose such further conditions that the Bank may deem fit to impose); (ii) amending Section 12 of the Act to enable banking companies to issue preference shares subject to regulatory guidelines framed by the Reserve Bank; (iii) empowering the Reserve Bank to direct a banking company to disclose in its financial statement, or furnish to the Reserve Bank separately, such statements and information relating to the business of any associate enterprise as the Reserve Bank considers necessary, and also to cause an inspection to be made of any associate enterprise; (iv) empowering the Reserve Bank to supersede the board of directors of a banking company and appoint an administrator; (v) amending Section 56 of the Act to remove he provision facilitating primary credit societies to carry on the business of banking without obtaining a license from the Reserve Bank; and (vi) empowering the Reserve Bank to order special audit of a co-operative bank in public interest or in the interest of the co-operative bank or its depositors. The Standing Committee on Finance of the Parliament has submitted its report on the Bill.

2.209 The Payments and Settlements Bill, 2006 was introduced in the Lok Sabha on July 25, 2006. The Bill seeks to designate the Reserve Bank as the authority to regulate payment and settlement systems. The Bill contains provisions for: (i) compulsory requirement of an authorisation by the Reserve Bank to operate payment systems; (ii) empowering the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns, documents etc.; (iii) empowering the Reserve Bank to audit and inspect by entering the premises where payment systems are being operated; (iv) empowering the Reserve Bank to issue directions; and (v) overriding other laws and providing for settlement and netting to be final and irrevocable at the determination of the amount of money, securities or foreign exchange payable by participants. The Bill was referred to the Standing Committee on Finance for its consideration and the Report of the Committee was presented to the Lok Sabha in May 2007.

2.210 The State Bank of India (Amendment) Bill, 2006 containing amendments to the State Bank of India Act, 1955 was introduced in the Lok Sabha in December 2006. The proposed Bill seeks to provide for enhancement of the capital of State Bank of India by issue of preference shares, and to enable it to raise resources from the market by public issue or preferential allotment or private placement. The Bill also aims at providing flexibility in the management of the bank. The Bill, *inter alia*, provides for: (i) increase in the authorised capital of State Bank of India to rupees five thousand crore divided into shares of ten rupees each or of such denomination as may be decided by the Central Board with the approval of the Reserve Bank; (ii) increase or reduction in the authorised capital by the Central Government in consultation with the Reserve Bank; (iii) increase in the issued capital of State Bank of India by preferential allotment of share or private placement or public issue in accordance with the procedure as may be prescribed by regulations with the previous approval of the Reserve Bank and the Central Government and the issue of preference shares in accordance with guidelines framed by the Reserve Bank; (iv) issue of bonus shares by State Bank of India to the existing equity shareholders; (v) reduction of the Reserve Bank's shareholding from 55 per cent to 51 per cent consisting of equity shares of the issued capital; (vi) the State Bank to accept share monies in installments, make calls, and forfeit unpaid shares and their reissue; (vii) nomination facility in respect of shares held by individual/joint shareholders; (viii) the Central Government to appoint not more than four managing directors in consultation with the Reserve Bank and to abolish the post of 'vice-chairman'; and (ix) power for the Central Government to supersede the Central Board in certain cases on the recommendations of the Reserve Bank and to appoint an administrator for the period during which the central board stands superseded.

Chapter III

Operations and Performance of Commercial Banks

Introduction

3.1 Robust macroeconomic performance continued to underpin the business and financial performance of scheduled commercial banks (SCBs)[1] during 2006-07. The operations of SCBs were marked by a large expansion of credit for the third year in succession, *albeit* with some moderation. A noteworthy development of credit growth was the increased flow of credit to the SSI sector. Credit to the retail sector, particularly housing and commercial real estate, slowed down significantly. On the liability side, deposit growth accelerated mainly on account of sharp increase in term deposits. This enabled banks to comfortably finance the strong credit demand. In contrast to the previous year, banks' investment in Government securities increased during the year. However, as percentage of both total assets and net demand and time liabilities (NDTL), investment by banks in Government securities continued to decline. Net profits of SCBs increased sharply, underpinned by the sharp increase in net interest income due to strong growth in credit volumes and containment of operating expenses. The asset quality of SCBs improved further during 2006-07 as reflected in the decline in gross and net non-performing assets as a percentage of loans and advances. The capital to risk-weighted assets ratio of the banking sector remained at the previous year's level, despite sharp increase in risk-weighted assets.

3.2 This Chapter profiles the operations and financial performance of SCBs at the aggregate as well as bank group levels. The Chapter is organised into eleven Sections. Section 2 analyses the balance sheets of SCBs on an aggregate basis, while Section 3 outlines their off-balance sheet operations. Financial performance of SCBs is analysed in Section 4. Section 5 details the trends in soundness indicators. Operations of SCBs in the capital market are delineated in Section 6, while technological developments in the banking sector during the year are covered in Section 7. Regional spread of banking is set out in Section 8. Section 9 presents the update on customer service and financial inclusion. Apart from the SCBs, there exist 96 regional rural banks (RRBs)[2] and four local area banks (LABs). While the performance of SCBs forms the core of this Chapter, the performance of RRBs and LABs is detailed separately in Section 10 and Section 11, respectively.

2. Liabilities and Assets of Scheduled Commercial Banks

3.3 The number of SCBs declined to 82 at end-March 2007 from 85 at end-March 2006 due to merger of three old private sector banks. During 2006-07, Bharat Overseas Bank Ltd. was merged with Indian Overseas Bank on March 31, 2007 in terms of Section 9(2) (c) of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970. In view of the deteriorating financial condition of the Ganesh Bank of Kurundwad Ltd., the Central Government, on the recommendations of the Reserve Bank, placed the bank under an Order of Moratorium for a period of three months from the close of business on January 7, 2006. With a subsequent notification, after completion of some legal procedures by the Government on September 1, 2006, Ganesh Bank of Kurundwad Ltd. was amalgamated with Federal Bank Ltd. with effect from September 2, 2006. Similarly, the United Western Bank Ltd. (UWB) was put under an Order of Moratorium under sub-Section (2) of Section 45 of the Banking Regulation Act, 1949. On completion of procedural course, the UWB was amalgamated with Industrial Development Bank of India Ltd. on September 30, 2006. The amalgamation came into force on October 3, 2006.

1 SCBs comprise 28 public sector banks (State Bank of India and its seven associates, 19 nationalised banks and the IDBI Bank Ltd.), 8 new private sector banks, 17 old private sector banks and 29 foreign banks. Ganesh Bank of Kurundwad Limited, which was placed under moratorium on July 7, 2006, and later merged with Federal Bank Limited on September 2, 2006, did not bring out its annual accounts for the year 2005-06.

2 As at end-March 2007.

The names of two banks were changed during 2006-07, *i.e.*, UTI Bank was remained as Axis Bank, while Chohung Bank was renamed as Shinhan Bank. Besides three amalgamations during 2006-07, the Sangli Bank Ltd. was amalgamated with the ICICI Bank Ltd. under Section 44A of the Banking Regulation Act, 1949 effective April 19, 2007.

3.4 The aggregate balance sheet of SCBs expanded by 24.3 per cent during 2006-07 as compared with 18.2 per cent in 2005-06 (Tables III.1 and III.2).

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

(Amount in Rs. crore)

Item	As at end-March			
	2006		2007	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	25,206	0.9	29,559	0.9
2. Reserve and Surplus	1,57,974	5.7	1,89,615	5.5
3. Deposits	21,64,681	77.7	26,96,980	77.9
3.1. Demand Deposits	2,92,945	10.5	3,51,998	10.2
3.2. Saving Bank Deposits	5,42,874	19.5	6,31,651	18.2
3.3. Term Deposits	13,28,861	47.7	17,13,330	49.5
4. Borrowings	2,03,147	7.3	2,42,870	7.0
5. Other Liabilities and Provisions	2,34,852	8.4	3,04,381	8.8
Total Liabilities/Assets	**27,85,863**	**100.0**	**34,63,406**	**100.0**
Assets				
1. Cash and Balances with RBI	1,44,475	5.2	1,95,372	5.6
2. Balances with Banks and Money at Call and Short Notice	1,16,443	4.2	1,58,413	4.6
3. Investments	8,66,508	31.1	9,50,769	27.5
3.1 Government Securities (a+b)	6,90,421	24.8	7,54,456	21.8
a. In India	6,86,464	24.6	7,50,733	21.7
b. Outside India	3,957	0.1	3,723	0.1
3.2 Other Approved Securities	13,949	0.5	12,760	0.4
3.3 Non-Approved Securities	1,62,137	5.8	1,83,551	5.3
4. Loans and Advances	15,16,811	54.4	19,81,216	57.2
4.1 Bills Purchased and Discounted	1,03,657	3.7	1,24,424	3.6
4.2 Cash Credits, Overdrafts, *etc.*	5,65,001	20.3	7,12,866	20.6
4.3 Term Loans	8,48,152	30.4	11,43,924	33.0
5. Fixed Assets	25,081	0.9	31,362	0.9
6. Other Assets	1,16,542	4.2	1,46,271	4.2

Note : Data for 2005-06 are as reported in the balance sheets of banks for 2006-07 and hence may not match with those reported in the *Report on Trend and Progress of Banking in India, 2005-06*, as the figures for 2005-06, were revised by some banks.

Source : Balance sheets of respective banks.

3.5 The faster growth of the banking system in relation to the real economy resulted in significant increase in the ratio of assets of SCBs to GDP (at factor cost at current prices) to 92.5 per cent at end-March 2007 from 85.7 per cent at end-March 2006. The degree of leverage enjoyed by the banking system as reflected in the equity multiplier (measured as total assets divided by total equity) increased to 15.8 at end-March 2007 from 15.2 at end-March 2006.

3.6 The pattern of liabilities and assets of SCBs underwent some changes during the year. For the third year in succession, loans and advances grew by over 30 per cent (*i.e.*, 30.6 per cent as compared with 31.8 per cent in 2005-06 and 33.2 per cent in 2004-05), underpinned by robust macroeconomic performance. Reversing the trend of the previous two years, the increase in deposits in absolute terms was significantly higher than that in loans and advances, even as the deposit growth at 24.6 per cent was lower than the growth in loans and advances. A part of the surplus funds, therefore, was deployed in Government securities unlike the last year, when banks liquidated investments in Government securities to meet the increased credit demand. Despite incremental investments, the share of Government securities (as also overall investments) in total assets declined significantly, suggesting that the increase in investments did not keep pace with the increase in overall assets [Table III.2 and Appendix Tables III.1 (A) to (C)].

3.7 Among bank groups, the balance sheets of foreign banks and new private sector banks expanded by 39.5 and 38.7 per cent, respectively, taking their combined share in total assets of the banking sector to 24.9 per cent at end-March 2007 from 22.3 per cent at end-March 2006 (Table III.2). The combined balance sheet of public sector banks expanded by 21.1 per cent as compared with 24.3 per cent increase in the balance sheet of the entire banking sector, resulting in a decline in their share to 70.5 per cent at end-March 2007 from 72.3 per cent a year ago. The balance sheet of old private sector banks grew by 7.1 per cent as a result of which their market share declined further to 4.6 per cent at end-March 2007 from 5.4 per cent at end-March 2006 [Appendix Table III.1(A) to (C)]. The changes in the market shares of various bank groups broadly reflected the changes in their shares in deposits (Table III.3).

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

(Per cent)

Item	As at end-March									
	2006					2007				
	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
1	2	3	4	5	6	7	8	9	10	11
1. Capital	-20.6	25.9	14.2	27.5	-2.7	0.7	4.4	5.6	45.4	17.3
2. Reserve and Surplus	21.7	19.5	55.2	28.5	27.7	20.0	11.6	17.4	30.6	20.0
3. Deposits	12.9	11.6	50.7	31.7	17.8	22.9	6.0	38.8	32.6	24.6
3.1. Demand Deposits	20.8	15.7	29.3	48.8	24.9	19.3	3.9	36.7	11.8	20.2
3.2. Saving Bank Deposits	19.0	20.4	60.6	21.1	22.0	15.0	6.7	33.3	16.3	16.4
3.3. Term Deposits	8.9	8.9	53.9	25.4	14.7	27.3	6.1	40.6	52.3	28.9
4. Borrowings	23.7	22.5	11.0	24.5	20.7	5.7	22.3	42.8	32.7	19.6
5. Other Liabilities and Provisions	12.3	13.8	34.0	31.4	17.4	16.2	16.1	51.1	88.7	29.6
Total Liabilities/Assets	**13.6**	**12.4**	**43.2**	**29.8**	**18.3**	**21.1**	**7.1**	**38.7**	**39.5**	**24.3**
1. Cash and Balances with RBI	25.3	-0.3	16.1	20.0	22.4	26.1	25.9	94.3	49.8	35.2
2. Balances with Banks and Money at Call and Short Notice	14.0	7.5	37.4	64.3	22.1	26.9	5.8	91.9	42.2	36.0
3. Investments	-7.7	1.1	41.1	22.2	-0.4	4.9	-3.6	26.4	36.4	9.7
3.1 Government Securities (a+b)	-8.4	3.2	50.4	20.1	-1.2	3.6	-2.2	33.0	37.5	9.3
a. In India	-8.5	3.2	50.3	20.1	-1.3	3.6	-2.0	32.9	37.5	9.4
b. Outside India	15.3	2.6	255.2	–	17.7	-8.6	-100.0	125.0	–	-5.9
3.2 Other Approved Securities	-13.5	-14.4	-60.9	-60.6	-14.4	-7.8	-30.9	-20.7	0.2	-8.5
3.3 Non-Approved Securities	-2.8	-5.8	24.1	32.8	4.8	13.6	-7.6	11.4	32.7	13.2
4. Loans and Advances	29.5	21.7	50.2	29.5	31.8	30.2	12.0	39.9	29.5	30.6
4.1 Bills Purchased and Discounted	16.5	8.1	-10.4	27.0	12.8	22.4	-15.4	21.8	21.3	20.0
4.2 Cash Credits, Overdrafts, *etc.*	26.9	21.4	64.2	33.7	29.3	25.7	11.6	42.0	27.7	26.2
4.3 Term Loans	33.5	24.3	54.4	26.6	36.4	34.5	16.5	40.7	32.8	34.9
5. Fixed Assets	9.1	7.4	2.5	28.1	8.8	37.7	-5.6	4.2	24.4	25.0
6. Other Assets	12.8	14.3	31.3	30.7	18.4	7.1	0.7	33.3	90.6	25.5

Source : Balance sheets of respective banks.

3.8 Recognising the importance of transparency of financial statements as an important tool for supervision, the Reserve Bank has taken a number of steps to bring the disclosure standards of Indian banks closer to the international best practices (Box III.1).

Table III.3: Major Components of Balance Sheets of Scheduled Commercial Banks – Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	Assets		Deposits		Advances		Investments	
	2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9
Public Sector Banks	72.3	70.5	75.0	73.9	72.9	72.7	73.1	69.9
Nationalised Banks	44.3	44.2	48.7	48.8	45.0	45.2	44.3	44.9
State Bank Group	24.8	23.3	25.1	23.5	24.5	24.3	25.9	22.3
Other Public Sector Bank	3.2	3.0	1.2	1.6	3.5	3.2	2.9	2.7
Private Sector Banks	20.5	21.5	19.8	20.5	20.6	20.9	20.8	22.6
Old Private Sector Banks	5.4	4.6	6.0	5.1	5.5	4.7	5.2	4.6
New Private Sector Banks	15.1	16.9	13.8	15.3	15.2	16.2	15.6	18.0
Foreign Banks	7.2	8.0	5.3	5.6	6.4	6.4	6.0	7.5
Scheduled Commercial Banks	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Balance sheets of respective banks.

Box III.1: Disclosure and Transparency in Banks' Balance Sheets

Disclosures and transparency in financial statements have become more important, as banks' activities have become more complex and dynamic. Banks are special. Banks are financial intermediaries critical for mobilising savings, deploying the same taking into account safety of funds and decent return to the savers. Banks thus have fiduciary role and responsibility. They are crucial for operation of the payment system. The sustained, stable and continuing operations of banks depend on the public confidence in individual bank and the banking system. Full disclosure of the financial position of banks and financial institutions is considered essential for an objective assessment of the stability of the banking system. The level of transparency of the annual accounts of banks and financial institutions has therefore, received considerable attention from international organisations, rating agencies and other market participants. Effective public disclosure enhances market discipline. Market discipline and improved public scrutiny can provide strong incentives to banks to conduct their business in a safe, sound and efficient manner; to conform to stated business objectives; and to maintain sound risk management practices and internal controls. Market discipline which is achieved through better disclosures have been given due importance under Basel II by recognising it as one of its three Pillars.

In pursuance of the financial sector reforms introduced since 1991, the Reserve Bank has initiated a number of measures for bringing about greater or full disclosure in the published accounts of banks having regard to the need for disclosure, public accountability of banks, maintenance of confidentiality between banker and customer and the requirement of maintaining the reputation of creditworthiness of banks. The Formats of Balance Sheet and Profit and Loss Accounts of banks were amended in 1991 having regard to (i) the need for greater or full disclosure, (ii) expansion of banking operations both area-wise and sector-wise over the period and (iii) the need for improving the presentation of accounts. The thrust of the amendment was to bring the true financial position of banks to pointed focus and to enable the user of financial statements to study and have a meaningful comparison of their positions. Banks were required to disclose the accounting policies regarding key area of operations in one place along with Notes on Accounts in their Financial Statements for the Accounting Year.

In the interest of full and complete disclosure, some very useful information is better provided, or can only be provided, by way of notes to the financial statements. The use of notes and supplementary information provides the means to explain and document certain items, which are either presented in the financial statement or otherwise affect the financial position and performance of the reporting enterprise. The Reserve Bank has recognised the need for improving the disclosure requirements prescribed for banks. Keeping in view factors like computerisation and the level of MIS in banks, development of the market, *etc.*, it has been agreed that the level of transparency needs to be brought on par with international best practices. In line with the above approach, the disclosure standards of banks have gradually been enhanced. In addition to the 16 detailed schedules to their Balance Sheet, banks are required to furnish in the "Notes to Account" details such as:

- Capital Adequacy Ratio; Tier I capital; Tier II capital;
- Percentage of share holding of the Government of India in the nationalised banks;
- Amount of subordinated debt raised as Tier-II capital;
- The gross value of investments separately on investments in India and outside India and the net value of investments in India and outside India;
- Percentage of net NPAs to net advances;
- Provisions made towards depreciation in the value of investments and the movement of such provisions;
- Percentage of net NPAs to net advances. Provisions made towards NPAs and the movement of such provisions;
- Details of loan assets subjected to restructuring; restructuring under CDR; details of financial assets sold to an SC/RC for Asset Reconstruction; details of non-performing asset purchased/sold;
- Details of 'Provisions and Contingencies'; provisions made during the year towards income-tax, standard asset, floating provisions, etc.;
- Disclosures of business ratios such as interest income as a percentage of working funds; operating profit as a percentage to working funds; return on assets; business (deposits plus advances) per employee, and profit per employee;
- Asset Liability Management - maturity pattern of loans and advances; investment securities; deposits; borrowings; and foreign currency assets and liabilities;
- Lending to sensitive sectors, which are sensitive to asset price fluctuations. These should include advances to sectors such as capital market, real estate, etc., and such other sectors to be defined as sensitive by the Reserve Bank from time to time;
- Exposure to country risk;
- Details of single borrower/group borrower limit exceeded by the bank;
- Disclosures relating to repo transactions; non-SLR investment portfolio; forward rate agreement/interest rate swaps; exchange traded interest rate derivatives; and risk exposure in derivatives.

Banks are required to comply with the disclosure norms stipulated under the various Accounting Standards issued by the Institute of Chartered Accountants of India.

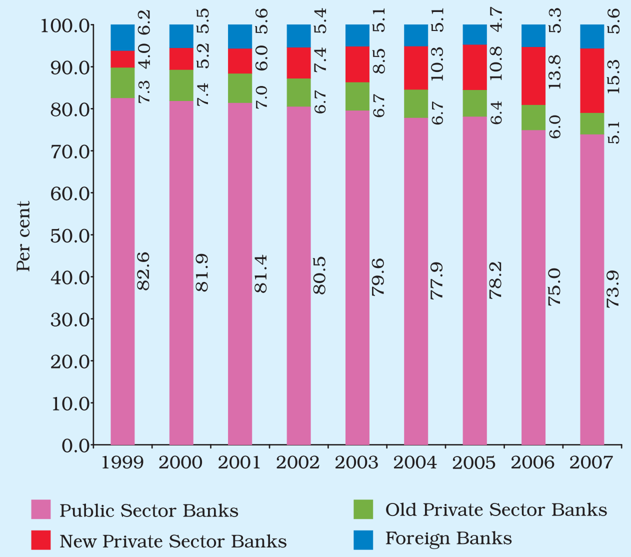
Deposits

3.9 Aggregate deposits of scheduled commercial banks during 2006-07 grew by 24.6 per cent as compared with 17.8 per cent last year. While the growth of demand deposits and saving bank deposits slowed down, that of time deposits accelerated. This was in contrast to the trend in the last year when banks' efforts to raise deposits to fund increased credit demand led to a significant shortening of the maturity profile of deposits, which was reflected in the accelerated growth of demand and saving bank deposits. Several factors contributed to the accelerated growth in term deposits during 2006-07. First, there was a clear shift from postal savings to term deposits of banks due to favourable interest rate differentials and extension of tax benefits to long-term bank deposits. Two, the demand for term deposits also increased from cash-rich private and public sector companies, which on the back of high profitability, parked their surplus funds with banks. Three, non-resident deposits registered a higher growth during 2006-07 as compared with the previous year.

3.10 The sharp growth in the issuance of certificates of deposit (CDs) registered in recent years continued during 2006-07. The amount of CDs outstanding more than doubled from Rs.43,568 crore at end-March 2006 to Rs.93,272 crore by end-March 2007 and further to Rs.1,18,481 crore (September 28, 2007). The CDs outstanding constituted 2.7 per cent of aggregate deposits of SCBs at end-March 2007 as compared with 1.6 per cent a year ago. Increased issuance of CDs during 2006-07 reflected the pressure that banks faced in raising deposits in view of the strong credit offtake. The flexibility of return that can be offered by the cash-strapped banks to attract bulk deposits made CDs the preferred route for mobilising resources. Private sector banks and foreign banks with limited branch network and limited retail customer base continued to be the major issuers of CDs (Appendix Table III.2).

3.11 Bank group-wise, deposits of new private sector banks grew at the highest rate (38.8 per cent), followed by foreign banks (32.6 per cent), public sector banks (22.9 per cent) and old private sector banks (6.0 per cent). Continuing the trend of the last few years, the share of new private sector banks in total deposits increased further

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



during the year, while that of PSBs and old private sector banks declined (Chart III.1).

Non-Deposit Resources

3.12 Resources raised by banks from the capital market in the form of public issues of equity and debt declined sharply to Rs.1,066 crore during 2006-07 from Rs.11,067 crore during 2005-06. However, banks continued to mobilise large funds from the private placement market (Rs.30,994 crore from 90 issues as compared with Rs.30,151 crore from 97 issues in the previous year) (refer Section 6 for details).

International Liabilities of Banks

3.13 The international liabilities of banks grew by 17.6 per cent during 2006-07 as against the increase of 20.2 per cent during 2005-06. The slowdown in the growth of international liabilities was mainly due to decline in foreign currency borrowings and lower growth in NRE deposits. However, FCNR(B) deposits, NRO rupee deposits, own issues of securities and other liabilities consisting mainly of proceeds raised by way of ADRs/GDRs and equities of banks held by non-residents increased at a higher rate (Table III.4).

3.14 Reversing the trend of the last few years, the share of foreign currency deposits and borrowings in total international liabilities declined during the year (Chart III.2).

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

(Amount in Rs. crore)

Item	As at end-March		
	2005	2006	2007
1	2	3	4
1. Deposits and Loans	**2,03,154 (79.7)**	**2,46,246 (80.3)**	**2,71,403 (75.2)**
of which:			
a) Foreign Currency Non-Resident Bank [FCNR(B)]	50,796 (19.9)	58,110 (19.0)	68,086 (18.9)
b) Foreign currency Borrowings *	45,539 (17.9)	63,722 (20.8)	61,470 (17.0)
c) Non-resident External Rupee (NRE) A/c	85,811 (33.7)	1,00,310 (32.7)	1,12,907 (31.3)
d) Non-Resident Ordinary (NRO) Rupee Deposits	6,393 (2.5)	5,449 (1.8)	6,855 (1.9)
2. Own Issues of Securities/Bonds (including IMD/RIBs)	**29,235 (11.5)**	**4,856 (1.6)**	**10,036 (2.8)**
3. Other Liabilities	**22,609 (8.9)**	**55,506 (18.1)**	**79,258 (22.0)**
of which:			
a) ADRs/GDRs	9,910 (3.9)	14,835 (4.8)	23,515 (6.5)
b) Equity of Banks Held by Non-residents	3,230 (1.3)	28,438 (9.3)	40,328 (11.2)
c) Capital/Remittable Profits of Foreign Banks in India and other Unclassified International Liabilities	9,469 (3.7)	12,233 (4.0)	15,415 (4.3)
Total International Liabilities	**2,54,999 (100.0)**	**3,06,609 (100.0)**	**3,60,698 (100.0)**

* : Inter-bank borrowings in India and from abroad and external commercial borrowings of banks.
Note : Figures in brackets are percentages to total.
Source: Locational Banking Statistics.

3.15 The share of external (international) sources of funds of scheduled commercial banks in their total liabilities, which rose almost consistently between end-March 2001 and end-March 2006, declined during the year (Chart III.3).

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

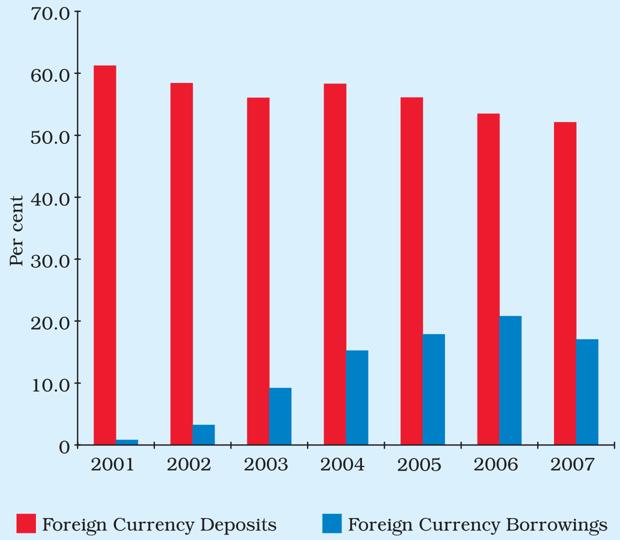
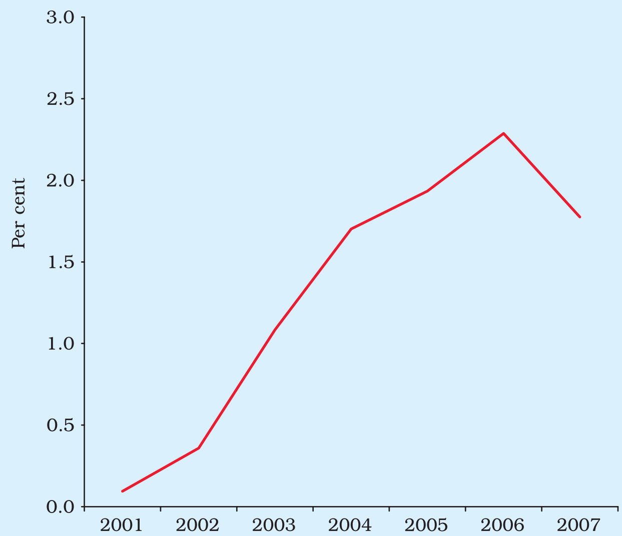


Chart III.3: Foreign Currency Liabilities to Total Liabilities of SCBs
(As at end-March)



Bank Credit

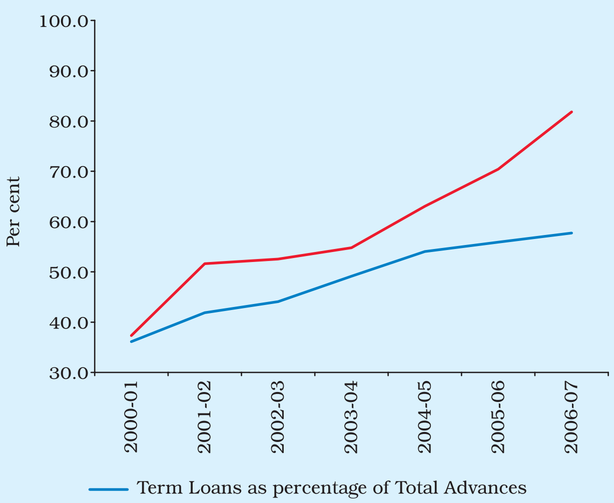
3.16 Loans and advances of SCBs registered a robust growth of 30.6 per cent during 2006-07, on top of the high growth 31.8 per cent during 2005-06 and 33.2 per cent in 2004-05. Among the major components of bank credit, term loans which constituted the major component of loans and advances portfolio, continued to grow at a strong pace (34.9 per cent) during the year. As a result, the share of term loans in both total advances and gross domestic capital formation (GDCF) increased further during the year (Chart III.4). The other components of loans and advances portfolio, *viz.*, cash credit and overdrafts and bill purchased and discounted grew at a lower rate as compared with the growth of overall bank credit.

Sectoral Deployment of Bank Credit

3.17 The modest slowdown in overall credit[3] was reflected in all the four major sectors, *viz.*, agriculture, industry, services and personal loans. There has been a greater deceleration in respect of services (especially in real estate loans) and personal loans. Credit growth to the SSI sector, however, accelerated sharply (Table III.5 and Appendix Table III.3).

3.18 Provisional data on sectoral deployment of credit up to August 17, 2007 indicate that on a year-on-year basis bank credit to agriculture, industry, services and personal loans slowed down to 24.4 per cent, 24.6 per cent, 24.5 per cent and 19.8 per cent, respectively. Growth of real estate loans remained high, notwithstanding some deceleration to 52.9 per cent.

Chart III.4: Term Loan and Capital Formation



Note: GDCF for 2006-07 has been proxied by gross capital formation.

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

(Variations over the year)

(Amount in Rs. crore)

Sector	2005-06		2006-07	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture and Allied Activities	**49,606**	**39.9**	**56,305**	**32.4**
2. Industry (Small, Medium and Large)	**1,26,804**	**30.0**	**1,41,543**	**25.7**
of which: SSI	16,831	22.7	25,888	28.4
3. Personal Loans	**1,03,733**	**40.5**	**95,422**	**26.5**
of which: Housing	51,273	38.3	45,508	24.6
4. Other Services	**1,18,254**	**58.8**	**98,857**	**31.0**
of which:				
i) Wholesale trade	8,025	25.4	9,922	25.1
ii) Real Estate	13,147	97.1	18,635	69.8
iii) Non-Banking Financial Companies	11,463	50.3	14,226	41.5
Total Non-Food Gross Bank Credit (1 to 4)	**3,98,396**	**39.6**	**3,92,128**	**27.9**
of which, Priority Sector	1,35,222	36.1	1,22,472	24.0

Notes: 1. Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks.
2. Due to reclassification of sectors, data for March 2006 onwards are not strictly comparable with the earlier periods.
3. Variations for 2005-06 cover data for 27 fortnights (instead of 26 fortnights in a year).
4. Gross bank credit data include bills rediscounted with Reserve Bank, EXIM Bank, other approved financial institutions and inter-bank participations.

Priority Sector Advances

3.19 The performance of banks in priority sector lending has improved in recent years, although substantial variations have been observed in the performance of various bank groups as also in meeting the sub-targets within the priority sector (Box III.2).

3.20 At individual bank-level within public and private sector, only five public sector banks achieved the overall target of lending to the priority

[3] As per sectoral credit data relating to 51 scheduled commercial banks.

Box III.2: Performance of Banks in Priority Sector Lending

An enunciation of the need to channelise the flow of credit to certain sectors of the economy, known as the priority sectors, in the larger interest of the country, can be traced to the Reserve Bank's credit policy for the year 1967-68. The severe imbalances had developed in the economy in 1965-66 and 1966-67 as a result of shortfalls in agricultural output and slowing down of industrial production. The Government of India initiated measures for social control over banks in 1967-68 with a view to securing a better adaptation of the banking system to the needs of economic planning and its playing a more active and positive role in aiding sectors like agriculture and small scale industries (SSI). One of the objectives of nationalisation of banks was to ensure that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small. Thus, the concept of priority sector lending was evolved further to ensure that assistance from the banking system flowed in an increasing measure to the vital sectors of the economy and according to national priorities.

The description of the priority sectors was formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the priority sector, constituted by the Reserve Bank. Although initially there were no specific targets fixed in respect of priority sector lending, in November 1974, public sector banks were advised that their priority sector lending should reach a level of not less than one-third of the outstanding credit by March 1979. In November 1978, the private sector banks were also advised to lend a minimum of 33 1/3 per cent of their total advances to the priority sectors by the end of March 1980. Subsequently, the target was enhanced to 40 per cent of aggregate advances. In achieving this overall target, sub-targets for lending to agriculture sector and weaker sections were also stipulated for the banks. At present banks are required to lend at least 18 per cent and 10 per cent, respectively, of their NBC to the agriculture sector and weaker sections of society, respectively.

Foreign banks operating in India were also advised to progressively increase their advances to the priority sector to reach a level of 15 per cent of their net bank credit (NBC) by end March 1992. In April 1993, this ratio was further raised to 32 per cent of NBC to be achieved by March 1994. Within the enhanced target of 32 per cent, two sub-targets of 10 per cent in respect of SSI and 12 per cent for exports were fixed. On the basis of the revised guidelines on lending to the priority sector, the priority sector lending target/sub-targets have now been linked to adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007 (refer Box II.2).

Credit growth to the priority sector by all scheduled commercial banks decelerated to 24.0 per cent in 2006-07 from 36.1 per cent in the previous year. Credit to 'other priority sector', which witnessed a sharp growth in recent years, also decelerated sharply during 2006-07. However, while credit growth to agriculture decelerated, credit growth to small scale industries accelerated (Table 1).

Table 1: Credit to the Priority Sector

(Amount in Rs. crore)

Category	Outstanding as on			
	March 19, 2004	March 18, 2005	March 31, 2006	March 30, 2007
1	2	3	4	5
Priority Sector (a+b+c)	**2,63,834 (24.7)**	**3,74,953 (42.1)**	**5,10,175 (36.1)**	**6,32,647 (24.0)**
a) Agriculture	90,541 (23.2)	1,24,269 (37.3)	1,73,875 (39.9)	2,30,180 (32.4)
b) Small Scale Industries	65,855 (9.0)	74,189 (12.7)	91,020 (22.7)	1,16,908 (28.4)
c) Other Priority Sectors	1,07,438 (38.3)	1,76,495 (64.3)	2,45,280 (39.0)	2,85,559 (16.4)

Notes: 1. Figures in parentheses are annual growth rates in per cent.
2. Owing to reclassification of sectors and increase in coverage of banks, data for 2004-05 (47 banks) are not strictly comparable with those in the subsequent years.
3. Data in this table may not match with those in Table 2 and Table 3 due to different data sources.

Public Sector Banks

The outstanding advances granted by public sector banks to the priority sector were at Rs.5,21,180 crore as on the last reporting Friday of March 2007. The outstanding priority sector advances of public sector banks, which increased by 27.2 per cent during 2006-07 as compared with 33.4 per cent in 2005-06, constituted 39.6 per cent of net bank credit - against the target of 40 per cent. Advances to agriculture constituted 15.6 per cent of NBC as on the last reporting Friday of March 2007 (Table III.2 and Appendix Table III.5). The PSBs, as a group, did not achieve the priority sector lending target of 40 per cent till March 1999. The target was first achieved in 2000 and the PSBs, as a group, continued to meet the target till 2005-06. Priority sector lending by the PSBs, as a group, however, marginally fell short of the target of 40 per cent by 0.4 per cent as on the last reporting Friday of March 2007. Seven PSBs (Allahabad Bank, Oriental Bank of Commerce, Syndicate Bank, IDBI Ltd., State Bank of India, State Bank of Mysore and State Bank of Patiala) did not achieve the priority sector lending target of 40 per cent as on the last reporting Friday of March 2007 (Appendix Table III.5 and III.5A). Out of 28 PSBs, only eight banks (Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, State Bank of Bikaner and Jaipur and State Bank of Saurashtra) could achieve the agricultural lending target of 18 per cent. In the case of lending to weaker sections, only seven PSBs (Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, State Bank of Bikaner and Jaipur and State Bank of Indore) achieved the sub-target of 10 per cent as on the last reporting Friday of March 2007.

Private Sector Banks

The outstanding priority sector advances extended by private sector banks as on the last reporting Friday of March 2007 were at Rs.1,43,768 crore, constituting 42.7 per cent of NBC (Table 2 and Appendix Table III.7). The private sector banks, as a group, did not achieve the overall priority sector

Table 2: Priority Sector Lending by Public and Private Sector Banks

(As on the last reporting Friday of March)

(Amount in Rs. crore)

Item	Public Sector Banks		Private Sector Banks	
	2006	2007@	2006	2007@
1	2	3	4	5
Priority Sector Advances	**4,09,748 (40.3)**	**5,21,180 (39.6)**	**1,06,586 (42.8)**	**1,43,768 (42.7)**
of which:				
Agriculture	1,55,220	2,05,091	36,712	52,056
	(15.3)	(15.6)	(13.6)	(12.8)
Small-scale Industries	82,434 (8.1)	1,04,703 (8.0)	10,421 (4.2)	13,063 (3.9)
Other Priority Sector	1,63,756 (16.1)	2,01,023 (15.3)	57,777 (23.2)	76,925 (22.9)

@: Provisional.

Note: 1. Figures in parentheses represent percentages to net bank credit for the respective groups.
2. Indirect agriculture is reckoned up to 4.5 per cent of net bank credit for calculation of percentage of agriculture.
3. Data in this table may not match with those in Table 1 and Table 3 due to different data sources.

lending target of 40 per cent till 2001-02. The target was first achieved during 2002-03. Out of 26 private sector banks, four banks (Bank of Rajasthan Ltd., Centurian Bank of Punjab Ltd., Jammu and Kashmir Bank Ltd. and Karnataka Bank Ltd.) did not achieve the target as on the last reporting Friday of March 2007 (Appendix Table III.7and III.7A). Lending by private sector banks to the agriculture sector improved from 8.3 per cent of NBC at end-March 2000 to 13.6 per cent at end-March 2006, before declining to 12.8 per cent of NBC as on the last reporting Friday of March 2007. Only three banks (Yes Bank, Lakshmi Vilas Bank and Sangli Bank) could achieve the 18 per cent sub-target for agriculture as on the last reporting Friday of March 2007. Lending to agriculture by another six banks ranged between 15 per cent and 18 per cent. No private sector banks could achieve the 10 per cent target for lending to weaker sections.

Foreign Banks

The outstanding priority sector advances by foreign banks, having offices in India, increased from Rs.14,555 crore as on the last reporting Friday of March 2003 to Rs.37,835 crore as on the last reporting Friday of March 2007, constituting 33.4 per cent of net bank credit (Table 3 and Appendix Table III.8). The share of export credit in total net bank credit at 18.3 per cent was significantly above the prescribed sub-target of 12.0 per cent. Foreign banks also reached the sub-target of 10.0 per cent in respect of lending to SSI (Table III.8). Foreign banks, as a group, have been achieving the overall priority sector lending target of 32 per cent of NBC since 1997. Out of 29 foreign banks operating in India, five banks (Abu Dhabi Commercial Bank, Bank of Tokyo-Mitsubishi, Citibank, HSBC Ltd. and Mizuho Corporate Bank) could not achieve the priority sector lending target of 32 per cent of NBC as on the last reporting Friday of March 2007. Seven foreign banks (Bank of Nova Scotia, Bank of Tokyo-Mitsubishi, Citibank, HSBC Ltd., JP Morgan Chase Bank, Mizuho Corporate Bank and Shinhan Bank) did not achieve the SSI lending targets at end-March 2007, while three foreign banks (American Express Bank, Bank International Indonesia and Mizuho Corporate Bank) did not achieve the sub-target of lending for exports (Appendix Table III.8A).

Non-achievement of agriculture lending target by many public and private sector banks is due to low capital formation in agriculture resulting in poor credit absorption and write-off of non-performing loans leading to reduction in the outstanding advances in the case of some banks.

Table.3: Priority Sector Lending by Foreign Banks

(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	2005		2006		2007@	
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	**23,843**	**35.3**	**30,439**	**34.4**	**37,835**	**33.4**
of which:						
Export credit	12,339	18.3	17,326	19.6	20,714	18.3
Small-scale industries	6,907	10.2	8,430	9.5	11,648	10.3

@ : Provisional.

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

Note : Data in this table may not match with those in Table 1 and Table 2 due to different data sources.

sector and sub-targets of lending to agriculture and weaker sections. Thirty one banks (12 public sector banks and 19 private sector banks) achieved the overall target, but did not achieve the sub-targets. Ten banks (six public sector banks and four private sector) did not achieve the overall target as also the sub-targets (Table III.6; Appendix Table III.5A and Appendix Table III.7A).

Special Agricultural Credit Plans

3.21 The Reserve Bank had advised public sector banks to prepare special agricultural credit plans (SACP) on an annual basis beginning 1994-95 with a view to achieving distinct and marked improvement in the flow of credit to agriculture. Under SACP, banks are required to fix self-set targets for achievement during the year (April-March). The targets are generally fixed by banks showing an increase of about 20-25 per cent over the disbursements made in the previous year. In recent years, public sector banks have largely met the SACP targets. For the financial year 2006-07, disbursements to agriculture under the plan aggregated Rs.1,22,443 crore as against the target of Rs.1,18,160 crore, constituting 103.6 per cent of the target. The SACP mechanism was also made applicable to private sector banks from the year 2005-06. Disbursements to agriculture by private sector banks during 2005-06 were Rs.31,199 crore as against the target of Rs.24,222 crore. During 2006-07, private sector banks disbursed Rs.35,585 crore to the agriculture sector under the plan, as against a self-set target of Rs.40,656 crore.

3.22 Public sector banks were advised to earmark 5 per cent of their net bank credit to women. At end-March 2007, aggregate credit to women by public sector banks stood at 4.95 per cent of their net bank credit with 21 banks reaching the target. Eight PSBs have opened 15 specialised women branches.

Table III.6: Achievement of Targets under the Priority Sector

(Number of banks)

	Target/Sub-target	Public Sector	Private Sector	Total
	1	2	3	4
1.	Overall/Agriculture/Weaker Sections	5	–	5
2.	Only Overall	12	19	31
3.	Overall and Agriculture	2	3	5
4.	Overall and Weaker Sections	1	–	1
5.	Agriculture and Weaker Sections	–	–	–
6.	Only Agriculture	1	–	1
7.	Only Weaker Sections	1	–	1
8.	None	6	4	10

– : Nil.

Micro-finance

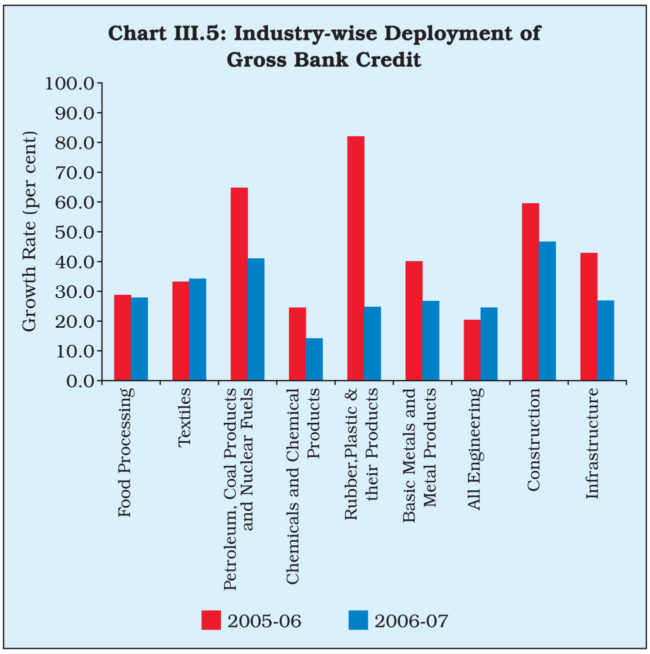
3.23 The SHG-Bank Linkage Programme has emerged as the major micro-finance programme in the country. It is being implemented by commercial banks, RRBs and co-operative banks. At end-March 2007, cumulatively 2.9 million SHGs were linked to banks and the total flow of credit to these SHGs was Rs.18,041 crore. Total bank loans extended during the year were at Rs.6,643 crore, of which repeat loans to SHGs amounted to Rs.3,599 crore. Banks provided loans to 686,408 new SHGs during 2006-07 (see Chapter IV for details).

Credit to Industry

3.24 Growth in credit to industry (small, medium and large) decelerated to 25.7 per cent in 2006-07 from 30.0 per cent in the previous year. As credit growth to industry did not keep pace with the overall credit growth, the share of outstanding credit to industry in non-food gross bank credit declined to 38.5 per cent at end-March 2007 from 39.2 per cent at end-March 2006 and 42.1 per cent at end-March 2005. Infrastructure accounted for the largest share of incremental bank credit to industry (21.4 per cent), followed by textiles (14.1 per cent) and basic metals and metal products (12.4 per cent) (Appendix Table III.9). Power (within infrastructure) and iron and steel (within metal and metal products industry) accounted for the largest increase. The other major industries to which flow of bank credit increased were petroleum, food processing, engineering, chemicals and construction (Chart III.5).

Credit to the Small Scale Industries (SSI) Sector

3.25 Total credit provided by public sector banks (as per special return submitted by banks) to the SSI sector as on the last reporting Friday of March 2007 was at Rs.1,04,703 crore, constituting 8.0 per cent of net bank credit and 20.1 per cent of total priority sector advances of these banks. Within the SSI sector, advances to cottage industries, artisans and tiny industries aggregated Rs.44,311 crore, constituting 42.3 per cent of the advances to the SSI sector. The total credit provided by private sector banks to the SSI sector as on the last reporting Friday of March 2007 was Rs.13,063 crore, constituting 3.9 per



cent of net bank credit and 9.1 per cent of the total priority sector advances of these banks. The total credit provided by foreign banks to the SSI sector as on the last reporting Friday of March 2007 was Rs.11,648 crore, constituting 10.3 per cent of net bank credit and 30.8 per cent of total priority sector advances of these banks.

3.26 At end-March 2007, credit extended by scheduled commercial banks to 114,132 sick SSI units was at Rs.5,267 crore. Of the sick SSI units, 4,287 units with their outstanding bank credit at Rs.427 crore were found to be viable. Of these, banks placed 588 units under the nursing programmes, involving an outstanding credit of Rs.269 crore. In all, 109,011 units with outstanding credit of Rs.4,757 crore were found non-viable.

Credit to Khadi and Village Industries Commission

3.27 A consortium of select public sector banks was formed with State Bank of India as the leader of the consortium to provide credit to the Khadi and Village Industries Commission (KVIC). These loans are provided at 1.5 per cent below the average prime lending rate of five major banks in the consortium. At end-April 2007, an amount of around Rs.310 crore was outstanding out of Rs.738 crore disbursed by the consortium of banks under the scheme.

Retail Credit

3.28 Although the growth of retail portfolio of banks decelerated to 29.9 per cent during 2006-07 from 40.9 per cent in 2005-06, it still grew faster than the overall credit portfolio of the banking sector (28.5 per cent). As a result, their share in total loans and advances increased somewhat to 25.8 per cent at end-March 2007 from 25.5 per cent at end-March 2006. Within the retail portfolio, credit for consumer durables experienced the highest growth during 2006-07 in sharp contrast to the last year when it experienced the lowest growth. Growth of credit card receivables, auto loans and other personal loans (comprising loans mainly to professionals and for educational purposes) slowed down during the year. Housing loans, the largest component with a share of 46.0 per cent of retail portfolio of banks, also decelerated (Table III.7).

3.29 Although lending by SCBs to the sensitive sectors (capital market, real estate and commodities) decelerated sharply during 2006-07 from the high growth of the previous year, it grew

Table III.7: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation	
	2006	2007	2005-06	2006-07
1	2	3	4	5
1. Housing Loans	1,79,060	2,24,481	33.4	25.4
2. Consumer Durables	4,469	7,296	17.3	63.3
3. Credit Card Receivables	12,434	18,317	47.9	47.3
4. Auto Loans	61,369	82,562	75.1	34.5
5. Other Personal Loans	1,18,351	1,55,204	39.1	31.1
Total Retail Loans (1+2+3+4+5)	**3,75,683 (25.5)**	**4,87,860 (25.8)**	**40.9**	**29.9**
Total Loans and Advances of SCBs	**14,73,723**	**18,93,775**	**31.0**	**28.5**

Note : Figures within brackets represent percentage share in total loans and advances.
Source : Off-site returns (domestic, unaudited and provisional).

Table III.8: Lending to the Sensitive Sector by Scheduled Commercial Banks
(As at end-March)

(Amount in Rs. crore)

Sector	2006		2007	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
1. Capital Market	22,303 (40.6)	7.8	30,637 (37.4)	7.6
2. Real Estate Market	2,62,053 (80.0)	91.7	3,70,689 (41.5)	91.9
3. Commodities	1,413 (-40.3)	0.5	2,206 (56.1)	0.6
Total (1+2+3)	**2,85,770 (74.4)**	**100.0**	**4,03,533 (41.2)**	**100.0**

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

at a significantly higher rate than the overall credit growth. Of the components, while credit to the real estate market decelerated sharply, credit for commodities increased sharply in contrast to the decline in the previous year (Table III.8). Total exposure of SCBs to the sensitive sectors constituted 20.4 per cent of aggregate bank loans and advances (comprising 18.7 per cent to real estate, 1.5 per cent to the capital market and 0.1 per cent to commodities) as compared with 18.8 per cent last year.

3.30 Among bank groups, new private sector banks had the highest exposure to the sensitive sectors (measured as percentage to total loans and advances of banks) mainly due to the high exposure to the real estate market, followed by foreign banks, old private sector banks and public sector banks (Table III.9 and Appendix Table III.11).

Investments

3.31 Investments by banks registered a moderate growth of 10.6 per cent during 2006-07, spurred mainly by investment in Government securities, thus, reversing the trend of the last year when for the first time after the nationalisation of banks in 1969, banks' investment in Government securities declined even in absolute terms. Within the investment portfolio, the non-SLR investments registered a higher growth than the SLR portfolio. During 2006-07, investment in Government and other approved securities by all SCBs increased by 10.2 per cent (Rs.72,977 crore) as compared with a decline of 3.1 per cent (Rs.22,809 crore) during 2005-06. Although credit offtake remained strong, robust deposit growth enabled banks to increase their exposure to investments. During 2006-07, SCBs made incremental investments of Rs.74,238 crore in approved Government securities. However, as percentage of their total assets, banks' total investments in Government securities constituted 21.8 per cent of total assets at end-March 2007 (as against 24.8 per cent at end-March 2006) and 28.0 per cent of NDTL (as against 31.3 per cent of NDTL last year).

3.32 Although excess SLR investments by the banking sector during 2006-07 at Rs.84,223 crore were above the prescribed minimum requirement of 25.0 per cent, several banks were operating their statutory liquidity ratio portfolio very close to the prescribed minimum level (Chart III.6). Commercial bank's holdings of such securities on October 26, 2007, at 29.4 per cent of their NDTL was somewhat higher than 28.0 per cent at end-March 2007 and 28.8 per cent a

Table III.9: Lending to the Sensitive Sector – Bank Group-wise*

(Per cent)

Sector	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Banks	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9
Capital Market#	1.2	1.3	2.3	2.2	1.3	1.5	2.6	2.4
Real Estate Market@	14.3	15.1	29.1	32.3	14.6	16.6	25.6	26.3
Commodities	0.1	0.1	–	–	0.2	0.5	–	–
Total Advances to Sensitive Sectors	**15.6**	**16.6**	**31.4**	**34.5**	**16.0**	**18.7**	**28.2**	**28.7**

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

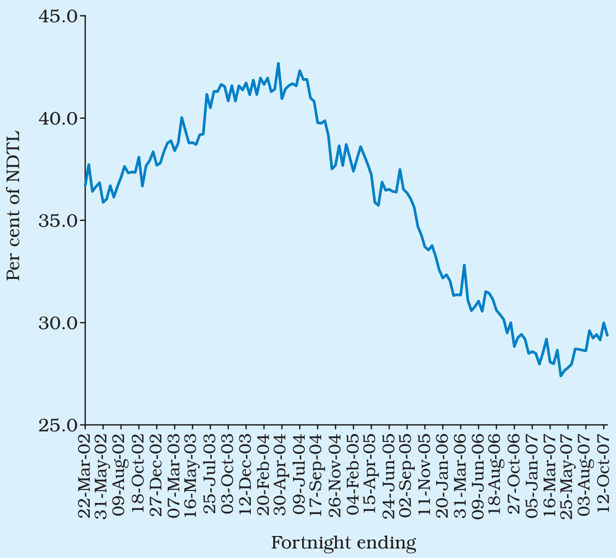
Table III.10: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Sector	March 31, 2006	Per cent to Total	March 30, 2007	Per cent to Total
1	2	3	4	5
1. Commercial Paper	4,821	5.4	8,978	9.4
2. Investment in shares	12,775	14.2	18,344	19.3
of which:				
a) Public sector undertakings	2,274	2.5	2,126	2.2
b) Private corporate sector	10,501	11.7	16,218	17.1
3. Investments in bonds/debentures	61,868	68.9	56,072	59.0
of which:				
a) Public sector undertakings	32,345	36.0	28,472	30.0
b) Private corporate sector	29,523	32.9	27,600	29.0
4. Units of MFs	10,345	11.5	11,659	12.3
Total Non-SLR Investment (1+2+3+4)	**89,809**	**100.0**	**95,053**	**100.0**

Source : Section 42 (2) returns submitted by SCBs.

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



year ago. Excess SLR investments of SCBs increased to Rs.1,41,437 crore on October 26, 2007 from Rs.84,223 crore at end-March 2007 and Rs.1,00,626 crore a year ago.

Non-SLR investments

3.33 During 2006-07, banks' investments in non-SLR securities (*i.e.*, bonds/debentures/ shares and commercial papers) issued by the corporate sector increased by 4.9 per cent (Rs.3,929 crore) as compared with a decline of 14.6 per cent (Rs.13,620 crore) in the previous year, reflecting the robust growth of deposits. While investments in bonds/ debentures declined sharply, those in shares and commercial paper increased. On the whole, investments in corporate sector instruments (shares and bonds) as percentage to total non-SLR investments at end-March 2007 at 53.5 per cent were lower than the previous year's level (55.9 per cent). The total flow of funds from SCBs to the commercial sector, credit and non-SLR investments, increased by 27.2 per cent (Rs.4,19,935 crore) as compared with 28.3 per cent (Rs.3,40,573 crore) in the last year (Table III.10).

3.34 In terms of instruments, although investments in bonds and debentures declined sharply at end-March 2007, they still constituted the largest component of non-SLR investments (Table III.11).

Table III.11: Composition of Non-SLR Investments

(Per cent)

Instrument	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
Commercial Paper	7.2	3.1	2.7	2.7	5.4	9.4
Bonds/debentures	81.7	84.2	81.5	79.2	68.9	59.0
Shares	6.6	7.9	7.3	9.4	14.2	19.3
Units of Mutual Funds	4.5	4.9	8.5	8.7	11.5	12.3

Source : Section 42(2) returns submitted by SCBs.

Table III.12: International Assets of Banks – By Type
(As at end-March)

(Amount in Rs. crore)

Asset	2005	2006	2007
1	2	3	4
International Assets (1+2+3)	**1,33,237**	**1,58,201**	**2,02,973**
1. Loans and Deposits	1,24,582 (93.5)	1,46,014 (92.3)	1,90,888 (94.0)
of which :			
a) Loans to Non-Residents*	4,103 (3.1)	6,270 (4.0)	7,122 (3.5)
b) Foreign Currency Loans to Residents**	58,092 (43.6)	63,231 (40.0)	75,000 (37.0)
c) Outstanding Export Bills drawn on Non-Residents by Residents	26,171 (19.6)	31,556 (19.9)	40,846 (20.1)
d) Nostro Balances@	35,673 (26.8)	44,515 (28.1)	67,487 (33.2)
2. Holdings of Debt Securities	979 (0.7)	2,079 (1.3)	1,761 (0.9)
3. Other Assets @@	7,676 (5.8)	10,109 (6.4)	10,324 (5.1)

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

International Assets of the Banking System

3.35 The strong demand for credit was reflected in the higher growth of foreign currency loans to residents and outstanding export bills drawn on non-residents by residents during 2006-07. The share of 'nostro balances' in total international assets increased by 5.1 percentage points during 2006-07 as compared with the increase of 1.3 percentage points during 2005-06 (Table III.12).

3.36 The consolidated international claims of banks, based on immediate country risk, showed robust growth of 61.0 per cent during 2006-07 as compared with 24.9 per cent during 2005-06. The share of short-term claims (with residual maturity less than one year) in the consolidated international claims continued to decline during 2006-07, while that of long-term claims increased correspondingly.

3.37 Sector-wise pattern of international claims of banks remained broadly at the previous year's level. The reporting banks had the largest exposure to the 'non-bank private' sector, followed by the bank sector (Table III.13).

3.38 The country-wise consolidated international claims of banks, based on immediate country risk, underwent some changes during the year. While the share of US and Hong Kong in total consolidated international claims declined significantly, that of Singapore increased. The shares of UK, Germany and the UAE remained broadly at the previous year's level. The claims on the US, the UK, Hong Kong, Singapore and Germany together accounted for 53.9 per cent of total international claims (Table III.14).

Quarterly Trends - Commercial Banking Survey[4]

3.39 A quarterly analysis of developments in scheduled commercial banks (SCBs) revealed certain interesting features during 2006-07 (Table III.15 and Appendix Table III.12). As the reporting Fridays for end-September and end-March during 2006-07 fell on September 29, 2006 and March 30, 2007 (closer to the half-yearly and annual closing, respectively), the second and fourth quarters witnessed sharp increases in deposits and credit aggregates *vis-a-vis* the other quarters as well as the corresponding quarters of the previous year.

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

Table III.13: Classification of Consolidated International Claims of Banks – By Maturity and Sector
(As at end-March)

(Amount in Rs. crore)

Residual Maturity/Sector	2005	2006	2007
1	2	3	4
Total Consolidated International Claims	**74,238**	**92,711**	**1,49,258**
a) Maturity-wise			
1) Short-term (residual maturity less than one year)	61,113	73,176	1,09,481
	(82.3)	(78.9)	(73.4)
2) Long-term (residual maturity of one year and above)	11,951	18,627	39,775
	(16.1)	(20.1)	(26.6)
3) Unallocated	1,174	907	2
	(1.6)	(1.0)	(0.0)
b) Sector-wise			
1) Bank	34,301	43,050	69,781
	(46.2)	(46.4)	(46.8)
2) Non-Bank Public	1,145	1,248	871
	(1.5)	(1.3)	(0.6)
3) Non-Bank Private	38,792	48,413	78,607
	(52.3)	(52.2)	(52.7)

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

Source : Consolidated Banking Statistics – Immediate Country Risk Basis

3.40 During Q1 of 2006-07, notwithstanding a decline in demand deposits, aggregate deposits of SCBs increased. The decline in demand deposits reflected the unwinding of the large accretion during the previous quarter, redemption pressures on mutual funds and decline in the number of public issues. Time deposits, however, increased sharply reflecting higher interest rates and deposit mobilisation schemes initiated by the SCBs to meet high credit demand. Banks also liquidated foreign currency assets. This enabled banks to meet the sustained credit demand.

Table III.14: Consolidated International Claims of Banks on Countries other than India
(As at end-March)

(Amount in Rs. crore)

Itmes	2005	2006	2007
1	2	3	4
Total Consolidated International Claims	**74,238**	**92,711**	**149,258**
Of which :			
a) United States of America	22,348	23,176	32,875
	(30.1)	(25.0)	(22.0)
b) United Kingdom	7,608	14,212	22,598
	(10.2)	(15.3)	(15.1)
c) Hong Kong	7,389	6,652	8,977
	(10.0)	(7.2)	(6.0)
d) Singapore	3,510	4,182	8,921
	(4.7)	(4.5)	(6.0)
e) Germany	3,607	4,678	7,234
	(4.9)	(5.0)	(4.8)
f) United Arab Emirates	2,771	4,059	6,686
	(3.7)	(4.4)	(4.5)

Note : Figures in the brackets are percentage shares in total international claims.

Source : Consolidated Banking Statistics – Immediate Country Risk Basis.

3.41 In Q2 of 2006-07, both accretion to deposits and credit offtake increased sharply. Higher growth in deposits was largely led by increase in time deposits, reflecting increase in interest rates. Interest rates on time deposits of 1-3 years maturity offered by public sector banks increased from a range of 5.75-6.75 per cent in March 2006 to 6.25-7.50 per cent in September 2006. Rates offered by private sector banks on similar maturity deposits moved from a range of 5.50-7.75 per cent to 6.75-8.25 per cent. The expansion in the deposits led to accelerated credit growth. While banks restricted investment in Government securities, they increased their investments in foreign currency assets.

Table III.15: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 2007	Variations									
		2005-06				2006-07				2007-08	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 P
1	2	3	4	5	6	7	8	9	10	11	12
Components											
1. Aggregate Deposits of Residents (a+b)	25,41,201	7,145	1,29,596	13,065	1,90,983	30,677	1,66,396	31,469	2,62,886	62,265	1,99,683
a. Demand Deposits	4,29,137	-22,249	41,167	-3,430	63,135	-41,272	43,300	-8,905	71,374	-41,305	52,052
b. Time Deposits of Residents	21,12,063	29,394	88,430	16,495	1,27,848	71,949	1,23,096	40,374	1,91,511	1,03,569	1,47,630
2. Call/Term Funding from Financial Institutions	85,836	-1,002	7,359	1,836	3,031	3,118	-1,576	-4,468	5,618	-2,984	5,609
Sources											
1. Credit to the Government	7,74,980	-1,457	18,324	-25,068	-11,314	23,238	10,723	602	39,675	51,145	62,155
2. Credit to the Commercial Sector (a to d)	20,87,511	12,862	1,04,416	53,032	1,72,011	22,606	1,41,465	64,777	1,95,164	-11,137	1,30,262
a. Bank Credit	19,28,913	8,994	1,15,035	62,858	1,67,981	14,050	1,40,364	74,213	1,93,208	-34,072	1,30,557
i. Food Credit	46,521	4,788	-5,255	1,464	-322	607	-7,840	8,171	4,891	-2,564	-6,948
ii. Non-food Credit	18,82,392	4,206	1,20,290	61,394	1,68,303	13,443	1,48,204	66,042	1,88,317	-31,507	1,37,505
b. Net Credit to Primary Dealers	2,799	7,130	-2,759	1,128	-2,913	-1,963	3,988	-2,783	-812	-282	780
c. Investments in Other Approved Securities	15,451	-532	-10	-736	-2,017	526	-1,132	-352	-304	-377	4,592
d. Other Investments (in non-SLR Securities)	1,40,347	-2,730	-7,851	-10,218	8,961	9,993	-1,756	-6,301	3,071	23,594	-5,667
3. Net Foreign Currency Assets of Commercial Banks (a-b-c)	-40,259	-2,057	-4,850	9,935	26,612	-21,137	10,844	13,322	2,327	2,465	-13,902
a. Foreign Currency Assets	58,754	-2,179	-1,044	11,169	6,114	-13,919	8,830	11,781	8,567	-8,312	-8,568
b. Non-resident Foreign Currency Repatriable Fixed Deposits	67,108	804	187	1,856	-19,723	3,917	1,671	1,233	1,011	-3,849	-2,110
c. Overseas Foreign Currency Borrowings	31,905	-925	3,618	-622	-775	3,301	-3,685	-2,774	5,229	-6,928	7,443
4. Net Bank Reserves	1,90,086	3,060	9,679	-2,886	25,729	-6,090	20,381	-15,423	52,599	6,498	75,535
5. Capital Account	2,02,618	20,359	2,530	9,342	8,090	12,025	6,168	2,250	4,447	26,996	20,985

P : Provisional.
* : Variation over April 1, 2005.
Note : 1. Data relate to the last reporting Friday of each quarter.
2. Time deposits include the impact of redemption of India Millennium Deposits (IMDs), since December 29, 2005.

3.42 In Q3 of 2006-07, accretion to aggregate deposits and credit offtake was lower than that in Q2. However, credit to the commercial sector was more than double the accretion in aggregate deposits. To meet the sustained credit offtake, banks liquidated investments both in Government securities and non-SLR securities during the quarter. Banks also increased their investments in foreign currency assets in the third quarter.

3.43 During Q4 of 2006-07, both aggregate deposits and overseas foreign currency borrowings increased sharply which enabled banks to meet the increased credit demand. Furthermore, banks also increased their investments in Government and non-SLR securities. Banks' investments in foreign currency assets, however, declined during the quarter.

3.44 In Q1 of 2007-08, aggregate deposits increased moderately while credit offtake turned negative. Therefore, Banks' investment in both Government and non-SLR securities increased substantially.

3.45 During the Q2 of 2007-08, both aggregate deposits and credit offtake increased sharply. Banks' investments in non-SLR securities declined while investment in Government securities remained high. Banks' investment in foreign currency assets declined while their overseas borrowings expanded during the quarter.

Credit-Deposit Ratio

3.46 Some unusual behaviour was observed in the credit-deposit ratio (CDR) and investment-deposit (IDR) ratios as a result of robust credit growth in 2004-05 and 2005-06. The incremental CDR, which was lower than the incremental IDR up to June 11, 2004, rose sharply thereafter, while the incremental IDR declined. This trend was accentuated in 2005-06 as throughout the year the CDR remained significantly higher than the IDR. The trend of incremental CDR being significantly higher than IDR continued throughout 2006-07 as well. However, reflecting the modest slowdown in credit growth and the sharp acceleration in deposits, the incremental CDR moderated towards the second half of 2006-07. As at end-March 2007, the incremental CDR was around 85 per cent (year-on-year) as compared with 110 per cent a year ago. On the other hand, the incremental IDR, which remained less than 10 per cent (it was negative on certain fortnights) till early February 2007, increased thereafter to 14.6 per cent by end-March 2007 and further to 17.7 per cent till early August 2007. As a result, the gap between the two ratios narrowed down. As in the last year, the incremental CDR and IDR generally depicted a negative relationship (Chart III.7).

3.47 The CDR and IDR, based on the outstanding amount, which moved more or less in the same direction between 1999 and the third quarter of 2004-05, tended to move in the opposite directions thereafter. This pattern accentuated further in 2006-07 as the CDR increased further to reach an all-time high level of 74.0 per cent at end-March 2007, while the IDR slipped to a low of 30.3 per cent (Char III.8).

3.48 Among bank-groups, the CDR (in terms of outstanding amount) of foreign banks was the highest at end-March 2007, followed by new private sector banks, public sector banks and old private sector banks (Chart III.9).

3.49 At individual bank level, the CDR at end-March 2007 showed wide variations, especially of foreign banks. The CDR of public sector banks ranged between 59.6 per cent (United Bank of India) and 80.0 per cent (State Bank of Travancore), barring IDBI Ltd. whose CDR was 144.1 per cent. In the case of old private sector banks, the CDR ranged between 52.7 per cent (Bank of Rajasthan) and 77.7 per cent (ING Vysya Bank) (excluding Sangli Bank which was amalgamated with ICICI Bank). The CDR of new private sector banks ranged between 60.2 per cent (Development Credit Bank) and 99.3 per cent (Kotak Mahindra Bank). In the case of foreign banks, the CDR ranged between a low of 0.9 per cent (Oman International Bank) to a high of 697.0 per cent (Antwarp Diamond Bank). Of the 29

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

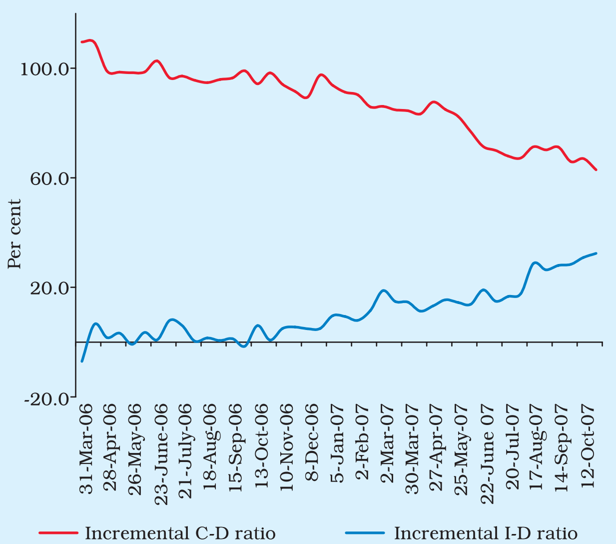


Chart III.8: C-D and I-D Ratios of Scheduled Commercial Banks
(As at end-March)

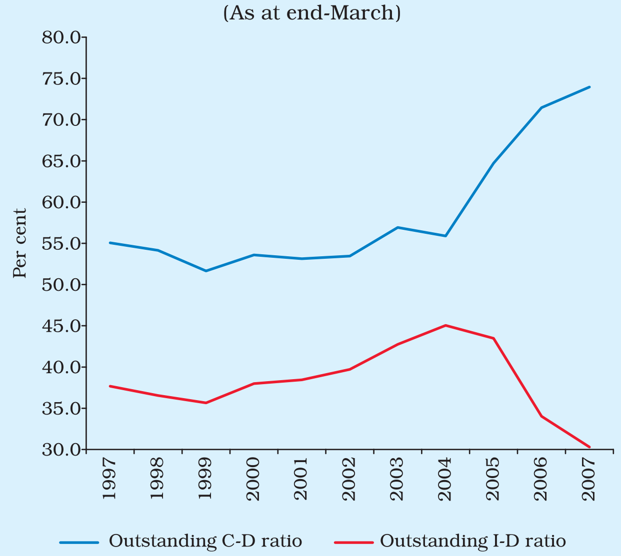
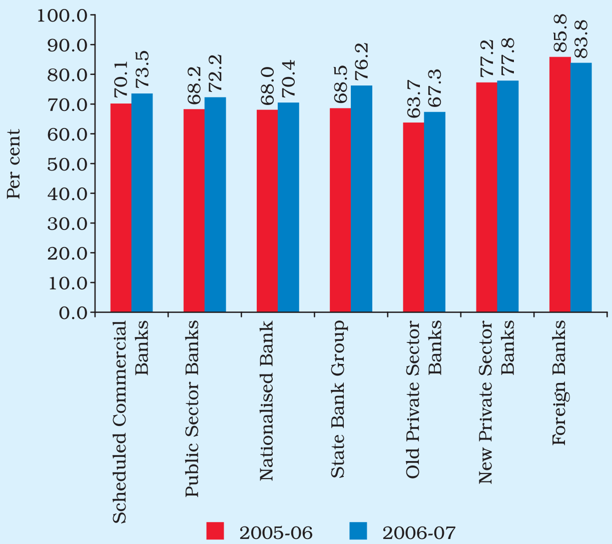


Chart III.9: Credit-Deposit Ratio – Bank Group-wise
(As at end-March)



foreign banks, the CDR of as many as 10 banks was over 100 per cent (Appendix Table III.13).

Maturity Profile of Assets and Liabilities of Banks

3.50 Although the maturity structure of commercial banks' assets and liabilities at end-March 2007 broadly followed the pattern of the previous year, some significant variations were observed over the year. The share of deposits of up to one year maturity of all bank groups (barring old private sector banks) increased significantly, while that of other maturity buckets declined. In the case of borrowings, a divergent trend was observed at the short-end of maturity amongst various bank groups. The share of borrowings up to one year maturity of public sector banks and foreign banks increased, while that of old private banks and new private sector banks declined. On the asset side, the maturity pattern of loans and advances and investments of all bank groups remained broadly the same, barring that of foreign bank group. On the whole, assets depicted a synchronous pattern with the liabilities. At end-March 2007, in general, public sector banks and old private sector banks had significantly higher proportion of both liabilities and assets under longer maturity bucket. Further, within the asset portfolio, while the maturity profile of loans and advances was nearly similar for most bank groups, investment pattern of new private sector banks and foreign banks was more tilted towards shorter term maturity (Table III.16).

Table III.16: Bank Group-wise Maturity Profile of Select Liabilities /Assets
(As at end-March)

(Per cent)

Assets/Liabilities	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	40.1	42.4	48.0	47.0	58.7	60.4	53.2	64.0
b) Over 1 year and up to 3 years	30.4	29.0	38.2	39.0	36.9	35.5	43.6	35.6
c) Over 3 years and up to 5 years	11.7	11.2	6.0	7.8	3.0	2.6	0.4	0.4
d) Over 5 years	17.8	17.5	7.8	6.1	1.4	1.5	2.8	–
II. Borrowings								
a) Up to 1 year	49.7	52.7	81.5	76.3	55.5	50.4	84.1	88.7
b) Over 1 year and up to 3 years	21.8	19.3	3.7	8.3	18.7	26.7	14.1	11.2
c) Over 3 years and up to 5 years	12.2	13.5	6.2	1.7	20.8	19.9	1.5	0.1
d) Over 5 years	16.3	14.5	8.5	13.7	5.0	3.0	0.3	–
III. Loans and Advances								
a) Up to 1 year	36.3	36.8	42.9	40.0	30.7	30.4	55.8	52.2
b) Over 1 year and up to 3 years	34.7	33.1	36.1	37.2	40.2	39.9	25.7	31.2
c) Over 3 years and up to 5 years	11.5	12.6	10.0	11.0	11.3	12.0	5.3	6.1
d) Over 5 years	17.5	17.5	10.9	11.9	17.9	17.6	13.2	10.5
IV. Investment								
a) Up to 1 year	12.0	13.6	20.2	20.4	50.5	51.1	57.9	49.7
b) Over 1 year and up to 3 years	14.5	14.6	9.7	11.5	25.5	25.0	30.0	30.7
c) Over 3 years and up to 5 years	17.0	15.1	14.3	9.9	7.1	7.6	4.8	12.3
d) Over 5 years	56.5	56.6	55.8	58.2	16.8	16.3	7.2	7.2

3. Off-Balance Sheet Operations

3.51 Continuing the trend of recent years, off-balance sheet (OBS) exposures of SCBs expanded rapidly by 74.9 per cent during 2006-07 over and above the increase of 50.0 per cent in 2005-06 and 58.0 per cent in 2004-05. As a result, the total off-balance sheet exposure of SCBs at end-March 2007 was more than twice the size of their combined balance sheet as compared with one and half times at end-March 2006 (Chart III.10). The sharp growth in off-balance sheet exposure reflected the banks' attempt to diversify their sources of income.

3.52 Among bank-groups, off-balance sheet exposure of foreign banks constituted 67.9 per cent of total off-balance sheet exposure of all SCBs. The off-balance sheet exposure of foreign banks was at 1,816.6 per cent of their total assets, followed by new private sector banks (215.1 per cent), old private sector banks (44.8 per cent) and public sector banks (43.1 per cent) (Appendix Table III.14).

4. Financial Performance of Scheduled Commercial Banks

3.53 Financial performance of SCBs during 2006-07 was underpinned by hardening of interest rates, both on the liability and the asset sides. While interest income increased sharply, both in absolute terms and in relation to total assets, non-interest income declined in relative terms. Banks, however, were able to maintain their profitability by containing operating expenses. Unlike last year, provisions and contingencies made by banks increased during the year, although they were a shade lower in relative terms (*i.e.*, as percentage of assets). While return on assets (RoA) of SCBs remained stagnant, their return on equity (RoE) improved during the year.

Chart III.10: Off-balance Sheet Exposures to Total Assets
(As at end-March)

Interest Rate Scenario

3.54 During 2006-07, interest rates hardened across the maturity spectrum both on the liability and the asset sides. The continued high credit demand during 2006-07 exerted an upward pressure on lending rates as well as deposit rates of banks. Interest rates offered on deposits by banks, in general, hardened during 2006-07 with the increase being more pronounced at the higher end of maturity (Table III.17). Among different bank groups, however, the movement in interest rates on term deposits of various maturities showed somewhat mixed trend during 2006-07. Foreign banks increased the maximum rate on term deposits by 300 to 375 basis points, followed by PSBs (225 to 275 basis points) and private sector banks (175 to 200 basis points). Foreign banks, however, at the same time, also reduced the minimum rate, thus, widening the range of interest rates offered at short-end and long-end of maturities. During 2007-08 (April-October), PSBs decreased their deposit rates, particularly at the upper end of the range for various maturities, by 25-60 basis points. Deposit rates of PSBs increased by 25-75 basis points at the lower end of maturities of one year and above (Chart III.11). Interest rates offered by PSBs on deposits with over one year maturity moved from 7.25-9.75 per cent in April 2007 to 8.00-9.50 per cent in October 2007. Private sector banks deposit rate for up to one year maturity declined from a range of 3.00-10.00 per cent to 2.50-9.25 per cent over the same period. Foreign banks deposit rates for up to one year maturity also declined from a range of 3.00-9.50 per cent to 2.00-9.00 per cent during the same period.

3.55 During 2006-07, the range of BPLRs of PSBs, private sector banks and foreign banks hardened in the range of 100-250 basis points. A substantial part of banks' lending was at sub-BPLR rates, reflecting the competitive conditions. The share of sub-BPLR lending in total lending of commercial banks, excluding export credit and small loans, increased from 69 per cent at end-

Table III.17: Movements in Deposit and Lending Interest Rates

(Per cent)

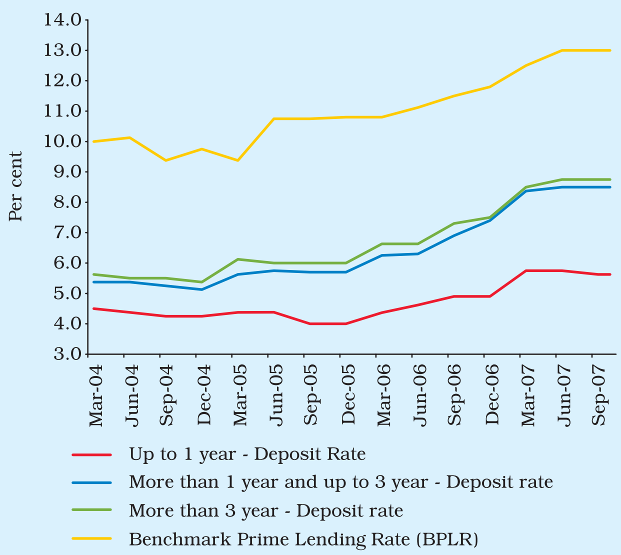
Interest Rates	March 2005	March 2006	March 2007	April 2007	June 2007	September 2007	October 2007
1	2	3	4	5	6	7	8
Public Sector Banks							
a) Up to 1 year	2.75-6.00	2.25-6.50	2.75-8.75	2.75-9.00	2.75-8.75	2.75-8.50	2.75-8.50
b) 1 year and up to 3 years	4.75-6.50	5.75-6.75	7.25-9.50	7.25-9.60	7.25-9.75	8.00-9.00	8.00-9.00
c) Over 3 years	5.25-7.00	6.00-7.25	7.50-9.50	7.75-9.75	7.75-9.75	8.00-9.50	8.00-9.50
Private Sector Banks							
a) Up to 1 year	3.00-6.25	3.50-7.25	3.00-9.00	3.00-10.00	3.00-9.50	2.50-9.25	2.50-9.25
b) 1 year and up to 3 years	5.25-7.25	5.50-7.75	6.75-9.75	6.75-10.00	6.75-10.25	6.25-10.00	6.25-9.60
c) Over 3 years	5.75-7.00	6.00-7.75	7.75-9.60	7.50-10.00	7.50-10.00	7.25-10.00	7.25-10.00
Foreign Banks							
a) Up to 1 year	3.00-6.25	3.00-5.75	3.00-9.50	3.00-9.50	0.25-9.00	2.00-9.00	2.00-9.00
b) 1 year and up to 3 years	3.50-6.50	4.00-6.50	3.50-9.50	3.50-9.00	3.50-9.50	2.00-9.50	2.00-9.50
c) Over 3 years	3.50-7.00	5.50-6.50	4.05-9.50	4.05-9.00	4.05-9.50	2.00-9.50	2.00-9.50
BPLR							
Public Sector Banks	10.25-11.25	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50	12.50-13.50	12.50-13.50
Private Sector Banks	11.00-13.50	11.00-14.00	12.00-16.50	12.50-17.25	13.00-17.25	13.00-16.50	13.00-16.50
Foreign Banks	10.00-14.50	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50
Actual Lending Rates*							
Public Sector Banks	2.75-16.00	4.00-16.50	4.00-17.00	–	4.00-17.75	–	–
Private Sector Banks	3.15-22.00	3.15-20.50	3.15-25.50	–	4.00-26.00	–	–
Foreign Banks	3.55-23.50	4.75-26.00	5.00-26.50	–	2.98-28.00	–	–

– : Not Available.

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

March 2006 to about 79 per cent at end-March 2007. The band of BPLRs of private sector banks and foreign banks was much wider than that of public sector banks. BPLRs of more than half of private sector banks were in the range of 12-14 per cent at end-March 2007, while those of other private sector banks were in the range of 14.50-16.50 per cent. As regards foreign banks, BPLRs of sixteen of them were in the range of 10.00-13.00 per cent. BPLRs of six other foreign banks were in the range of 13.25-13.50 per cent and of another six in the range of 14.00-15.50 per cent.

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



3.56 In the period April-October 2007, the benchmark prime lending rates (BPLRs) of private sector banks moved from a range of 12.50-17.25 per cent to 13.00-16.50 per cent in the same period. The range of BPLRs of PSBs and foreign banks, however, remained unchanged at 12.50-13.50 per cent and 10.00-15.50 per cent, respectively, during this period.

3.57 The yield on Government securities with 5-year and 10-year residual maturity hardened during 2006-07 by 66 basis and 45 basis points, respectively (Table III.18). The increase in yields was more pronounced for short-term maturities than for long-term maturities, reflecting relatively stable medium-term inflation expectations. The secondary market yields of Government securities

Table III.18: Structure of Interest Rates

(Per cent)

Instrument	As at End of			
	March 2005	March 2006	March 2007	September 2007
1	2	3	4	5
I. Debt Market				
1. Government Securities Market				
5-Year*	6.37	7.24	7.97	7.78
10-Year*	6.69	7.53	7.97	7.93
II. Money Markets				
2. Call Borrowing (Average)	4.72	6.58	14.07	6.41
3. Commercial Paper				
WADR 61-90 days	5.89	8.72	11.65	8.25
WADR 91-180 days	5.87	8.54	11.81	8.21
Range	5.45-6.51	6.69-9.25	10.25-13.00	7.70-12.00
4. Certificates of deposit				
Range	4.21-6.34	6.50-8.94	10.23-11.90	6.87-10.00
WADR Overall	–	8.62	10.75	8.57
3 Months	–	8.72	11.35	8.13
12 Months	–	8.65	10.59	8.94
5. Treasury Bills				
91 days	5.32	6.11	7.98	7.10
364 days	5.61	6.42	7.98	7.50

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

(10-year) hardened during 2006-07. Yields hardened from 7.52 per cent at end-March 2006 to 8.30 per cent on July 11, 2006, an increase of 78 basis points over end-March 2006 due to sustained credit demand, monetary policy tightening in the US and in other economies, high and volatile crude oil prices, apprehension over domestic fuel price hike and hike in reverse repo rates by 25 basis points effective June 9, 2006. Yields eased thereafter in consonance with the easing of yields of US treasuries, the Fed's decision to keep the Fed funds rate target unchanged, easing of crude oil prices, increased demand for gilts from banks to meet their SLR requirements and the announcement of the borrowing calendar of the Central Government for the second half of 2006-07, which was in accordance with market expectations. Yields reached a low of 7.38 per cent as on November 28, 2006. There was again some hardening of yields from the second half of December 2006 in tandem with the tightness in domestic liquidity conditions on the back of advance tax outflows, promulgation of the SLR Ordinance, higher inflation and hike in the CRR. The 10-year yield (at 7.97 per cent on March 31, 2007) ended 45 basis points higher than its level as on March 31, 2006. During 2007-08 (up to October 2007), yields remained range-bound between 7.97 and 8.19 per cent till end-May 2007 and peaked at 8.30 per cent in mid-June 2007 due to announcements of unscheduled auctions and hardening of interest rates globally. Yields softened thereafter, and moved between 7.85 and 8.01 per cent till end-October 2007.

3.58 Financial markets adjusted to the changes in interest rate and monetary conditions in an orderly fashion during 2006-07. Money market conditions, after remaining generally comfortable during the first half of 2006-07, turned relatively tight in the second half of 2006-07. The liquidity tightness was severe in the last quarter of 2006-07 impacted by the tax flows, build up of government balances with the Reserve Bank and the hike in CRR. The monthly average of weighted average call rate, which reached 8.18 per cent in January 2007, softened to 7.16 per cent in February 2007 but hardened to 14.07 per cent in March 2007. The money market rates eased considerably during the first quarter of 2007-08. However, after withdrawal of the daily reverse repo ceiling with effect from August 6, 2007, call rates have mostly remained within the informal corridor set by reverse repo and repo rate. The call rate was at 6.10 per cent on October 31, 2007.

3.59 The outstanding amount of certificates of deposit (CDs) issued by scheduled commercial banks (SCBs) more than doubled during 2006-07 from Rs.43,568 crore at end-March 2006 to Rs.93,272 crore at end-March 2007. The overall weighted average discount rate of CDs was 10.75 per cent at end-March 2007 compared with 8.62 per cent a year ago. Besides higher growth in credit offtake, competitive resource mobilisation, differential perception on credit risk and the bank-specific factors drove the growth of CD market during 2006-07. As at end-September 2007, the outstanding CD amount was at Rs.1,18,481 crore with the overall weighted average discount rate (WADR) being 8.57 per cent.

3.60 The outstanding amount of commercial paper (CP) issued by corporates increased from Rs.12,718 crore at end-March 2006 to Rs.17,688 crore at end-March 2007. The outstanding amount increased further to Rs.33,227 crore by end-September 2007. During the fortnight ended March 31, 2007, the overall weighted average discount rate (WADR) of commercial paper was at 11.33 per cent compared with 8.59 per cent at end-March 2006. The WADR of CP declined to 8.84 per cent at end-September 2007 following decline in other money market rates.

Cost of Deposits and Return on Advances

3.61 During 2006-07, the cost of borrowings and the return on advances increased mainly due to the general hardening of interest rates. Reflecting the rise in deposit rates during the year, the cost of deposits increased marginally across all bank-groups. The cost of deposits essentially reflects the average rate of contracting deposits of different types and different maturities over a period of time. The cost of borrowings also moved up for all bank groups, except new private sector banks, in whose case it remained unchanged. Reflecting the increase in cost of deposits and borrowings, the overall cost of funds increased during the year. The increase in cost of borrowings was observed across all bank groups. Return on advances of SCBs increased during 2006-07 mainly due to increase in the lending rates. Although the return on investments declined at the aggregate level, wide variations were observed in return on advances at the bank group level. While return on investments in respect of public sector banks declined significantly, that in respect of new private sector banks incresed significantly. Return on investment of other bank groups remained broadly unchanged. The overall return on funds and overall cost of funds during the year increased more or less by the same margin as a result of which, the spread (return of funds over cost of funds) of banks remained unchanged at the previous year's level (Table III.19).

Income

3.62 Income of SCBs increased at a robust rate of 25.1 per cent during 2006-07 as compared with

Table III.19: Cost of Funds and Return on Funds – Bank Group-wise

(Per cent)

Indicator	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	4.3	4.5	4.5	4.9	3.6	4.7	2.8	3.2	4.1	4.5
2. Cost of Borrowings	2.5	3.4	3.1	3.4	3.1	3.1	4.5	4.7	3.0	3.6
3. Cost of Funds	4.2	4.4	4.5	4.8	3.5	4.5	3.2	3.5	4.0	4.4
4. Return on Advances	7.1	7.7	7.9	8.6	7.3	8.3	7.6	8.7	7.2	7.9
5. Return on Investments	8.2	7.5	7.2	7.2	5.5	6.6	7.5	7.6	7.7	7.3
6. Return on Funds	7.5	7.6	7.7	8.1	6.6	7.7	7.6	8.3	7.4	7.7
7. Spread (6-3)	3.3	3.2	3.2	3.3	3.1	3.2	4.3	4.8	3.3	3.3

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

Table III.20: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	2004-05		2005-06		2006-07	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	1,90,236	8.1	2,20,756	7.9	2,76,201	8.0
a) Interest Income	1,55,801	6.6	1,85,388	6.7	2,37,271	6.9
b) Other Income	34,435	1.5	35,368	1.3	38,929	1.1
2. Expenditure	1,69,278	7.2	1,96,174	7.0	2,44,998	7.1
a) Interest Expended	89,079	3.8	1,07,161	3.8	1,43,965	4.2
b) Operating Expenses	50,133	2.1	59,201	2.1	66,319	1.9
Of which : Wage Bill	29,479	1.3	33,461	1.2	36,160	1.0
c) Provision and Contingencies	30,065	1.3	29,812	1.1	34,714	1.0
3. Operating Profit	51,023	2.2	54,394	2.0	65,917	1.9
4. Net Profit	20,958	0.9	24,582	0.9	31,203	0.9
5. Net Interest Income/Margin (1a-2a)	66,722	2.8	78,227	2.8	93,306	2.7

Note : The number of scheduled commercial banks in 2004-05, 2005-06 and 2006-07 were 88, 85, and 82, respectively.

16.0 per cent during 2005-06. The income to assets ratio, which had suffered a decline during 2005-06, increased marginally to 8.0 in 2006-07 from 7.9 in 2005-06 (Appendix Tables III.15 to III.18). Interest income, the predominant component of income of SCBs, rose sharply by 28.0 per cent as compared with 19.0 per cent in the previous year mainly due to strong volumes of credit and rise in interest rates (Table III.20). 'Other income' of SCBs also increased by 10.0 per cent compared with the much smaller increase of 2.7 per cent during 2005-06. In relative terms, while interest income as percentage of assets increased marginally during the year, other income to assets ratio declined.

3.63 The share of interest income in total income increased for the third year in succession to 85.9 per cent in 2006-07 from 81.9 per cent in 2004-05 – the year when SCBs entered the phase of high credit growth (Chart III.12). Concomitantly, the share of non-interest income in banks' total income declined to 14.1 per cent in 2006-07 from 16.0 per cent in 2005-06 and 18.1 per cent in 2004-05. The share of non-interest income, which had risen significantly between 2000-01 and 2003-04, declined in the subsequent years.

3.64 In terms of percentage contribution of two major components of income, interest income has been a major contributor to the accretion in income of SCBs. While a major shift was observed in the pattern of interest and non-interest components of income between 2004-05 and 2005-06, it remained broadly unchanged during 2006-07 (Appendix Tables III.19 to III.23). During 2005-06 and 2006-07, non-interest income made positive contributions, though small in magnitude, in contrast to 2004-05, when non-interest income of SCBs turned negative (Chart III.13).

3.65 The contribution of various sources of non-interest income (or other income) of SCBs underwent some change during 2006-07 in line with the trend observed during the previous two years. The trend in non-interest income has

Chart III.12: Trend in the Shares of Interest and Non-Interest Income of Scheduled Commercial Banks

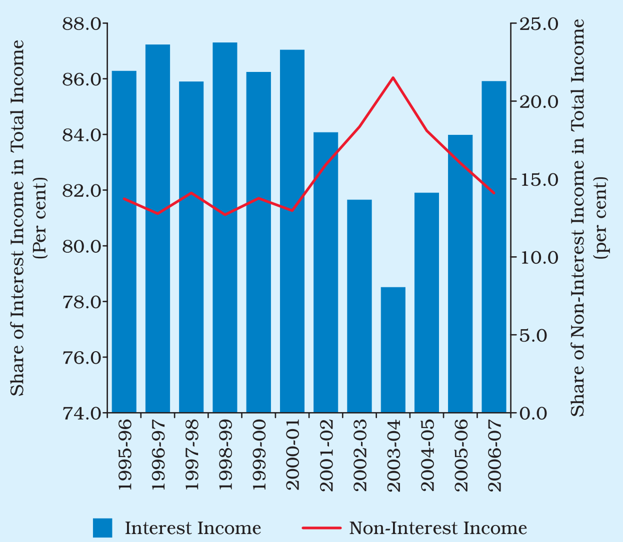
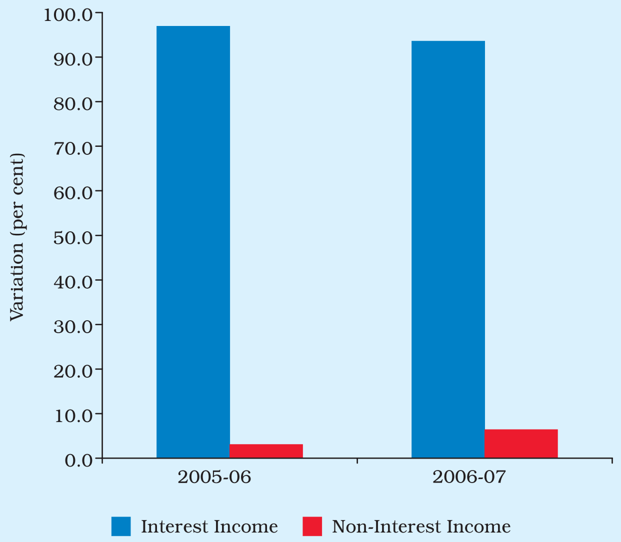
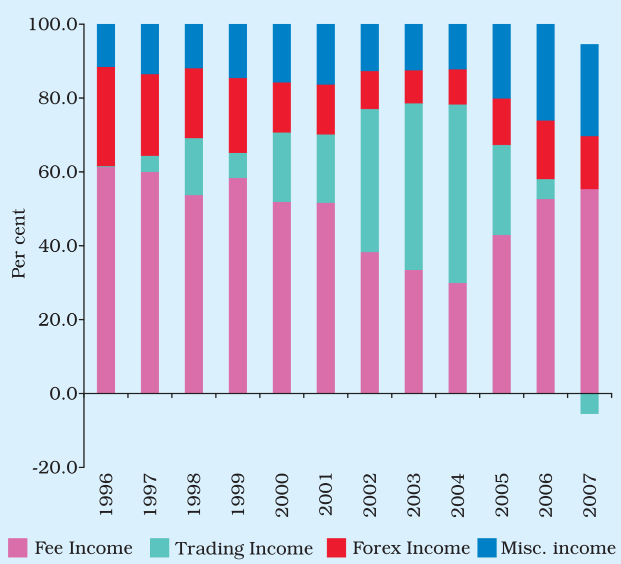


Chart III.13: Sources of Accretion to Income of Scheduled Commercial Banks



been influenced mainly by the behaviour of trading income, which, in turn, was guided by the yield on Government securities. The share of trading income turned negative during the year, while the shares of fee income, income from foreign exchange operations and miscellaneous income increased for the third year in succession (Chart III.14). Bank-wise data reveal that trading income of only eight out of 28 PSBs witnessed an increase during 2006-07 (Appendix Table III.15).

Chart III.14: Composition of Non-Interest Income of Scheduled Commercial Banks



3.66 Among bank-groups, income of new private sector banks grew at the highest rate (55.0 per cent) during 2006-07, followed by foreign banks (41.3 per cent), public sector banks (18.3 per cent) and old private sector banks (12.8 per cent). The interest income to total assets ratio of private sector banks, foreign banks and new private sector banks improved during the year, while it declined in the case of PSBs, in particular, SBI group.

Expenditure

3.67 During 2006-07, the expenditure of SCBs witnessed a significant increase of 24.9 per cent as compared with 15.9 per cent increase in 2005-06. The expenditure to assets ratio also increased to 7.1 per cent from 7.0 per cent in 2005-06. Among the major components of the expenditure of SCBs, while interest expended during 2006-07 increased at a higher rate of 34.3 per cent as compared with 20.3 per cent in 2005-06, operating expenses increased at a lower rate of 12.0 per cent as compared with 18.1 per cent in 2005-06. The lower increase in non-interest or operating expenses may be explained in terms of lower increase in the wage bill during 2006-07 as compared with the previous year (Appendix Table III.25).

3.68 Even though both the non-interest income and non-interest expenditure declined as percentage of total assets, the gap between operating expenses and non-interest income widened further during 2006-07 due to higher increase in operating cost as compared with the increase in non-interest income. As a result, the banks' burden (excess of non-interest expenditure over non-interest income) declined marginally to 0.8 per cent of assets in 2006-07 (from 0.9 per cent in 2005-06). The efficiency ratio (operating expenses as percentage of net interest income plus non-interest income) improved to 50.2 per cent during 2006-07 from 52.1 per cent in 2005-06, after having deteriorated in 2005-06 from 49.6 per cent during 2004-05 (Table III.21).

3.69 The wage bill for the banking sector, on the whole, registered a lower increase of 8.1 per cent during 2006-07 as compared with 13.5 per cent in the last year. The wage bill declined both as percentage of total assets (to 1.0 per cent from 1.2 per cent) and as percentage of operating expenses (to 54.5 per cent from 56.5 per cent). During the year, the wage bill as a percentage of operating expenses was lowest in the case of new

Table III.21: Changes in Income-Expenditure Profile of Scheduled Commercial Banks

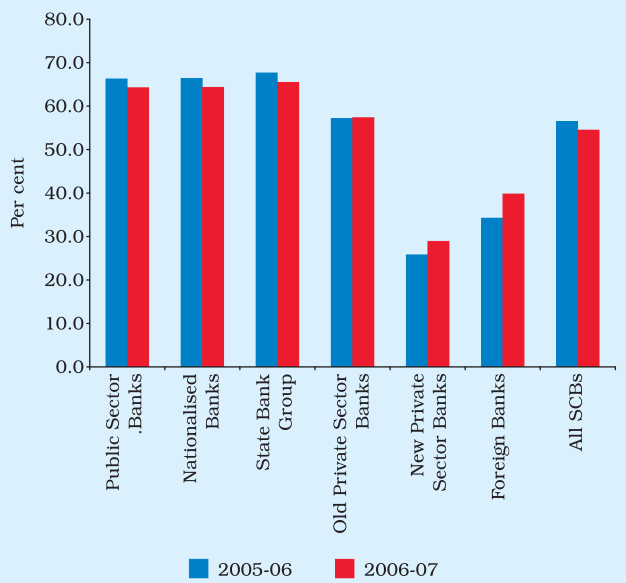
(Amount in Rs. crore)

	2005-06		2006-07	
	Amount	Per cent	Amount	Per cent
1	2	3	4	5
1. Income (a+b)	**30,520**	**16.0**	**55,445**	**25.1**
a) Interest Income	29,587	19.0	51,883	28.0
b) Other Income	933	2.7	3,562	10.1
2. Expenses (a+b+c)	**26,896**	**15.9**	**48,824**	**24.9**
a) Interest Expenses	18,082	20.3	36,804	34.3
b) Other Expenses	9,067	18.1	7,118	12.0
c) Provisioning	-253	-0.8	4,902	16.4
3. Operating Profit	**3,370**	**6.6**	**11,523**	**21.2**
4. Net Profit	**3,624**	**17.3**	**6,621**	**26.9**

Source : Balance Sheets of respective banks.

private sector banks (28.9 per cent), followed by foreign banks (39.8 per cent); the ratio was the highest for PSBs (64.3 per cent) (Chart III.15). However, the spread in the wage bill to operating expenses across bank groups narrowed down with the increase in the ratio for new private sector banks and foreign banks and decline in that for PSBs. The decline in the wage bill to operating expenses ratio for PSBs during 2006-07 might be due to higher increase in other operating expenses such as technological upgradation in view of the implementation of Basel II.

Chart III.15: Wage Bill to Operating Expenses



Net Interest Income

3.70 Net interest income, defined as the difference between interest income and interest expenses, is an important indicator of efficiency of the intermediation process by banks. The lower net interest income in relation to assets is an indicator of higher efficiency. The net interest income (spread) of SCBs as percentage of total assets declined marginally to 2.7 in 2006-07 from 2.8 in 2005-06. The net interest margin of foreign banks and private banks increased, while that of PSBs declined during the year from their respective levels in 2005-06 (Appendix Table III.16).

Operating Profits

3.71 Operating profits of SCBs increased by 21.2 per cent in 2006-07 compared with the increase of 6.6 per cent in 2005-06, reflecting largely the impact of higher increase in interest income and a lower increase in operating expenses. Operating profits of all bank groups, except State Bank group, increased during 2006-07. The operating profits to total assets ratio declined marginally to 1.9 per cent in 2006-07 from 2.0 per cent during 2005-06. However, at the individual bank level, it varied widely for foreign banks (8.3 per cent to -0.3 per cent) and private sector banks (3.3 per cent to -2.2 per cent), while in the case of PSBs it moved in a relatively narrow range (2.4 per cent to 0.9 per cent) (Appendix Table III.19).

Provisions and Contingencies

3.72 The provisions and contingencies of SCBs showed a sharp increase of 16.4 per cent in 2006-07 as against a marginal decline during 2005-06. However, provisions for loan losses and also for depreciation in value of investments declined significantly by 7.5 per cent and 23.3 per cent, respectively, during 2006-07 (see also paragraphs 3.81 and 3.86). Bank-group wise, provisions and contingencies as percentage of total assets increased for private sector banks, while it declined for PSBs and remained unchanged for foreign banks.

Net Profit

3.73 Net profits increased by 27.0 per cent during 2006-07 as compared with 17.3 per cent during 2005-06 (Table III.22). The high growth in net profits was recorded despite a sharp increase in provisions and contingencies of SCBs. Bank-

Table III.22: Operating Profit and Net Profit – Bank Group-wise

(Amount in Rs. crore)

Bank Group	Operating Profit				Net Profit			
	2005-06	Percentage Variation	2006-07	Percentage Variation	2005-06	Percentage Variation	2006-07	Percentage Variation
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**54,394**	**6.6**	**65,917**	**21.2**	**24,582**	**17.3**	**31,203**	**26.9**
Public Sector Banks	37,967	-2.0	42,268	11.3	16,539	7.1	20,152	21.8
Nationalised Banks	22,140	-4.2	27,070	22.3	10,021	5.9	12,950	29.2
State Bank Group	15,026	-1.7	14,292	-4.9	5,956	4.9	6,572	10.3
Other Public Sector Bank	801	121.8	907	13.2	561	82.5	630	12.4
Old Private Sector Banks	2,257	0.7	3,027	34.1	866	98.6	1,122	29.6
New Private Sector Banks	7,511	38.0	11,021	46.7	4,109	32.6	5,343	30.0
Foreign Banks	6,658	45.5	9,600	44.2	3,069	54.8	4,585	49.4

Source : Balance sheets of respective banks.

group wise, net profits of all bank groups increased in absolute terms, though as a percentage of assets, net profits for the SBI group and new private sector banks declined as compared with the previous year (Appendix Table III.16).

Return on Assets

3.74 Return on assets (RoA) is an indicator of efficiency with which banks deploy their assets. Net profits to assets ratio of SCBs remained almost unchanged at the previous year's level. Return on assets of old private sector banks and foreign banks increased significantly during 2006-07, while that of PSBs increased marginally (Chart III.16). However, return on assets of new private sector banks declined marginally.

Return on Equity

3.75 Return on equity (RoE), an indicator of use of capital by efficiency of banking institutions, improved to 13.2 per cent in 2006-07 from 12.7 per cent in 2005-06 (Chart III.17).

Chart III.16: Net Profitability of Bank Groups in India

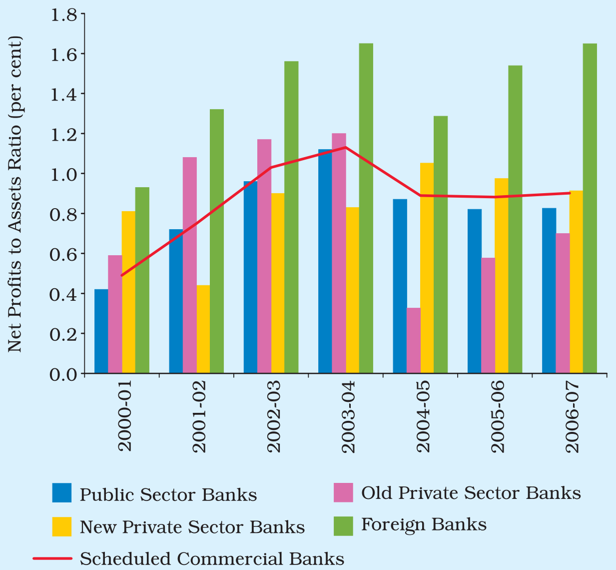
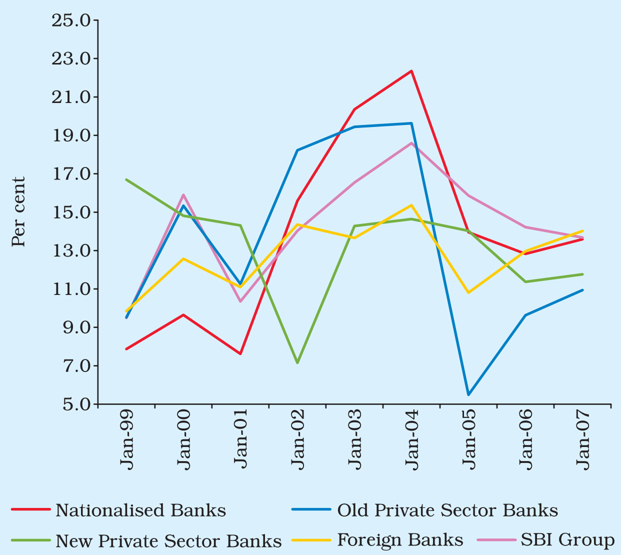


Chart III.17: Return on Equity (ROE) of Scheduled Commercial Banks in India



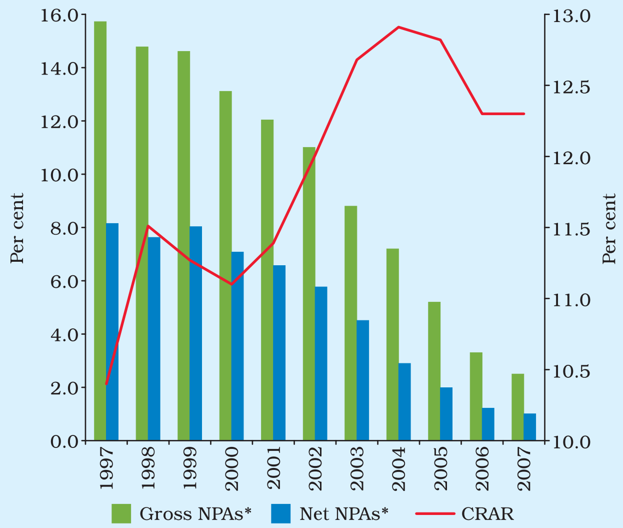
5. Soundness Indicators

3.76 The capital to risk-weighted ratio of SCBs, a measure of the capacity of the banking system to absorb losses was at 12.3 per cent at end-March 2007 – the same as at end-March 2006. The asset quality of SCBs reflected further improvement during the year as the non-performing asset ratios, on a gross and net basis, continued to decline during the year. Thus, in terms of the two crucial soundness indicators, *viz.*, capital and asset quality, the Indian banking sector remained comfortably placed at end-March 2007 (Chart III.18).

Asset Quality

3.77 The strong credit growth for the third year in succession continued to be underpinned by significant improvement in asset quality. Continuing the recent trend, gross NPAs declined in absolute terms during 2006-07, *albeit* marginally as NPAs recovered and written-off exceeded the fresh addition of NPAs during the year (Table III.23). The trend was, however, divergent across bank groups. While the absolute

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



* : As ratio of advances.

Table III.23: Movements in Non-performing Assets – Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (82)	Public Sector Banks (28)	Nationalised Banks (19)	State Bank Group (8)	Old Private Sector Banks (17)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Gross NPAs							
As at end-March 2006	50,519	41,358	27,701	12,541	3,182	4,051	1,927
Addition during the year	26,211	19,614	12,419	6,264	1,349	3,830	1,417
Recovered during the year	26,159	22,004	15,061	6,128	1,562	1,595	997
Written off during the year	84	–	–	–	–	–	84
As at end-March 2007	50,486	38,968	25,059	12,676	2,968	6,286	2,262
Net NPAs							
As at end-March 2006	18,265	14,564	7,929	6,072	1,101	1,795	804
As at end-March 2007	20,100	15,144	8,063	6,359	891	3,136	927
Memo							
Gross Advances	20,12,510	14,64,493	9,75,733	4,88,760	94,872	3,25,273	1,27,872
Net Advances	19,81,216	14,40,123	9,57,697	4,82,426	92,890	3,21,865	1,26,339
Ratio							
Gross NPAs/Gross Advances	2.5	2.7	2.7	2.6	3.1	1.9	1.8
Net NPAs/Net Advances	1.0	1.1	0.9	1.3	1.0	1.0	0.7

– : Nil/Negligible.
Note : Figures in brackets are the number of banks.
Source : Balance sheets of respective banks.

Table III.24: NPAs recovered by SCBs through various Channels

(Amount in Rs. crore)

Item	2005-06			2006-07		
	No. of cases referred*	Amount involved	Amount Recovered	No. of cases referred*	Amount involved	Amount Recovered
1	2	3	4	5	6	7
i) One-time settlement/ compromise schemes*	10,262	772	608	–	–	–
ii) *Lok Adalats*	2,68,090	2,144	265	1,60,368	758	106
iii) DRTs	3,534	6,273	4,735	4,028	9,156	3,463
iv) SARFAESI Act	41,180 #	8,517	3,363	60,178 #	9,058	3,749

: Number of notices issued under Section 13(2) of the SARFAESI Act.
* : The scheme for OTS for SME accounts by public sector banks was closed as on June 30, 2006.

gross NPAs of PSBs (particularly, nationalised banks) and old private sector banks declined during the year, those of new private sector banks, foreign banks and State Bank group showed an increase. The overall gross NPAs of SCBs, which had declined sharply by Rs.8,276 crore during 2005-06, declined by Rs.611 crore in 2006-07. Gross NPAs as percentage of gross advances declined to 2.5 per cent from 3.3 per cent at end-March 2006.

3.78 Among the several channels of recovery available to banks for dealing with bad loans, the debt recovery tribunals (DRTs) and the SARFAESI Act have been the most effective in terms of amount recovered (Table III.24). The number of cases referred to the *Lok Adalats* remained the largest. The amount recovered under *Lok Adalats* and DRTs during 2006-07, however, was lower than the previous year.

3.79 In the case of direct agricultural advances, the recovery rate improved to 80.1 per cent for the year-ended June 2006 from 78.6 per cent in the last year (Table III.25).

Table III.25: Recovery of Direct Agricultural Advances of PSBs

(Amount in Rs. crore)

June-end	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
2004	33,544	25,002	8,542	74.5
2005	45,454	35,733	9,721	78.6
2006	46,567	37,298	9,269	80.1

3.80 The Reserve Bank has so far issued certificate of registration (CoR) to six securitisation companies/reconstruction companies (SCs/RCs), of which three have commenced their operations. At end-June 2007, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank stood at Rs.28,544 crore. The security receipts subscribed to by banks amounted to Rs.6,894 crore. The security receipts redeemed amounted to Rs.660 crore (Table III.26).

Movements in Provisions for Non-performing Assets

3.81 Provisioning for non-performing assets tends to follow a cyclical pattern. Although gross NPAs in absolute terms declined, net NPAs increased, reflecting the higher write back of excess provisioning than the fresh provisioning made during the year. This trend was observed across all bank groups, barring new private sector

Table III.26: Details of Financial Assets Securitised by SCs/RCs

(As on June 30, 2007)

Item	Amount in Rs. crore
1. Book Value of Assets Acquired	28,543.6
2. Security Receipts issued	7,436.0
3. Security Receipts subscribed by	
(a) Banks	6,894.2
(b) SCs/RCs	408.3
(c) FIIs	–
(d) Others	133.6
4. Amount of Security Receipts completely redeemed	659.6

– : Nil/Negligible.

banks and foreign banks. Cumulative provisions at end-March 2007 were, thus, lower than their respective levels a year ago in respect of all bank groups, except new private sector banks and foreign banks. Cumulative provisions as percentage of gross NPAs declined marginally to 56.1 per cent at end-March 2007 from 58.9 per cent at end-March 2006. Bank-group wise, the ratio was the highest for old private sector banks (66.0 per cent), followed by PSBs, foreign banks and new private sector banks (Table III.27 and Appendix Table III.24).

3.82 Despite increase in net NPAs in absolute terms, net NPAs as percentage of net advances declined marginally to 1.0 per cent from 1.2 per cent at end-March 2006. Similar trend in the gross and net NPA ratios was observed for all bank-groups, except new private sector banks, which recorded an increase in the NPA ratios both in gross and net terms [Table III.28 and Appendix III.25 and 26].

3.83 The net NPAs to net advances ratio was close to 1.0 per cent at end-March 2007 for all bank-groups, except foreign banks (0.7 per cent). Between end-March 2006 and end-March 2007, the net NPA ratio of public sector and old private sector banks declined, while it increased in respect of new private sector banks leading to convergence of net NPA ratio at the bank-group level. The deviation in net NPA ratio at the individual bank level narrowed down significantly during the year. The net NPAs to net advances ratio at end-March 2007 of 75 banks (as against 65 last year) out of 82 (as against 85 last year) was less than 2 per cent. The net NPAs ratio of only two banks was higher than 5 per cent, of which the net NPA ratio of one foreign bank was higher than 10 per cent (Table III.29). During 2006-07, the net NPA ratio of twenty three banks in the public sector and fifteen banks in the private sector improved (Appendix Tables III.27 and 28).

3.84 The data on loan asset categories suggest further improvement in the asset quality of SCBs during 2006-07. While the share of standard assets in total advances increased to 97.5 per cent from 96.7 per cent at end-March 2006, the share of 'sub-standard' loans remained stable at a low level of 1.0 per cent. The share of 'doubtful' and 'loss' categories, however, declined. In these two categories ('loss' and 'doubtful'), NPAs declined in absolute terms as well. More or less similar trend was observed across all bank groups, except new private sector banks and foreign banks in whose case NPAs in all the three categories (sub-standard, doubtful and loss) generally increased (Table III.30). Thus, the asset quality of new private sector banks, though comfortable, showed some signs of weakening.

Table III.27: Movements in Provisions for Non-performing Assets – Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (82)	Public Sector Banks (28)	Nationalised Banks (19)	State Bank Group (8)	Old Private Sector Banks (17)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Provision for NPAs							
As at end-March 2006	30,226	25,024	18,078	6,393	1,992	2,214	994
Add : Provision made during the year	10,401	7,289	4,956	1,804	520	2,110	481
Less : Write-off, write back of excess during the year	12,284	10,174	7,693	1,909	553	1,236	320
As at end-March 2007	28,343	22,139	15,341	6,288	1,959	3,087	1,156
Memo:							
Gross NPAs	50,486	38,968	26,291	12,677	2,968	6,286	2,262
Ratio							
Cumulative Provision to Gross NPAs (per cent)	56.1	56.8	58.4	49.6	66.0	49.1	51.1

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

Table III.28: Gross and Net NPAs of Scheduled Commercial Banks – Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to total Assets		Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2004	9,02,026	64,812	7.2	3.3	8,62,643	24,396	2.8	1.2
2005	11,52,682	59,373	5.2	2.5	11,15,663	21,754	2.0	0.9
2006	15,51,378	51,097	3.3	1.8	15,16,811	18,543	1.2	0.7
2007	20,12,510	50,486	2.5	1.5	19,81,216	20,101	1.0	0.6
Public Sector Banks								
2004	6,61,975	51,537	7.8	3.5	6,31,383	19,335	3.1	1.3
2005	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.1	1.0
2006	11,34,724	41,358	3.6	2.1	11,06,288	14,566	1.3	0.7
2007	14,64,493	38,968	2.7	1.6	14,40,123	15,145	1.1	0.6
Old Private Sector Banks								
2004	57,908	4,398	7.6	3.6	55,648	2,142	3.8	1.8
2005	70,412	4,200	6.0	3.1	67,742	1,859	2.7	1.4
2006	85,154	3,759	4.4	2.5	82,957	1,375	1.7	0.9
2007	94,872	2,969	3.1	1.8	92,890	891	1.0	0.6
New Private Sector Banks								
2004	1,19,511	5,983	5.0	2.4	1,15,106	1,986	1.7	0.8
2005	1,27,420	4,582	3.6	1.6	1,23,655	2,353	1.9	0.8
2006	2,32,536	4,052	1.7	1.0	2,30,005	1,796	0.8	0.4
2007	3,25,273	6,287	1.9	1.1	3,21,865	3,137	1.0	0.5
Foreign Banks								
2004	62,632	2,894	4.6	2.1	60,506	933	1.5	0.7
2005	77,026	2,192	2.8	1.4	75,354	639	0.8	0.4
2006	98,965	1,928	1.9	1.0	97,562	808	0.8	0.4
2007	1,27,872	2,263	1.8	0.8	1,26,339	927	0.7	0.3

Source : Balance sheets of respective banks.

Sector-wise NPAs

3.85 The consolidated statement of public and private sector banks with respect to sector-wise NPA indicates that the NPAs in the priority sector increased during 2006-07. This was mainly due to increase in NPAs in the agriculture sector, while NPAs in the SSI sector declined. The NPAs in the public sector also increased during the year. However, NPAs in the non-priority sector declined during 2006-07. At the aggregate level, the share of priority sector NPAs was the highest at 54.1 per cent, of which priority sector NPAs other than agriculture and SSIs constituted almost a quarter (25.1 per cent) of the total NPAs. The share of non-priority sector NPAs was 44.9 per cent during 2006-07 (Table III.31) [Appendix Table III.29 (A) and 29 (B); and Appendix Table 30 (A) and 30 (B)].

Movements in Provisions for Depreciation on Investments

3.86 The provisions for depreciation on investments at end-March 2007 were 23.3 per cent lower from the level a year ago. Provisions made during the year were far lower than the write-offs and write-back of excess provisions, which

Table III.29: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(Number of banks)

Bank Group	As at end-March				
	2003	2004	2005	2006	2007
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**28**	**28**	**28**
Up to 2 per cent	4	11	19	23	27
Above 2 and up to 5 per cent	14	13	7	5	1
Above 5 and up to 10 per cent	7	3	2	–	–
Above 10 per cent	2	–	–	–	–
Old Private Sector Banks	**20**	**20**	**20**	**20**	**17**
Up to 2 per cent	2	2	4	11	15
Above 2 and up to 5 per cent	4	9	12	7	1
Above 5 and up to 10 per cent	12	7	4	2	1
Above 10 per cent	2	2	–	–	–
New Private Sector Banks	**9**	**10**	**9**	**8**	**8**
Up to 2 per cent	2	4	5	6	7
Above 2 and up to 5 per cent	2	5	3	2	1
Above 5 and up to 10 per cent	4	–	1	–	–
Above 10 per cent	1	1	–	–	–
Foreign Banks	**36**	**33**	**31**	**29**	**29**
Up to 2 per cent	19	22	23	25	27
Above 2 and up to 5 per cent	3	2	2	–	1
Above 5 and up to 10 per cent	6	3	2	–	–
Above 10 per cent	8	6	4	4	1

– : Nil/Negligible.

resulted in sharp reduction in the provisions at end-March 2007. This reduction in provisions was despite increase in investments witnessed in the year (Table III.32).

Capital Adequacy

3.87 The overall CRAR of all SCBs remained at the previous year's level of 12.3 per cent, suggesting that the increase in capital kept pace with the sharp increase in risk-weighted assets. The increase in risk-weighted assets was mainly due to the rapid growth of credit. To an extent, the increase in risk-weighted assets was also on account of increase in the risk weights by the Reserve Bank on certain categories of advances as a prudential measure to protect the balance sheets of banks during the phase of rapid credit expansion. The CRAR at 12.3 per cent was placed significantly above the stipulated minimum of 9.0 per cent (Table III.33).

3.88 Tier I capital ratio declined somewhat to 8.3 per cent at end-March 2007 from 9.3 per cent a year ago. This was mainly due to relatively slower growth of reserves and surplus, while paid-up capital increased significantly. However, the Tier II capital increased significantly in contrast to decline in the last year. As a result, the Tier II CRAR increased to 4.0 per cent from 3.1 per cent last year (Chart III.19). Despite the decline during the year, Tier I CRAR at 8.3 per cent was more than the present requirement of 4.5 per cent and also above the 6.0 per cent norm prescribed in the final guidelines for implementation of Basel II released by the Reserve Bank on April 27, 2007.

3.89 Among bank groups, the CRAR of PSBs and old private sector banks improved, while that of new private sector banks and foreign banks declined. The CRAR of new private sector banks, which had improved in the previous year, declined below the industry average at end-March 2007;

Table III.30: Classification of Loan Assets – Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Advances
	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2004	8,37,130	92.9	21,026	2.3	36,247	4.0	7,625	0.9	64,898	7.2	9,02,027
2005	10,93,523	94.9	14,016	1.2	37,763	3.3	7,382	0.6	59,161	5.1	11,52,684
2006	14,99,431	96.7	14,826	1.0	30,105	2.0	7,016	0.4	51,947	3.3	15,51,378
2007	19,61,877	97.5	20,010	1.0	24,408	1.2	6,215	0.3	50,633	2.5	20,12,510
Public Sector Banks											
2004	6,10,435	92.2	16,909	2.5	28,756	4.4	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,779	3.5	5,929	0.7	47,796	5.4	8,77,825
2006	10,92,607	96.2	11,453	1.0	25,028	2.2	5,636	0.5	42,117	3.7	11,34,724
2007	14,25,519	97.3	14,275	1.0	19,873	1.4	4,826	0.3	38,974	2.7	14,64,493
Old Private Sector Banks											
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
2005	66,212	94.0	784	1.1	2,868	4.0	549	0.8	4,201	6.0	70,413
2006	81,414	95.6	710	0.8	2,551	3.0	479	0.6	3,740	4.4	85,154
2007	91,903	96.9	760	0.8	1,783	1.9	425	0.4	2,969	3.1	94,872
New Private Sector Banks											
2004	1,13,560	95.0	1,966	1.6	3,665	3.0	321	0.3	5,952	5.0	1,19,512
2005	1,22,577	96.2	1,449	1.1	3,061	2.4	334	0.3	4,844	3.8	1,27,421
2006	2,28,504	98.3	1,717	0.7	1,855	0.8	460	0.2	4,032	1.8	2,32,536
2007	3,19,002	98.1	3,608	1.1	2,147	0.7	516	0.2	6,271	1.9	3,25,273
Foreign Banks											
2004	59,619	95.1	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632
2005	74,705	97.0	715	1.0	1,035	1.3	570	0.7	2,320	3.0	77,025
2006	96,907	98.0	946	1.0	670	0.7	441	0.5	2,057	2.0	98,965
2007	1,25,453	98.1	1,367	1.1	605	0.5	447	0.3	2,419	1.9	1,27,872

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

the CRAR of old private sector banks remained below the industry average, while that of PSBs (both nationalised banks and the SBI group) and foreign banks was at/above the industry average.

Table III.31: Sector-wise NPAs – Bank Group-wise*

(Amount in Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9
A. Priority Sector	22,374	22,954	1,632	1,416	652	1,468	24,658	25,838
i) Agriculture	6,203	6,506	265	249	250	612	6,718	7,367
ii) Small Scale Industries	6,917	5,843	656	490	152	155	7,725	6,488
iii) Others	9,253	10,604	711	677	251	702	10,215	11,983
B. Public Sector	340	490	1	–	3	3	345	493
C. Non-Priority Sector	18,664	15,158	2,078	1,553	3,463	4,800	24,205	21,510
Total (A+B+C)	**41,378**	**38,602**	**3,711**	**2,969**	**4,118**	**6,271**	**49,208**	**47,841**

* : Excluding foreign banks. – : Nil/Negligible.
Source : Based on off-site returns submitted by banks.

Table III.32: Movements in Provisions for Depreciation on Investment – Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (82)	Public Sector Banks (28)	Nationalised Banks (19)	State Bank Group (8)	Old Private Sector Banks (17)	New Private Sector Banks (8)	Foreign Banks (29)
1	2	3	4	5	6	7	8
Provision for Depreciation on Investment							
As at end-March 2006	16,278	13,761	4,924	8,584	361	697	1,459
Add : Provision made during the year	4,858	4,157	2,895	1,223	213	206	281
Less :Write-off, write-back of excess during the year	8,660	8,154	1,334	6,750	136	85	286
As at end-March 2007	12,476	9,764	6,485	3,057	439	819	1,454

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

The CRAR of foreign banks, which usually remained much above the other bank groups, declined from 13.0 per cent at end-March 2006 to 12.4 per cent at end-March 2007 to converge with the industry average (Table III.34). The CRAR of new private sector banks and foreign banks declined on account of high growth of risk-weighted assets as they have relatively larger exposure to the sensitive sectors to which higher risk weights are applied.

Table III.33: Scheduled Commercial Banks – Component-wise CRAR
(As at end-March)

(Amount in Rs. crore)

Item / Year	2005	2006	2007
1	2	3	4
A. Capital Funds (i+ii)	1,65,928	2,21,363	2,96,191
i) Tier I Capital	1,08,949	1,66,538	2,00,386
of which:			
Paid up Capital	25,724	25,142	29,462
Reserves	91,320	1,41,592	1,64,077
Unallocated/Remittable Surplus	6,937	11,075	20,387
Deductions for Tier-I Capital	15,031	11,271	13,662
ii) Tier-II Capital	56,979	54,825	95,794
of which:			
Discounted Subordinated Debt	26,291	43,214	63,834
B. Risk-weighted Assets	12,96,223	17,97,207	24,12,236
of which:			
Risk-weighted Loans and Advances	9,19,544	12,38,163	17,17,810
C. CRAR (A as per cent of B)	12.8	12.3	12.3
of which:			
Tier I	8.4	9.3	8.3
Tier II	4.4	3.1	4.0

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

3.90 The CRAR of five largest banks showed a divergent trend from the previous year. During 2005-06, the CRAR of all banks, except ICICI Bank declined. However, during 2006-07, the CRAR of all banks, except ICICI Bank, registered an increase. Of the five largest SCBs, four are in the public sector, while ICICI Bank is in the private sector (Chart III.20).

3.91 At the individual bank level, only Sangli Bank Ltd. could not meet the prescribed CRAR requirement at end-March 2007; it was subsequently amalgamated with ICICI Bank. The

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

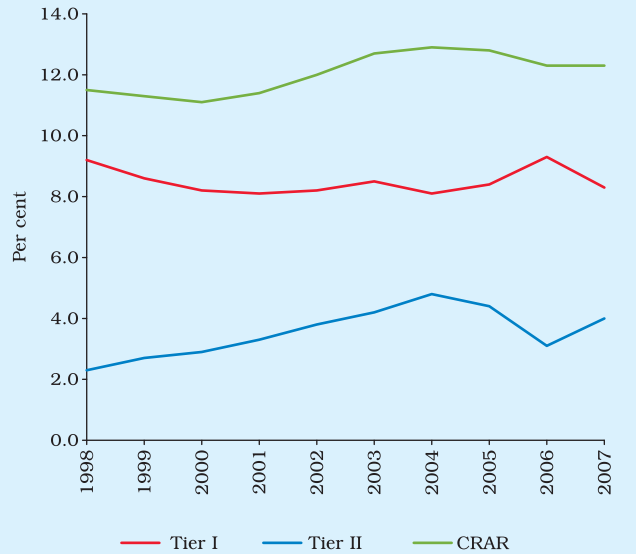


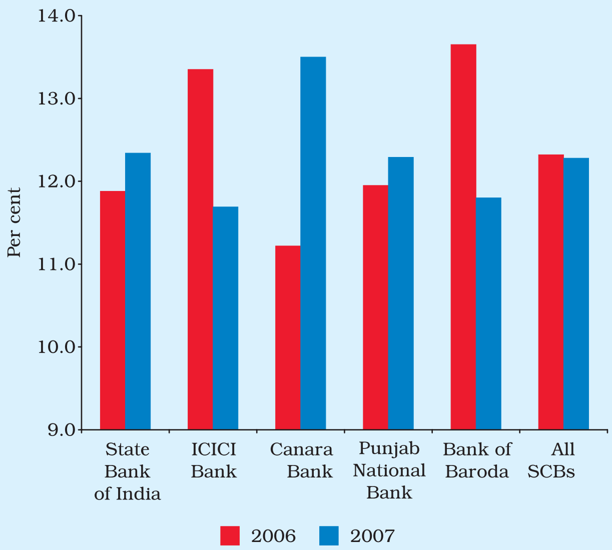
Table III.34: Capital Adequacy Ratio – Bank Group-wise
(As at end-March 2006)

(Per cent)

Bank Group	2000	2001	2002	2003	2004	2005	2006	2007
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	11.1	11.4	12.0	12.7	12.9	12.8	12.3	12.3
Public Sector Banks	10.7	11.2	11.8	12.6	13.2	12.9	12.2	12.4
Nationalised Banks	10.1	10.2	10.9	12.2	13.1	13.2	12.3	12.4
SBI Group	11.6	12.7	13.3	13.4	13.4	12.4	11.9	12.3
Old Private Sector Banks	12.4	11.9	12.5	12.8	13.7	12.5	11.7	12.1
New Private Sector Banks	13.4	11.5	12.3	11.3	10.2	12.1	12.6	12.0
Foreign Banks	11.9	12.6	12.9	15.2	15.0	14.0	13.0	12.4

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

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



CRAR of as many as 79 banks was above 10 per cent (Table III.35 and Appendix Table III.31). Two banks had CRAR in the range of 9 to 10 per cent. Given the present bank-level CRAR, commercial banks are well poised to meet the Basel II requirements, which would become fully operational by end-March 2009.

6. Banks' Operations in the Capital Market

Resources raised by Banks from the Primary Capital Market

3.92 Resources raised by scheduled commercial banks, both in the public and private sectors, from the domestic primary market declined sharply during 2006-07. Total resource mobilisation by banks through public issues (excluding offer for sale) in the domestic equity market declined by 90.4 per cent to Rs.1,066 crore during 2006-07. Despite good performance

Table III.35: Distribution of Scheduled Commercial Banks by CRAR

(Number of banks)

Bank Group	2005-06				2006-07			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
Nationalised Banks*	–	–	–	20	–	–	–	20
State Bank Group	–	–	–	8	–	–	–	8
Old Private Sector Banks	3	–	1	16	1	–	2	14
New Private Sector Banks	–	–	1	7	–	–	–	8
Foreign Banks	–	–	2	27	–	–	–	29
Total	**3**	**–**	**4**	**78**	**1**	**–**	**2**	**79**

– : Nil/Negligible.
* : Includes data for other public sector banks.
Source : Based on off-site returns submitted by banks.

Table III.36: Public Issues by the Banking Sector

(Amount in Rs. crore)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8
2003-04	1,104	–	–	1,352	1,104	1,352	**2,456**
2004-05	3,336	–	4,108	1,478	7,444	1,478	8,922
2005-06	5,413	–	5,654	–	11,067	–	11,067
2006-07	782	–	284	–	1,066	–	1,066

–: Nil/Negligible.

of banking scrips in the secondary market, robust corporate financial results of banks and increased need to raise capital in the face of the ensuing implementation of Basel II norms, only three banks raised capital from the equity market during 2006-07 for an aggregate amount of Rs.1,066 crore. One issue of Rs.782 crore (including premium) was floated by a public sector bank and two equity issues aggregating Rs.284 crore were floated by private sector banks (Table III.36).

3.93 An issue by a public sector bank (Indian Bank) was at a premium of Rs.81 per share for an aggregate amount of Rs.782 crore. Two issues by private sector banks, *viz.*, Development Bank Ltd. and Laxmi Vilas Bank Ltd. were at premium of Rs.16 and Rs.40 per share, respectively, for an aggregate amount of Rs.186 crore and Rs.98 crore, respectively (Table III.37).

3.94 Resources raised by banks through debt issues in the private placement market increased marginally by 2.8 per cent to Rs.30,994 crore during 2006-07 (Table III.38).

Table III.37: Resources Raised by Public Sector Banks through Public Issues-2006-07

Name of the Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
Public Sector Bank					
Indian Bank	10	91	86	696	782
Total (Public Sector Banks)					**782**
Private Sector Banks					
Development Bank Ltd.	10	26	72	114	186
Laxmi Vilas Bank Ltd.	10	50	19	79	98
Total (Private Sector Banks)					**284**

Performance of Banking Stocks in the Secondary Market

3.95 The stock markets in India witnessed buoyant conditions in the last few years on the back of strong FIIs inflows, driven mainly by robust macroeconomic fundamentals, encouraging business outlook and improvement in corporate profitability. The Indian stock markets posted further gains during the financial year 2006-07 amidst intermittent corrections. The benchmark index, the BSE Sensex at 13072.10 at end-March 2007 recorded gains of 15.9 per cent over its end-March 2006 level (11279.96) on top of an increase of 73.7 per cent in 2005-06.

3.96 In line with the general uptrend, banking sector stocks also remained firm during 2006-07 [Chart III.21(a) and Chart III.21(b)]. Apart from favourable macroeconomic fundamentals, bank stocks were driven by some sector-specific developments. The progress of the banking sector reforms along with improvement in banks' balance sheets due to robust financial results led to increased interest in bank stocks. Banking sector scrips gained due to several other factors also such as strong growth in non-food bank credit, enactment of the RBI (Amendment) Bill 2006

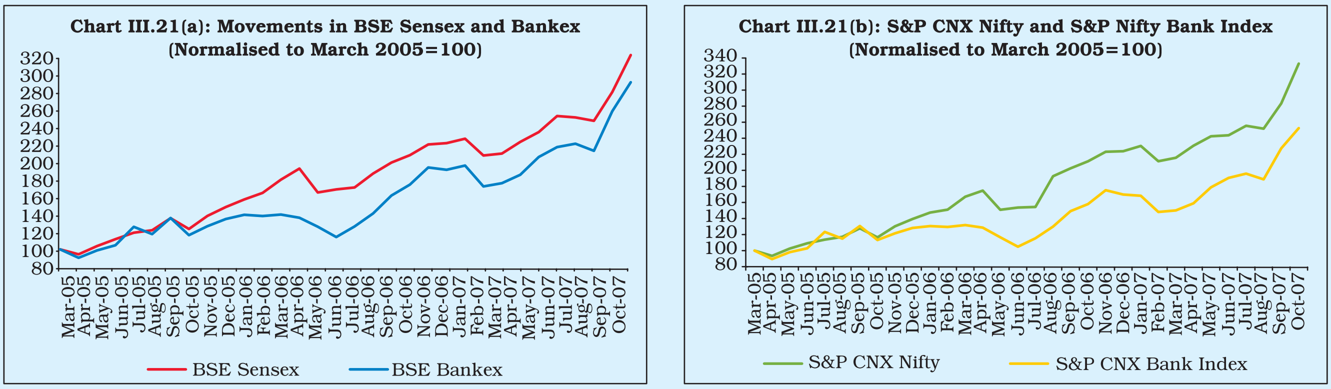
Table III.38: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	2005-06		2006-07	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	24	7,834	45	9,730
Public Sector Banks	73	22,317	45	21,264
Total	**97**	**30,151**	**90**	**30,994**

Source : Merchant Bankers and Financial Institutions.

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



removing the floor rate of 25 per cent on SLR, removal of the erstwhile statutory minimum CRR maintenance requirement of 3 per cent, amendment to the State Bank of India (SBI) Act, 1955 to enable the State Bank of India to access funds from the capital market and also discharge its functions more efficiently and approval of the Cabinet Committee on Economic Affairs (CCEA) for the conversion of recapitalisation bonds (recap bonds) issued to nationalised banks into tradable securities that would also qualify for statutory liquidity ratio (SLR) status. Some bank stocks also attracted buying interest in anticipation of a takeover or merger. However, selling pressure was noticed intermittently in banking sector stocks due mainly to rise in interest rates and domestic inflation rate and lower than expected corporate results of some major banks.

3.97 The banking stocks as represented by the Bankex (comprising 18 banking scrips) significantly outperformed the BSE Sensex, the broad-based index BSE 500 and other major sectoral indices. Banking stocks continued to outperform the BSE Sensex and most of the sectoral indices during the current financial year so far (up to November 14, 2007) (Table III.39). Apart from favourable macroeconomic fundamentals, bank stocks were driven by some sector-specific developments such as the satisfactory financial performance by public sector and private sector banks and the Parliament passing the State Bank of India (Subsidiary Bank Laws) Amendment Bill, 2006 paving the way for subsidiary banks of SBI to list on stock exchanges.

3.98 Although banking stocks outperformed the market, they also showed significantly higher volatility during 2006-07. However, during 2007-08 (up to November 14, 2007), bank stocks exhibited only marginally higher volatility than the market volatility (Table III.40).

Table III.39: Return on Bank Stocks vis-à-vis Other Sectoral Stocks *

(Per cent)

Year	BSE Sensex	BSE 500	Sectoral Indices					
			Bankex	FMCG	IT	PSU	Capital Goods	Consumer Durables
1	2	3	4	5	6	7	8	9
2002-03	-12.1	-8.0	16.2	-23.5	-20.4	10.1	26.4	15.1
2002-03	-12.1	-8	16.2	-23.5	-20.4	10.1	26.4	15.1
2003-04	83.4	109.4	118.6	31.3	29.2	1.811	147.3	68.4
2004-05	16.1	21.9	28.6	11.6	59.5	8.1	39.9	50.5
2005-06	73.7	65.2	36.8	109.9	49.2	44.0	156.0	115.4
2006-07	15.9	9.7	24.3	-21.4	21.6	-3.2	11.1	11.1
2007-08 (up to November 14, 2007)	52.5	59.4	71.6	20.8	-12.6	77.7	129.9	44.1

* : Percentage variations in indices measured on a point-to-point basis.
Source : Bombay Stock Exchange Limited (BSE).

Table III.40: Performance of Bank Stocks – Risk and Return

Indices	Returns*			Volatility@		
	2005-06	2006-07	2007-08 #	2005-06	2006-07	2007-08 #
1	2	3	4	5	6	7
BSE Bankex	36.8	24.3	72.7	11.8	17.5	13.8
BSE Sensex	73.7	15.9	52.5	16.7	11.1	12.0

* : Percentage variations in indices on a point-to-point basis.
@ : Defined as coefficient of variation.
\# : Up to November 14, 2007.
Source : Bloomberg.

3.99 At an individual bank level, the stocks of public sector banks witnessed a mixed trend during 2006-07. Among the public sector banks, the major gainers during 2006-07 were State Bank of Mysore (53.5 per cent), State Bank of Travancore (32.5 per cent), Bank of India (28.7 per cent), State Bank of Bikaner and Jaipur (25.7 per cent), State Bank of India (22.9 per cent) and Indian Overseas Bank (12.2 per cent). The major losers among the public sector banks during 2006-07 were IDBI Ltd. (-23.5 per cent), UCO Bank (-23.3 per cent), Vijaya Bank (-22.00 per cent), Oriental Bank of Commerce (-18.5 per cent), Andhra Bank (-15.7 per cent) and Corporation Bank (-14.5 per cent) (Table III.41).

3.100 Among the private sector banks, the major gainers during 2006-07 included Kotak Mahindra Bank Ltd. (79.9 per cent), Yes Bank (51.4 per cent), Axis Bank[5] (44.6 per cent), Centurian Bank of Punjab Ltd. (43.6 per cent), ICICI Bank Ltd. (40.5 per cent) and HDFC Bank Ltd. (38.4 per cent). However, share prices of Bank of Rajasthan Ltd., IndusInd Bank Ltd. and United Western Bank declined during the year.

3.101 The price/earning ratio of both public and private sector banks ranged widely. At end-March 2007, while the P/E ratio of public sector banks ranged between 4.3 (Allahabad Bank) and 11.5 (State Bank of India), the P/E ratio of private sector banks ranged between 3.8 (Bank of Rajasthan Ltd.) and 110.7 (Kotak Mahindra Bank Ltd.) (Table III.41).

3.102 Bank stocks continued to constitute a significant portion of market capitalisation of the Indian equity market even though there was some decline in their share at end-March 2007 in comparison with end-March 2006. However, the share of market capitalisation of bank stocks in total market capitalisation recovered somewhat during 2007-08 (up to October 2007). The share of turnover of bank stocks in total turnover, however, declined during 2006-07. During the current financial year (up to October 2007), the share of bank stocks in total turnover increased significantly (Table III.42).

Shareholding Pattern in Public Sector Banks

3.103 The process of diversification of ownership of public sector banks continued during 2006-07. The number of public sector banks with private shareholding up to 10 per cent declined from four at end-March 2006 to three at end-March 2007, while those with more than 10 per cent and up to 20 per cent increased from nil to one (Table III.43 and Appendix Table III.32).

3.104 Along with their increased exposure to the Indian capital market, foreign financial institutions (FFIs) also consolidated their holding in Indian banks. At end-March 2007, FFIs held the majority shareholding in six new private sector banks (as against one last year) and two old private sector banks (nil last year). FFIs shareholding in other private sector banks also increased during the year. FFIs shareholding in public sector banks also increased. FFIs shareholding was more than 10 per cent and up to 20 per cent in 13 public sector banks (as against 10 last year) and up to 10 per cent in five public sector banks (as against two last year) (Table III.44).

[5] Formarly UTI Bank.

Table III.41: Share Prices and Price/Earning Ratios of Bank Stocks at BSE

Bank	Average Daily Closing Price (Rs.)		Percentage Variation in Prices	P/E Ratio (End-March)	
	2005-06	2006-07		2006	2007
1	2	3	4	5	6
Public Sector Banks					
Allahabad Bank	85.44	80.11	-6.24	5.0	4.3
Andhra Bank	96.29	81.19	-15.68	8.1	6.9
Bank of Baroda	226.15	237.63	5.08	10.1	7.6
Bank of India	117.00	150.61	28.73	9.2	7.3
Bank of Maharashtra	33.35	32.19	-3.48	26.0	6.2
Canara Bank	225.17	242.09	7.51	8.2	5.6
Corporation Bank	370.63	316.81	-14.52	12.3	7.7
Dena Bank	32.87	32.24	-1.92	20.3	5.0
Indian Overseas Bank	89.85	100.81	12.20	6.7	5.6
Oriental Bank of Commerce	260.46	212.28	-18.50	7.4	5.7
Punjab National Bank	420.43	455.11	8.25	10.3	9.7
Syndicate Bank	75.66	73.42	-2.96	8.7	4.7
Union Bank of India	118.47	113.76	-3.98	9.1	6.2
Vijaya Bank	60.48	47.18	-21.99	18.0	6.3
State Bank of India	811.67	997.31	22.87	11.6	11.5
State Bank of Bikaner and Jaipur	2,757.41	3,465.41	25.68	14.4	5.5
State Bank of Mysore	3,513.28	5,391.86	53.47	10.5	7.4
State Bank of Travancore	2,697.68	3,575.63	32.54	8.0	4.6
UCO Bank	27.96	21.45	-23.28	10.8	5.4
Other Public Sector Banks					
IDBI Ltd.	98.28	75.18	-23.50	10.1	8.9
Private Sector Banks					
Axis Bank	273.09	394.79	44.56	20.5	21.0
Bank of Rajasthan Ltd.	52.07	37.94	-27.14	39.8	3.8
City Union Bank Ltd.	97.83	128.98	31.84	4.8	5.7
Centurion Bank of Punjab Ltd.	19.08	27.39	43.55	152.0	48.5
Dhanalakshmi Bank	31.81	38.14	19.90	10.5	11.6
Federal Bank Ltd.	175.56	205.36	16.97	7.7	6.3
ING Vysya Bank	158.37	144.76	-8.59	143.6	17.9
Indusind Bank Ltd.	61.38	45.13	-26.47	36.9	19.7
Jammu and Kashmir Bank Ltd.	442.28	494.24	11.75	12.4	11.4
Karnataka Bank Ltd.	102.68	121.61	18.44	6.9	11.7
Karur Vysya Bank Ltd.	174.89	228.93	30.90	6.5	8.7
Kotak Mahindra Bank Ltd.	192.96	347.18	79.92	72.7	110.7
South Indian Bank Ltd.	65.72	73.99	12.58	8.5	6.7
United Western Bank #	37.46	28.89	-22.88	-2.4	_
Bank of Punjab Ltd. *	34.42	_	_	_	_
HDFC Bank Ltd.	658.46	911.35	38.41	27.8	26.6
ICICI Bank Ltd.	506.31	711.37	40.50	21.8	28.8
Yes Bank	72.10	109.13	51.36	49.0	41.8

#: United Western Bank Ltd. was merged with IDBI Ltd. on September 30, 2006.
* : Bank of Punjab Ltd. Merged with Centurion Bank Ltd.
– : Not Available.
Note: Averages are calculated using daily closing prices.

Table III.42: Relative Share of Bank Stocks – Turnover and Market Capitalisation

(Per cent)

Year	Share of turnover of bank stocks in total turnover	Share of capitalisation of bank stocks in total market capitalisation*
1	2	3
2005-06	6.8	7.1
2006-07	5.3	6.8
2007-08 (April-October)	6.6	7.9

* : As at end-period.
Note : Data for turnover and market capitalisation of banks relate to Bank Nifty Index of NSE.
Source : National Stock Exchange of India Limited (NSE).

Table III.43: Private Shareholding in Public Sector Banks*
(As at end-March)

Category	2006	2007
1	2	3
Up to 10 per cent	4	3
More than 10 and up to 20 per cent	–	1
More than 20 and up to 30 per cent	3	3
More than 30 and up to 40 per cent	3	3
More than 40 and up to 49 per cent	11	11

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

7. Technological Developments in Banks

3.105 Technological developments have vastly altered the banking landscape in India with significant improvement in processes and procedures leading to higher productivity, rapid product development through alternative delivery channels, and reduction in the transaction cost. In particular, the technology is being leveraged increasingly to expand the banking outreach, especially in the rural areas (Box III.3).

3.106 The process of computerisation, which was the starting point of all technological initiatives, is reaching near completion for most of the banks. Public sector banks continued to expend large amounts on computerisation and development of communication networks. The cumulative amount spent during September 1999 to March 2007 aggregated Rs.12,826 crore (Appendix Table III.33).

3.107 The proportion of branches providing 'core banking solutions' (CBS) increased rapidly to 44.4 per cent at end-March 2007 from 28.9 per cent at end-March 2006. Seven subsidiary banks of State Bank of India have fully implemented the core banking solutions. Additionally, eight more public sector banks, *viz.*, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Corporation Bank, Punjab National Bank, Vijaya Bank and State Bank of India achieved full computerisation, *albeit* the

Table III.44: Foreign Financial Institutions (Non-resident) Shareholding in Indian Banks
(As at end-March)

(No. of banks)

Category	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks	
	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7
Nil	14	8	3	–	11	4
Up to 10 per cent	2	5	–	–	4	9
More than 10 and up to 20 per cent	10	13	2	–	1	–
More than 20 and up to 30 per cent	2	2	1	1	1	1
More than 30 and up to 40 per cent	–	–	–	–	–	1
More than 40 and up to 50 per cent	–	–	1	1	1	–
More than 50 and up to 60 per cent	–	–	–	3	–	1
More than 60 and up to 70 per cent	–	–	–	2	–	–
More than 70 and up to 80 per cent	–	–	1	1	–	1
Total	**28**	**28**	**8**	**8**	**18**	**17**

– : Nil/Negligible.

Box III.3: Technology Based Solutions for Rural Credit Delivery

The Reserve Bank has been encouraging banks to use technology-based solutions for increased financial inclusion. Credit delivery in rural areas has often been expensive for banks with large number of small loan accounts to be serviced. Information Technology (IT) enabled methods are being looked into as the best alternative for rural credit delivery that can increase outreach and reduce cost of delivery.

Permission to banks to appoint business correspondents (BCs) has opened possibilities of outreach which were not available earlier. The use of appropriate technology by the BCs has the potential of reducing operational costs and building up a powerful management information system (MIS) in addition to creating rural employment. The use of technology combined with an effective use of BCs has the potential of creating a banking outpost in every village, which can enhance the rural credit delivery.

Several models have emerged in the last couple of years to enable technology driven rural outreach by banks. Nearly all of them converge on the following essential components; i) a customer with a multi application smart card which can be a contact card or a contact-less card, ii) business correspondent with a simputer/hand held terminal/mobile phone enabling banking services, iii) a central processor unit, iv) the bank, and v) a centralised card management for each of the above systems.

The technology application model is premised on providing financial services in the rural areas through the BC model using low cost and simple IT based solutions. A central system which could be a shared infrastructure providing for economies of scale and consequential cost benefits, and a field system which enables access to the central computer by the BCs are essential components of the model. Hand held computer devices which connect to remote servers using fixed line connectivity and mobile technology are being extensively used. Finger print method for uniquely identifying customers for extending financial services is being widely accepted. It has been observed that bio-metric identification for KYC purposes is emerging as the most popular method. Transactions in the accounts such as cash deposits and withdrawals can be carried out by customers without having to go to the bank branch. The customers are issued hard copy of transaction details facilitated by a tiny printer.

An IT enabled model for banking outreach is basically implemented as under:

- Information regarding potential customer is collected by business facilitators and passed on to the bank in a prescribed format or the BC enrolls the customer account for the bank.
- Banks carry out KYC scrutiny and arrange for opening a savings bank account for the customer, after relevant information is captured, such as his photograph, fingerprints and signature (optional). This information is encrypted in the smart card.
- While handing over the card to the customer, the BC activates the card for the customer by fingerprint identification. At the time of activation, the balance available in the bank account is recorded on the smart card.
- A customer can withdraw and deposit money using his smart card at the terminal of the BC. Every time a transaction is made, a print out is provided to the customer. Transactions cannot be undertaken unless a biometric verification of the cardholder is done.
- Banking transactions are freed from branch timings and can be done whenever the BC is available with a capture device.
- If a BC does not have requisite money to pay the customer, a print out will be given to him stating that no cash is available at the customer's end. This information will be passed on to the bank through the central processor to facilitate immediate replenishment of cash. Incidentally, this also acts as a check to prevent business correspondents from denying service to customers.
- The terminal with the BC is operated with a rechargeable battery and not dependant on steady supply of electricity.
- An added facility that can be enabled is that the customer can use the smart card as a debit card at merchant establishments.
- A central processor unit integrates village level terminals and identified merchant establishments with the bank.
- The technology seamlessly integrates into core banking solutions of the banks concerned and supports various types of deposits and loan accounts.

Each hand held model can be used to service 500 to 1000 accounts by a BC; the device when seen in the context of its servicing capabilities and range is very cost effective. Such models have already been adopted by some private sector and public sector banks. In the Annual Policy for the year 2007-08, banks were urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely accepted open standards to ensure eventual inter-operability among the different systems.

implementation of core banking is still under progress (Table III.45 and Appendix Table III.34).

3.108 Of the twenty seven public sector banks, 15 banks have computerised their branches fully, while six banks have computerised between 70 to 90 per cent of their branches. Only four banks, *viz.*, Punjab and Sind Bank, UCO Bank, Union Bank of India and United Bank of India have yet to fully computerise more than half of their branches (Table III.46).

3.109 The total number of ATMs installed by the banks were 27,088 at end-March 2007 as compared with 20,267 at end-March 2006. ATMs installed by foreign banks and new private sector

Table III.45: Computerisation in Public Sector Banks
(As at end-March)

(Per cent)

Category	2006	2007
1	2	3
Fully Computerised Branches (i+ii)	77.5	85.6
i) Branches Under Core Banking Solution	28.9	44.4
ii) Branches already Fully Computerised #	48.5	41.2
Partially Computerised Branches	18.2	13.4

: Other than branches under Core Banking Solution.

banks were more than three times of their branches, while the ATM to branch ratio was much lower for public sector (32.9 per cent) and old private sector banks (34.9 per cent) (Table III.47). ATMs in the case of two public sector banks (Corporation Bank and IDBI Ltd.) were more than their branches. At individual bank level, the number of ATMs exceeded branches in respect of all new private sector banks except Yes Bank Ltd. In the case of old private sector banks, the ATM to branch ratio was less than 100 per cent for all, except SBI Commercial and International Bank Ltd. Most foreign banks operated with limited branches in urban and metropolitan areas. The number of ATMs, in general, operated by them far exceeded the number of branches with the ATMs of Citibank more than 10 times the number of their branches (Appendix Table III.35).

3.110 Of all the ATMs installed in the country at end-March 2007, new private sector banks had the largest share in off-site ATMs, while nationalised banks had the largest share in on-site ATMs (Chart III.22).

Table III.46: Computerisation of Branches – Public Sector Banks
(As at end-March)

(Number of banks)

Extent of Computerisation	2006	2007
1	2	3
Nil	–	–
Up to 10 per cent	1	–
More than 10 and up to 20 per cent	–	1
More than 20 and up to 30 per cent	2	1
More than 30 and up to 40 per cent	2	1
More than 40 and up to 50 per cent	–	1
More than 50 and up to 60 per cent	3	–
More than 60 and up to 70 per cent	2	1
More than 70 and up to 80 per cent	2	1
More than 80 and up to 90 per cent	–	4
More than 90 and less than 100 per cent	5	2
Fully Computerised	10	15
Total*	**27**	**27**

* : Excludes IDBI.

3.111 Reflecting the increased application of technology, the use of electronic payments, both retail and card-based, has increased in recent years. The volume of electronic transactions increased by 32.9 per cent during 2006-07 as compared with 24.5 per cent in the previous year. In terms of value, the growth was as high as 61.0 per cent as compared with 34.6 per cent in the last year (Table III.48).

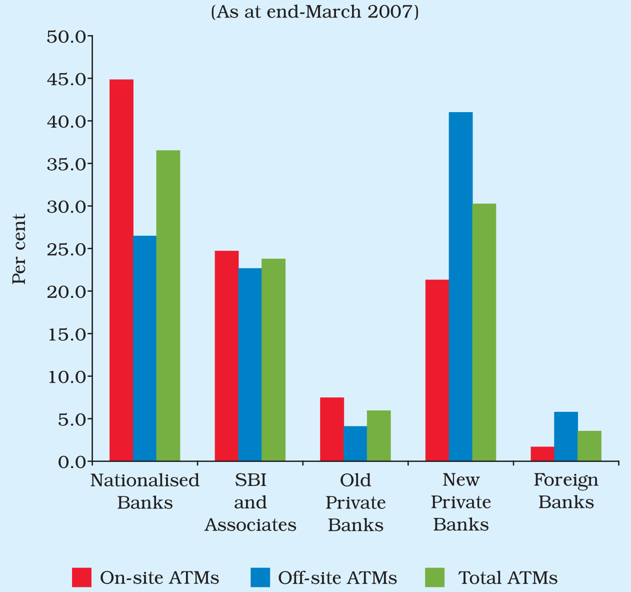
Table III.47: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2007)

Bank Group	Number of Bank/Branches					Number of ATMs			Off-site ATMs as percent-age of total ATMs	ATMs as percent-age of Branches
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11
i) Nationalised Banks	12,986	7,573	7,612	7,465	35,636	6,634	3,254	9,888	27.4	27.7
ii) State Bank Group	5,126	4,155	2,556	2,193	14,030	3,655	2,786	6,441	43.3	45.9
iii) Old Private Sector Banks	855	1,510	1,294	947	4,606	1,104	503	1,607	31.3	34.9
iv) New Private Sector Banks	130	554	824	989	2,497	3,154	5,038	8,192	61.5	328.1
v) Foreign Banks	–	2	44	227	273	249	711	960	74.1	351.6
Total (i to v)	**19,097**	**13,794**	**12,330**	**11,821**	**57,042**	**12,796**	**12,292**	**27,088**	**42.3**	**47.5**

Table III.48: Transactions through Retail Electronic Payment Methods

Type	Volume of transactions (000's)			Growth in volume (per cent)		Value of transactions (Rs. crore)			Growth in value (per cent)	
	2004-05	2005-06	2006-07	2005-06	2006-07	2004-05	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
1. ECS-Credit	40,051	44,216	69,019	10.4	56.1	20,180	32,324	83,273	60.2	157.6
2. ECS-Debit	15,300	35,958	75,202	135.0	109.1	2,921	12,986	25,441	344.6	95.9
3. EFT/ NEFT	2,549	3,067	4,776	20.3	55.7	54,601	61,288	77,446	12.2	26.4
4. Credit Cards	1,29,472	15,6086	16,9536	20.6	8.6	25,686	33,886	41,361	31.9	22.1
5. Debit Cards	41,532	45686	60,177	10.0	31.7	5,361	5,897	8,172	10.0	38.6
Total	**2,28,904**	**2,85,013**	**3,78,710**	**24.5**	**32.9**	**1,08,749**	**1,46,381**	**2,35,693**	**34.6**	**61.0**

Chart III.22: ATMs - Bank Group-wise Share
(As at end-March 2007)



3.112 The use of ECS (credit) and ECS (debit), in particular, increased sharply during 2006-07 (Chart III.23).

3.113 The large value payment systems include the real time gross settlement (RTGS), Government securities clearing and forex clearing. The RTGS system has been in operation for more than three years and has been working smoothly since its operationalisation in March 2004. At present, 100 participants (92 banks, seven primary dealers and the Reserve Bank) are members of the RTGS system. The reach and utilisation of the RTGS is on the increase which could be attributed to the bank/branch network coverage under the system. (Chart III.24). At present, 32,768 branches provide the RTGS facility.

8. Regional Spread of Banking

3.114 The total number of branches of SCBs (including RRBs) increased from 69,801 at end-June 2006 to 71,781 at end-June 2007. These comprised 30,633 rural branches, 16,310 semi-urban branches and 24,838 urban and metropolitan branches. The share of rural branches declined further to 42.7 per cent during 2006-07 from 43.7 per cent in the previous year,

Chart III.23: Electronic Transactions

Chart III.23(a): ECS Transactions (Volume) (Transactions Using ECS)

Chart III.23(b): ECS Transctions (Value) (Value Transacted using ECS)

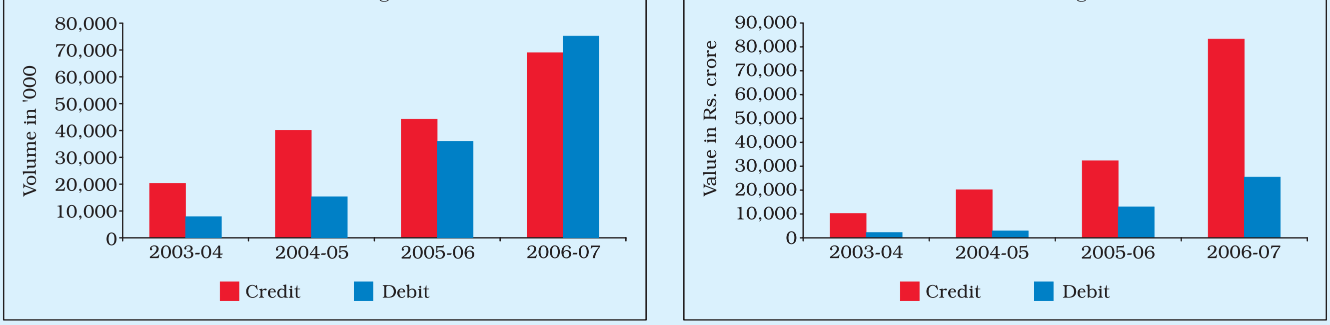


Chart III.24: Progress in RTGS

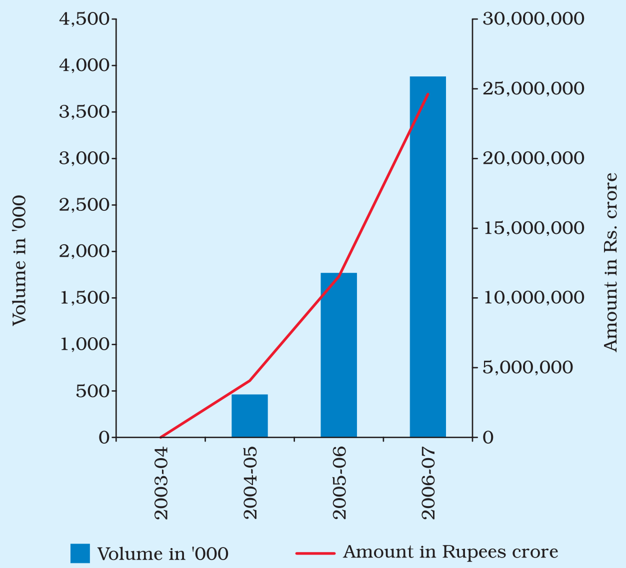
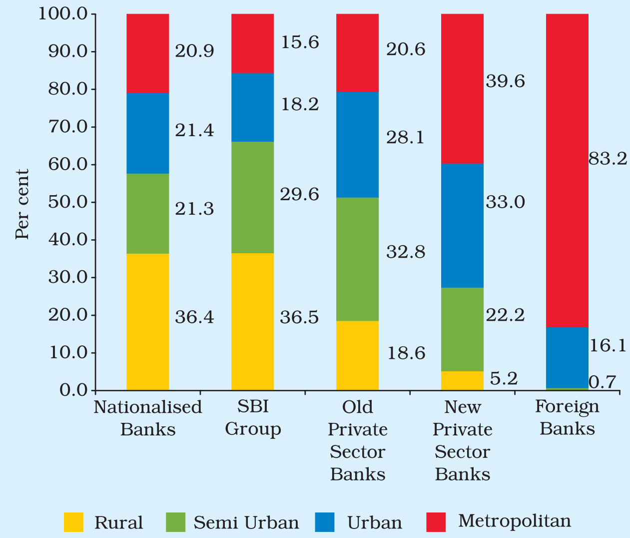


Chart III.25: Bank Group-Wise Distribution of Branches of Scheduled Commercial Banks
(as at end-June 2007)



while the shares of all other population groups increased. Nearly half of the total branches of all bank groups are operated by nationalised banks, followed by RRBs (20.2 per cent) and SBI group (19.6 per cent). The share of branches operated by new private sector banks increased to 3.8 per cent at end-June 2007 from 2.9 per cent at end-June 2006. The number of branches of old private sector banks across all population groups declined. Foreign bank branches were mostly concentrated in the urban and metropolitan areas with negligible presence in rural and semi-urban areas (Chart III.25 and Appendix Table III.36).

3.115 The top hundred centres arranged according to the size of deposits accounted for 68.9 per cent of total deposits, while the top hundred centres arranged according to the size of bank credit accounted for 77.4 per cent of total bank credit at end-March 2007. The shares of top hundred centres in total deposits and total bank credit have increased in recent years (Table III.49).

3.116 The Southern region continued to account for the largest percentage of existing bank branches, followed by the Central, Eastern, Northern and Western regions (Chart III.26). The share of North-Eastern region remained low at 2.7 per cent at end-June 2007. During July 2006 to June 2007, most of the new branches were opened in the Southern (666 or 28.2 per cent) and Northern (446 or 18.9 per cent) regions. The average population served by a single bank branch in various regions remained more or less at the previous year's level (Appendix Table III.37).

3.117 The all-India credit-deposit ratio (as per sanctions) increased sharply to 75.0 per cent at end-March 2007 from 72.4 per cent at end-March 2006. The credit-deposit ratio (CDR) as well as investment plus credit-deposit ratio of the Southern and Western regions remained higher than the all-India level (Chart III.27). While the CDR in most of the States increased in line with the all-India trend, the CDR in some of the States, *viz.*, Meghalaya, Bihar, Orissa, Andaman and Nicobar Islands, Maharashtra, Dadra and Nagar Haveli, Lakshadweep and Puducherrry witnessed

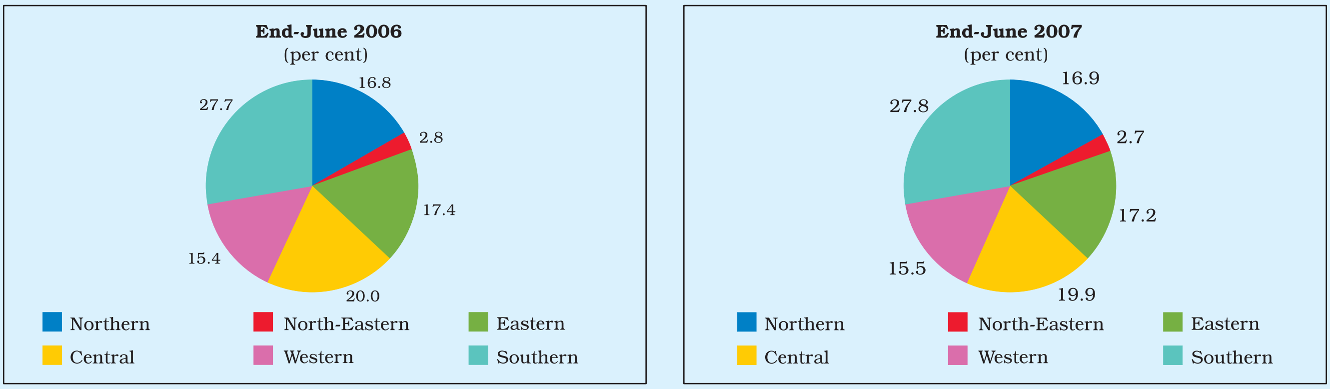
Table III.49: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(Per cent)

As at end-March	Deposits		Credit	
	Offices	Amount	Offices	Amount
1	2	3	4	5
2000	21.9	59.0	21.5	74.7
2001	22.3	58.9	21.9	75.3
2002	22.5	59.1	22.1	77.0
2003	22.7	61.0	22.4	75.9
2004	23.1	63.6	22.9	75.5
2005	23.8	65.3	23.7	75.9
2006	24.2	67.0	24.0	76.5
2007	24.9	68.9	24.8	77.4

Source : Basic Statistical Return-7.

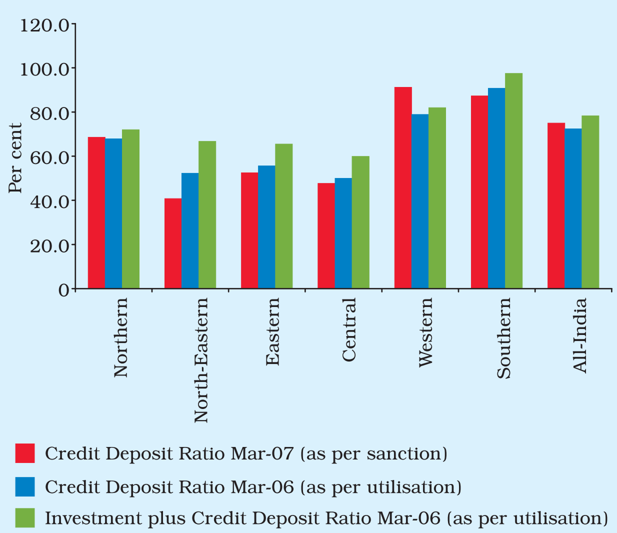
Chart III.26: Regional Distribution of Bank Branches



a moderate to sharp decline (Appendix Table III.38). The CDR, as per sanctions, at end-March 2007 in six States/Union Territories, *viz.*, Rajasthan, Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Chandigarh was higher than the all-India level.

3.118 The credit-deposit ratio (CDR) has been widely used as an indicator of credit absorption in a particular geographical area. The region/ State-wise CDR exhibited wide variations in recent years (Box III.4). In order to ensure adequate flow of credit as also to reduce the wide disparity in the CDR between different states/regions, banks were advised by the Reserve Bank to attain a CDR of 60 per cent in rural and semi-urban branches separately. The Task Forces for Rajasthan, Uttar Pradesh, Bihar, West Bengal, Kerala and the Union Territory of Puducherry were set up in the early 1990s to define measures for improving the CDR in States where it was declining. A Committee (Chairperson: Smt. Usha Thorat) was also constituted by the Reserve Bank to improve CDR and the provisions of financial services in the North-Eastern region and prepare an appropriate State-specific monitorable action plan for the region for achieving greater financial inclusion. Further, an Expert Group (Chairman: Shri Y S P Thorat) was constituted to suggest measures for improving CDR in States where it is less than 60 per cent.

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



Foreign Banks' Operations in India

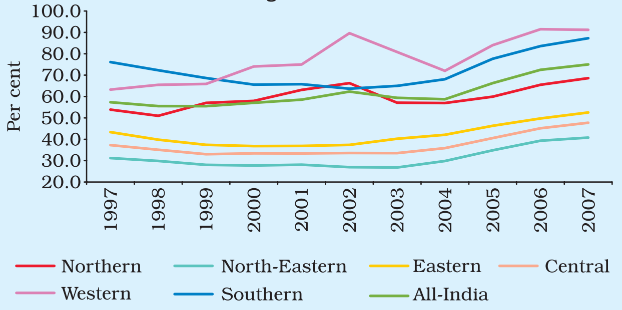
3.119 At end-October 2007, 29 foreign banks were operating in India with 273 branches (Table III.50). These banks originated from 19 countries. In addition, 34 foreign banks operated in India through representative offices. During the period from July 2006 to June 2007, approvals were given to seven existing foreign banks to open 20 branches in India and to seven foreign banks to open representative offices in India.

3.120 Six foreign banks, *viz.*, ABN Amro Bank, Barclays Bank, Hong Kong and Shanghai Banking Corporation, Shinhan Bank, Deutsche Bank AG and Standard Chartered Bank together set up 13 branches during July 2006 to October 2007. Besides, four foreign banks, *viz.*, Banco Bilbao Vizcaya Argentaria (BBVA), Banca di Roma, Depfa Bank PLC., and National Australia Bank Ltd. opened four representative offices in Mumbai during the same period. Consequent to the global acquisition of Banca Nationale Del Lavoro (BNL) by BNP Paribas, BNL closed its sub-offices in New

Box III.4: Region/State-wise Trends in Credit-Deposit Ratio

Region-wise analysis of CDR (as per sanction) revealed that during 1997-2007, it was lowest in the north-eastern region, followed by the central and eastern regions. The western and southern regions, on the other hand, had consistently high CDR above the all-India level. The CDR in the northern region fluctuated in a narrow range around the all-India level. The CDR exhibited a near secular decline during 1997-2003 in the north-eastern region from 31.2 per cent in March 1997 to 26.8 in March 2003. Similar trend was also observed both in central and eastern regions (Chart 1).

Chart 1: Region-wise C-D Ratio (as per sanction) during 1997 to 2007



Region-wise analysis of incremental CDR (as per sanction) reveals that during 1998-2007 while the ratio was lowest in the north eastern region, it was highest in the western region during most of the years. The incremental CDR for the north-eastern, central and eastern regions depicted an increasing trend up to 2005, but declined marginally thereafter (Chart 2).

The gap between CDR as per sanctions (CDRs) and CDR as per utilisation (CDRu), indicates net migration of credit in a geographical area (positive difference indicates outward flow of credit, while negative difference reflects inward flow). The credit migration needs to be viewed in the context that the corporate offices of major borrowers as also bank branches dealing with large borrowers are located at select major financial centers, while the industrial units and projects where borrowed funds are utilised may be located elsewhere. CDR gap (*i.e.*, CDRs - CDRu) during 1999-2006 indicated that the western region was a net provider of funds to other regions, in terms of credit utilisation, with the gap CDR moving up from 0.9 percentage points in March 1999 to 13.1 percentage points in March 2006. This was entirely on account of Maharashtra (CDRs higher than CDRu). During 2002 and 2003, the CDR gap in the north-eastern region was -26.0 percentage points and -20.7 percentage points, respectively. The position of northern region, which experienced flight of credit as per the utilisation up to 2003, saw a reversal from 2004 with net inflow of funds thereafter. Accordingly, CDRu was in excess of CDRs by 3.2 percentage points in March 2006, mainly accounted for by Himachal Pradesh and Haryana (Chart 3).

State-wise analysis of CDR, as per sanction, also reveals wide variations. Among the States in the northern region, Himachal Pradesh recorded the lowest CDR, which was less than 25 per cent up to 2003, though it improved subsequently to 41.5 per cent in March 2007. Chandigarh and Delhi, on the other hand, had very high CDRs. In Chandigarh, the ratio was in excess of 100 per cent during 2002-2004. Arunachal Pradesh and Nagaland recorded the lowest CDR among the States in the north-eastern region. The CDR in Manipur and Tripura in March 2007 was lower than that in March 1997 despite some rise in recent years. The CDR in Assam, which was 35.2 per cent in March 1997, declined to 28.6 per cent in March 2003, but improved to 43.3 per cent in March 2007. Among the States in the eastern region, Sikkim witnessed the lowest CDR. The CDR in West Bengal, which remained below 50 per cent up to 2004, improved to 62.6 per cent in March 2007. In the central region, Uttarakhand had the lowest CDR. The CDR in Chattisgarh improved in recent years and was at 53.0 per cent in March 2007. In the western region, Goa recorded the lowest CDR. Maharashtra has registered the highest CDR in the region, followed distantly by Gujarat. Tamil Nadu had the highest CDR among the States in southern region, followed by Andhra Pradesh and Karnataka, while Kerala had the lowest CDR (below 50 per cent up to March 2004, and 63.6 per cent in March 2007).

Chart 2: Region-wise Incremental C-D Ratio (as per sanction) during 1998-2007

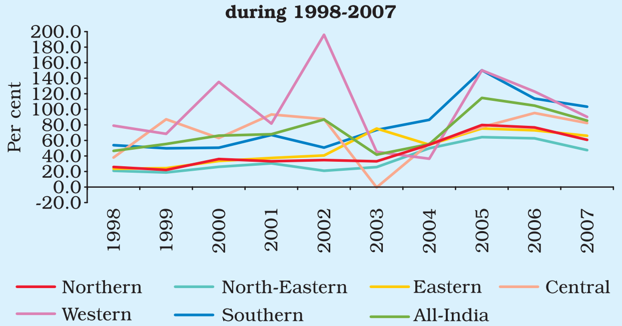


Chart 3: Region-wise Gap in C-D Ratios as per Sanction and Utilisation During 1999-2006

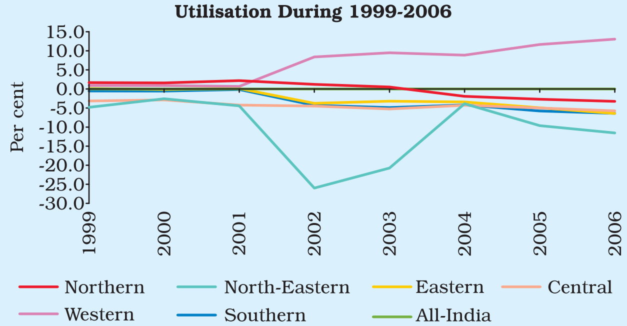


Table III.50: List of Foreign Banks Operating in India – Country-wise
(As at end-October, 2007)

Sr. No.	Name of Bank	Country of Incorporation	No. of branches in India
1	2	3	4
1.	ABN-AMRO Bank N.V.	Netherlands	28
2.	Abu Dhabi Commercial Bank Ltd.	UAE	2
3.	Arab Bangladesh Bank Ltd.	Bangladesh	1
4.	American Express Bank Ltd.	USA	7
5.	Antwerp Diamond Bank N.V.	Belgium	1
6.	Bank International Indonesia	Indonesia	1
7.	Bank of America	USA	5
8.	Bank of Bahrain & Kuwait BSC	Bahrain	2
9.	Bank of Nova Scotia	Canada	5
10.	Bank of Tokyo-Mitsubishi UFJ Ltd.	Japan	3
11.	BNP Paribas	France	8
12.	Bank of Ceylon	Sri Lanka	1
13.	Barclays Bank Plc	UK	4
14.	Calyon Bank	France	5
15.	Citibank N.A.	USA	39
16.	Chinatrust Commercial Bank	Taiwan	1
17.	Deutsche Bank	Germany	11
18.	DBS Bank Ltd.	Singapore	2
19.	HSBC	Hongkong	47
20.	J.P. Morgan Chase Bank N.A.	USA	1
21.	Krung Thai Bank Public Co. Ltd.	Thailand	1
22.	Mizuho Corporate Bank Ltd.	Japan	2
23.	Mahreqbank PSC	UAE	2
24.	Oman International Bank SAOG	Sultanate of Omen	2
25.	Shinhan Bank	South Korea	2
26.	Standard Chartered Bank	UK	83
27.	Sonali Bank	Bangladesh	2
28.	Societe Generale	France	2
29.	State Bank of Mauritius	Mauritius	3
	Total		**273**

Delhi and Chennai and representative office in Mumbai in March 2007.

Indian Banks' Operations Abroad

3.121 Indian banks continued to rapidly expand their presence overseas. During 2006-07, nine public sector banks and two new private sector bank opened ten branches, two subsidiaries, six representative offices and one joint venture unit mainly in the Asian and Middle East countries.

3.122 Sixteen Indian banks (11 from public sector and five from private sector operated a network of 192 offices (125 branches, 39 representative offices, seven joint ventures and 21 subsidiaries) abroad at end-October 2007 (Table III.51). Bank of Baroda had the largest overseas presence (43 branches, eight subsidiaries, four representative offices and one joint venture bank in 20 countries), followed by State Bank of India (33 branches, six subsidiaries, seven representative offices and four joint venture banks in 29 countries) and Bank of India (22 branches, two subsidiaries, three representative offices and one joint venture bank in 14 countries).

3.123 No new overseas banking unit (OBU) was opened during July 2006 to October 2007. Seven OBUs of six banks, *viz.*, State Bank of India, Bank of Baroda, Union Bank of India, Punjab National Bank, ICICI Bank and Canara Bank continued to operate from three Special Economic Zones (SEZs), *viz.*, SEEPZ (Mumbai), NOIDA and Kochi.

Table III.51: Overseas Operations of Indian Banks

(Actually Operational)

Name of the Bank	Branch		Subsidiary		Representative Office		Joint Venture Bank		Total	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
I. Public Sector Banks	**106**	**116**	**15**	**19**	**24**	**26**	**6**	**7**	**151**	**168**
1. Allahabad Bank	–	1	–	–	1	1	–	–	1	2
2. Andhra Bank	–	–	–	–	1	1	–	–	1	1
3. Bank of Baroda	40	43	7	8	3	4	1	1	51	56
4. Bank of India	20	22	1	2	4	3	1	1	26	28
5. Bharat Overseas Bank	1	–	–	–	–	–	–	–	1	–
6. Canara Bank	1	2	1	1	1	1	–	–	3	4
7. Indian Bank	3	3	–	–	–	–	–	–	3	3
8. Indian Overseas Bank	5	6	1	1	2	2	–	–	8	9
9. Punjab National Bank	1	1	–	1	4	4	1	1	6	7
10. State Bank of India	30	33	5	6	7	7	3	4	45	50
11. Syndicate Bank	1	1	–	–	–	–	–	–	1	1
12. UCO Bank	4	4	–	–	1	2	–	–	5	6
13. Union Bank	N.A.	–	N.A.	–	N.A.	1	N.A.	–	N.A.	1
II. New Private Sector Banks	**6**	**9**	**4**	**3**	**10**	**13**	**1**	**–**	**21**	**25**
14. Axix Bank	1	3	–	–	–	1	–	–	1	4
15. Centurian Bank of Punjab Ltd.	–	–	1	–	–	1	1	–	2	1
16. HDFC Bank Ltd.	–	–	–	–	1	1	–	–	1	1
17. ICICI Bank Ltd.	5	6	3	3	7	8	–	–	15	17
18. IndusInd Bank Ltd.	–	–	–	–	2	2	–	–	2	2
Total	**112**	**125**	**19**	**22**	**34**	**39**	**7**	**7**	**172**	**193**

– : Nil/Negligible. N.A. : Not Available.

Note : Data for 2005-06 relate to end-September 2006 while that for 2006-07 relate to end-August 2007.

9. Customer Service and Financial Inclusion

3.124 The Reserve Bank has taken several measures in recent years aimed at providing customer service at reasonable cost. These measures include enhancing customer protection and disclosures, code of ethics and grievance redressal, among others. Simultaneously, the Reserve Bank has also made concerted efforts to expand the banking outreach to the wider sections of the population. During 2006-07, the Reserve Bank further fine-tuned its guidelines towards financial inclusion.

3.125 Complaints received against commercial banks located in the jurisdiction of various Banking Ombudsman offices for the period July 1, 2006 to June 30, 2007 have been collated and categorised into ten broad heads, *viz.*, deposit accounts, remittances, credit cards, loans/advances (general and housing loan), charges without prior notice, pension, failure on commitments made, direct selling agents (DSAs), notes and coins and others. While maximum number of complaints in respect of public sector banks and old private sector banks related to deposit accounts during 2006-07, the largest number of complaints in the case of new private sector banks and foreign banks related to credit cards. This was followed by complaints relating to loans and advances (general) and charges without prior notice. A significant number of complaints also related to pension (especially for public sector banks) and direct selling agents (especially for new private sector banks) (Table III.52 and Appendix Table III.39).

3.126 Region-wise, the highest number of complaints at Banking Ombudsman offices were received in Mumbai (5,525), which was closely followed by New Delhi (5,481) and Kanpur (4,321). Guwahati (170) and Bhubaneswar (689)

Table III.52: Bank-Group-wise Complaints received at Banking Ombudsman Offices

Nature of complaint	Scheduled Commercial Banks (3+6+9)	Public Sector Banks (4+5)	Nationalised Banks	State Bank Group	Private Sector Banks (7+8)	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
1	2	3	4	5	6	7	8	9
Total No. of Complaints Received (1 to 10)	**34,499**	**21,660**	**10,543**	**11,117**	**9,036**	**825**	**8,211**	**3,803**
1) Deposit Account	5,578	3,664	2,126	1,538	1,591	182	1,409	323
2) Remittances	3,919	2,918	1,408	1,510	813	94	719	188
3) Credit Cards	7,669	3,265	611	2,654	2,217	54	2,163	2,187
4) Loans/Advances (a+b)								
a) General	4,169	2,842	1,621	1,221	1,046	159	887	281
b) Housing Loans	649	366	205	161	233	13	220	50
5) Charges without Prior Notice	2,527	1,434	662	772	915	47	868	178
6) Pension	1,056	1,039	523	516	14	6	8	3
7) Failure on Commitments Made	1,402	1,006	567	439	314	41	273	82
8) Direct Selling Agents	1,026	628	330	298	357	40	317	41
9) Notes and Coins	126	104	69	35	20	2	18	2
10) Others	6,378	4,394	2,421	1,973	1,516	187	1,329	468

offices received the least number of complaints. Complaints received by all other offices ranged between 1,000 and 3,000 (Table III.53).

3.127 The Reserve Bank has made concerted efforts since 2004 to promote financial inclusion. Accordingly, to expand the outreach of banking services to vast sections of the population, banks, in November 2005, were advised to make available a basic 'no-frills' account with low or nil balances as well as charges. Following this, several banks have introduced 'no-frills' accounts. Between end-March 2006 and end-March 2007, about 6 million new 'no-frills' bank accounts were opened. Public sectors banks accounted for bulk of these new 'no-frills' accounts due to their vast branch network in rural and semi-urban areas. Financial inclusion is being viewed by these banks as a huge business opportunity in rural and semi-urban areas in an environment of intense competition.

Table III.53: Region-wise Complaints received at Banking Ombudsman Offices during 2006-07

Sr. No.	Office	No. of complaints received
1	2	3
1.	Ahmedabad	2,107
2.	Bangalore	2,406
3.	Bhopal	2,731
4.	Bhubaneswar	689
5.	Chandigarh	2,006
6.	Chennai	2,387
7.	Guwahati	170
8.	Hyderabad	2,767
9.	Jaipur	2,976
10.	Kanpur	4,321
11.	Kolkata	2,011
12.	Mumbai	5,525
13.	New Delhi	5,481
14.	Patna	1,481
15.	Thiruvananthapuram	1,580
	Total	**38,638**

10. Regional Rural Banks

3.128 Regional rural banks (RRBs) were conceived as institutions that combine the local feel and familiarity of co-operatives and the business organisation ability of the commercial banks. In a multi-agency approach for agricultural and rural credit in India, RRBs have a special place. Being local level institutions, RRBs are ideally suited for achieving financial inclusion. RRBs, together with commercial and co-operative banks, have a critical role in the multi-agency approach to delivery of agriculture and rural credit. Accordingly, RRBs formed an important plank of the package of policies announced by the Government of India in June 2004 for doubling the flow of credit by banks to the agricultural sector in three years. To improve the strength and functioning of RRBs and thereby enable them to meet their primary objectives, the Government undertook the task of restructuring the RRBs. A number of policy initiatives were taken by the Reserve Bank and NABARD to facilitate diversification of their business operation into new areas. To give new directions to RRBs for becoming an important arm for financial inclusion in rural areas, the Government reviewed the performance of RRBs on January 25, 2007. Accordingly, RRBs have been encouraged to enhance their deposit base and increase the credit-deposit ratio from the level of 56 per cent by exploiting the emerging potential under both priority and non-priority sector (see Chapter II). For strengthening the RRBs and making them financially stronger and competitive, the Government further considered recapitalisation of RRBs having negative net worth.

Amalgamation of RRBs

3.129 The Advisory Committee on Flow of Credit to Agriculture and Related Activities (Chairman: Prof. V.S. Vyas) in June 2004 recommended restructuring of RRBs in order to improve the operational viability of RRBs and take advantage of the economies of scale. Following this, an Internal Working Group on RRBs was set up by the Reserve Bank to examine various alternatives available within the existing legal framework for strengthening the RRBs. In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, the Government of India, after consultation with NABARD, the concerned State Governments and the sponsor banks initiated State-level sponsor bank-wise amalgamation of RRBs in September 2005 to overcome the deficiencies prevailing in RRBs and making them viable and profitable units. Consequent upon the amalgamation of 147 RRBs into 46 new RRBs, sponsored by 19 banks in 17 States, effected by the Government of India since September 12, 2005, the total number of RRBs declined from 196 to 95 as on August 31, 2007.

3.130 Total districts covered by the 45 amalgamated RRBs were 357 as on March 31, 2007. Each of the RRBs covered districts ranging from 2 to 25. The number of branches of amalgamated RRBs as on March 31, 2007 was 10,563. The branch network of these amalgamated RRBs was quite large, varying from 50 to 677 branches.

3.131 The structural consolidation of RRBs has resulted in the formation of new RRBs, which are financially stronger and bigger in size in terms of business volume and outreach which will enable them to take advantages of the economies of scale and reduce their operational costs. With the advantage of local feel and familiarity, RRBs are in a better position to achieve the objectives of rural development and financial inclusion.

3.132 It was announced in the Union Budget 2007-08 that, among other things, the RRBs, which have a negative net worth, would be recapitalised in a phased manner. Modalities for recapitalisation are being worked out in consultation with select sponsor banks and the National Bank for Agriculture and Rural Development (NABARD).

3.133 The Government of India issued a notification on May 17, 2007 specifying ‘regional rural bank’ as ‘bank’ for the purpose of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

3.134 With a view to making RRBs important vehicles of credit delivery in rural and backward areas, the Reserve Bank has been taking measures from time to time for strengthening them and improving their performance. Considering the critical role of sponsor banks in positioning the RRBs as partners in the development of the rural sector and in order to encourage synergies between the parent bank and RRBs, the Reserve Bank advised all sponsor banks to take steps on issues pertaining to human resources (HR), information technology (IT) and operations of the RRBs sponsored by them.

Measures to Improve Operational Efficiency

3.135 With a view to improving the performance of RRBs and giving more powers and flexibility to their boards in decision making, the Reserve Bank had constituted the Task Force on Empowering the RRB Boards for Operational Efficiency (Chairman: Dr. K.G. Karmakar) in September 2006. The Task Force was constituted to deliberate and suggest areas where more autonomy could be given to the boards, particularly in matters of investments, business development and staffing, *viz.*, determination of staff strength, fresh recruitment and promotions, among others. In its report submitted on January 31, 2007, the Task Force, made several recommendations relating to operational flexibility of RRBs (Box III.5). While some of the recommendations of the Task Force have been implemented, others are under examination.

Box III.5: The Task Force on Empowering the RRB Boards for Operational Efficiency

The Task Force on Empowering the RRB Boards for Operational Efficiency (Chairman: Dr. K.G. Karmakar) in its report of January 2007 made several recommendations. Some of the key recommendations are as follows:

- The number of directors on the boards of RRBs be raised up to 15 on a selective basis in the case of large sized RRBs created after amalgamation.
- Selection of chairman of RRBs be made on merit from amongst a panel of qualifying officers.
- Minimum tenure of board members be stipulated as 2 years, subject to a maximum of 5 years for the chairman.
- The term of nominee directors should not exceed two terms of two years each.
- Non-official directors on the Boards of RRBs need be oriented towards the functions of RRBs and their responsibilities as nominee directors.
- RRBs should be subjected to the same level of safeguards and regulatory norms regarding capital adequacy as applicable to commercial banks after the process of amalgamation is over.
- RRBs must have the following Committees: (i) Risk Management Committee; (ii) Management Committee; (iii) Investment, Human Resources (HR) and Information Technology (IT) Committees; and (iv) Audit Committee.
- Chairmen of RRBs should also be appointed as members of the Empowered Committee (EC) constituted by the Reserve Bank.
- Matters relating to categorisation of branches, staffing norms and promotion policies and other HR matters may be studied in depth by a Committee/Task Force, set up for the purpose by the Reserve Bank/Government of India.
- RRBs need to take up computerisation of major areas of operations, management information system (MIS) in branches, controlling offices and head office in the next 3 years by adopting an Action Plan.
- RRBs may be allowed to deal in NRE/FCNR(B)/FCRA, certificates of deposits, among others, in consortium with sponsor bank and be given the freedom to place their money in term deposits with any bank.
- RRBs may join in consortium finance with public sector banks/ DFIs.
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 may be extended to RRBs.
- Provisions under section 80(P) of the Income Tax Act may be continued for a further period of 5 years or till the restructuring process is completed, whichever is earlier.

Financial Performance of RRBs

3.136 The role and financial performance of RRBs have been evolving in response to policy initiatives as well as the changing business environment. The consolidated balance sheet of RRBs expanded by 18.0 per cent during 2006-07 as compared with 15.1 per cent in 2005-06 (Table III.54). On the asset side, net advances of RRBs increased by 22.9 per cent during the

Table III.54: Regional Rural Banks: Consolidated Balance Sheet

(Amount in Rs. crore)

Item	March 31, 2006	March 31, 2007P	Percentage Variation	Item	March 31, 2006	March 31, 2007P	Percentage Variation
1	2	3	4	5	6	7	8
Liabilities	**89,645**	**105,768**	**17.99**	**Assets**	**89,645**	**105,768**	**17.99**
Share Capital	196	196	–	Cash in Hand	1,033	1,216	17.72
Reserves	4,271	4,902	14.77	Balances with RBI	3,519	4,886	38.85
Share Capital Deposits	2,180	2,188	0.37	Other Bank Balances	16,258	20,359	25.22
Deposits	**71,329**	**83,147**	**16.57**	Other Investments	24,925	25,307	1.53
Current	3,953	4,764	20.52	Loans and Advances (net)	38,520	47,326	22.68
Savings	38,233	46,122	20.63	Fixed Assets	178	196	10.11
Term	29,143	32,261	10.70	Other Assets#	5,214	6,478	24.24
Borrowings	**7,303**	**9,773**	**33.82**				
NABARD	6,301	7,525	19.43				
Sponsor Bank	959	1,998	108.34				
Others	43	250	481.40				
Other Liabilities	4,367	5,562	27.36				
Memorandum Items:							
a. Credit-Deposit Ratio	55.7	58.5					
b. Investment-Deposit Ratio	57.7	45.8					
c. (Credit+Investment) Deposit Ratio	113.4	104.3					

P : Provisional. – : Nil/Negligible. # : Includes accumulated loss.
Source : NABARD.

period. Among the major items on the liabilities side, borrowings increased by 33.8 per cent and total deposits by 16.6 per cent during the year.

3.137 Following the amalgamation of RRBs, the number of both profit-making and loss-making RRBs declined to 81 and 15, respectively, at end-March 2007 from 111 and 22, respectively at end-March 2006 (Table III.55). Increase in interest and other income of RRBs during 2006-07 did not keep pace with the increased expenditure on account of sharp growth in provisions and contingencies and wage bill. Consequently, net profits of RRBs declined from Rs.617 crore during 2005-06 to Rs.596 crore during 2006-07.

Table III.55: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

	Particulars	2005-06			2006-07P			Variation
		Loss Making [22]	Profit Making [111]	Total RRBs [133]	Loss Making [15]	Profit Making [81]	Total RRBs [96]	Col. (7) over Col. (4)
	1	2	3	4	5	6	7	8
A.	**Income (i+ii)**	**723**	**5,823**	**6,546**	**997**	**6,657**	**7,653**	**1,107 (16.91)**
	i) Interest income	672	5,441	6,113	932	6,182	7,113	1,000 (16.36)
	ii) Other income	51	382	433	65	475	540	107 (24.71)
B.	**Expenditure (i+ii+iii)**	**912**	**5,017**	**5,929**	**1,298**	**5,759**	**7,057**	**1,128 (19.03)**
	i) Interest expended	471	2,790	3,261	642	3,074	3,716	455 (13.95)
	ii) Provisions and contingencies	65	246	311	192	445	636	325 (104.50)
	iii) Operating expenses	376	1,981	2,357	464	2,240	2,705	348 (14.76)
	of which : Out of (iii) Wage Bill	309	1,539	1,848	391	1,660	2,051	203 (10.98)
C.	**Profit**							
	i) Operating Profit [A - B (i) - B (iii)]	**-126**	**1,054**	**928**	**-109**	**1,341**	**1,232**	**304 (32.76)**
	ii) Net Profit (A - B)	**-191**	**808**	**617**	**301**	**897**	**596***	**-21 (-3.40)**
D.	**Total Assets**	**11,747**	**77,898**	**89,645**	**16,148**	**89,620**	**105,768**	**16,123 (17.99)**
E.	**Financial Ratios @**							
	i) Operating Profit	-1.07	1.35	1.04	-0.67	1.49	1.16	
	ii) Net Profit	-1.63	1.04	0.69	-1.86	1.00	0.56	
	iii) Income	6.15	7.48	7.30	-6.17	7.42	7.23	
	a) Interest income	5.72	6.98	6.82	5.77	6.89	6.72	
	b) Other Income	0.43	0.49	0.48	0.40	0.53	0.51	
	iv) Expenditure	7.76	6.44	6.61	8.03	6.42	6.67	
	a) Interest expended	4.01	3.58	3.64	3.97	3.43	3.51	
	b) Operating expenses	3.20	2.54	2.63	2.87	2.49	2.55	
of which: Wage Bill		2.63	1.98	2.06	2.42	1.85	1.93	
	v) Provisions and Contingencies	0.55	0.32	0.35	1.18	0.49	0.60	
	vi) Gross NPAs			7.28			6.39	
	vii) Net NPAs			3.98			3.41	

P : Provisional.
@ : Ratios to total assets.
* : Before tax.
Note : Figures within brackets represent number of RRBs. Figures within brackets in col.8 represent percentage variation over the year.
Source : NABARD.

Table III.56: Business and Financial Indicators of RRBs

Indicator	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8
No.of RRBs	196	196	196	196	196	133 #	96 #
Net profit (Rs. crore)	601	608	519	769	748	617	593*
Per Branch Productivity[1] (Rs. crore)	3.8	4.4	5.0	5.7	6.6	7.7	9.1
Per Employee Productivity[2] (Rs. crore)	0.8	0.9	1.0	1.2	1.4	1.6	1.9
Accumulated loss as percentage to assets	5.6	4.7	4.4	3.9	3.5	2.9	2.9
Salary as percentage to Assets	2.0	2.2	2.3	2.6	2.0	2.1	1.9
Financial Return[3] (per cent)	9.4	10.6	9.6	8.9	8.2	7.7	7.7
Financial Cost[4] (per cent)	6.0	6.8	6.1	5.4	4.6	4.1	4.1
Financial margin[5] (per cent)	3.4	3.8	3.5	3.5	3.6	3.6	3.6
Risk, operational and other cost (per cent)	2.1	2.6	2.6	2.2	2.3	2.8	2.9
Net margin[6] (per cent)	1.2	1.2	0.9	1.3	1.3	0.8	0.7

* : Before Tax

\# : Reduction in number of RRBs was due to amalgamation, which began in September 2005.

Note : 1. Average level of business (in terms of total deposits and gross advances) per branch during the reporting year.
2. Average level of business (in terms of total deposits and gross advances) per employee of RRBs during the year.
3. Percentage of total income from both advances and investments against average working funds during the year.
4. Percentage of total interest expended for deposits, borrowings etc. against average working funds during the year.
5. Difference between the financial return and financial cost.
6. Difference between the financial margin and risk, operational and other costs, plus miscellaneous income.
7. Data for 2006-07 are provisional.

Source : NABARD.

3.138 The ratio of gross and net NPAs declined sharply to 6.4 per cent at end-March 2007 (from 7.3 per cent as at end-March 2006) and 3.4 per cent (from 4.0 per cent), respectively, aided by improved recovery.

3.139 The productivity of RRBs, both in terms of per branch and per employee, increased significantly during 2006-07 (Table III.56).

3.140 During 2006-07, 96 RRBs extended new loans to the extent of Rs.32,067 crore as against Rs.25,427 crore during 2005-06. Of this, the share of priority sector was 82.2 per cent. As at end-March 2007, the outstanding advances of RRBs were Rs.48,494 crore and the share of priority sector was 81.9 per cent (Table III.57). The share of agricultural loans (Rs.27,964 crore in 2006-07) increased to 57.7 per cent at end-March 2007 from 54.2 per cent at end-March 2006.

11. Local Area Banks

3.141 Four local area banks (LABs) operating at end-March 2006 were Coastal Local Area Bank Ltd., Vijayawada; Capital Local Area Bank Ltd., Phagwara, Navsari, Krishna Bhima Samruddhi

Table III.57: Purpose-wise Outstanding Advances by RRBs
(As at end-March)

(Amount in Rs. crore)

Purpose	2005	2006	2007P
1	2	3	4
I. Agriculture (i to iii)	**16,710 (50.8)**	**21,509 (54.2)**	**27,964 (57.7)**
i. Short-term loans (crop loans)	10,980	13,877	18,813
ii. Term loans (for agriculture and allied activities)	5,730	7,632	9,151
iii. Indirect Advances	–	–	
II. Non-agriculture (iv to vii)	**16,161 (49.2)**	**18,204 (45.8)**	**20,530 (42.3)**
iv. Rural Artisans, *etc.*	713	748	823
v. Other Industries	580	757	835
vi. Retail Trade, *etc.*	4,364	3,452	4,152
vii. Other purposes	10,504	13,246	14,720
Total (I+II)	**32,871**	**39,712**	**48,494**
Memo item:			
a) Priority Sector	26,077	32,177	39,695
b) Non-priority Sector	6,794	7,535	8,799
c) Share of Priority Sector	79.3	81	81.9

P : Provisional.

– : Nil/Negligible.

Note : Figures in brackets are percentages to the total.

Source : NABARD.

Table III.58: Profile of Local Area Banks

(Amount in Rs. crore)

Bank	Assets		Deposits		Gross Advances	
	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	252	362	215	301	135	186
Coastal Local Area Bank Ltd.	64	63	50	45	30	32
Krishna Bhima Samruddhi Local Area Bank Ltd.	29	49	13	27	19	30
Subhadra Local Area Bank Ltd.	19	23	12	15	13	14

Source : Based on off-site returns.

Local Area Bank Ltd., Mehboobnagar; and the Subhadra Local Area Bank Ltd., Kolhapur. During 2005-06, assets, deposits and gross advances of all LABs (except assets of Coastal Local Area Bank Ltd.) increased significantly (Table III.58).

3.142 During 2006-07, the income of the LABs increased sharply mainly on account of interest income. On the expenditure side, operating expenditure and interest expended registered significant increases during the year. However, the rise in income was more than the rise in expenditure, resulting in higher net profit and operating profit during 2006-07. The ratio of net profit to total assets was higher at 1.2 per cent as compared with 0.8 per cent in the previous year (Table III.59).

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

(Rs. crore)

	Particulars	2005-06	2006-07	Variation of Col.(3) over Col. (2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**30.0**	**46.3**	**16.3**	**54.3**
	i) Interest income	25.5	37.4	11.9	46.8
	ii) Other income	4.5	8.9	4.4	96.3
B.	**Expenditure (i+ii+iii)**	**27.2**	**40.5**	**13.3**	**48.7**
	i) Interest expended	12.0	18.3	6.3	52.7
	ii) Provisions and contingencies	2.6	4.3	1.7	64.1
	iii) Operating expenses	12.6	17.8	5.2	41.7
	of which : Wage Bill	4.5	7.0	2.6	57.2
C.	**Profit**				
	i) Operating Profit/Loss	**5.4**	**10.2**	**4.8**	**88.2**
	ii) Net Profit/Loss	**2.8**	**5.9**	**3.1**	**111.1**
D.	**Spread (Net Interest Income)**	13.5	19.1	5.6	41.5
E.	**Total Assets**	363.3	496.4	133.0	36.6
F.	**Financial Ratios@**				
	i) Operating Profit	1.5	2.1		
	ii) Net Profit	0.8	1.2		
	iii) Income	8.3	9.3		
	iv) Interest income	7.0	7.5		
	v) Other Income	1.3	1.8		
	vi) Expenditure	7.5	8.2		
	vii) Interest expended	3.3	3.7		
	viii) Operating expenses	3.5	3.6		
	ix) Wage Bill	1.2	1.4		
	x) Provisions and Contingencies	0.7	0.9		
	xi) Spread (Net Interest Income)	3.7	3.8		

Note :@ Ratios to Total Assets.
Source :Based on Off-site returns.

Chapter IV

Developments in Co-operative Banking

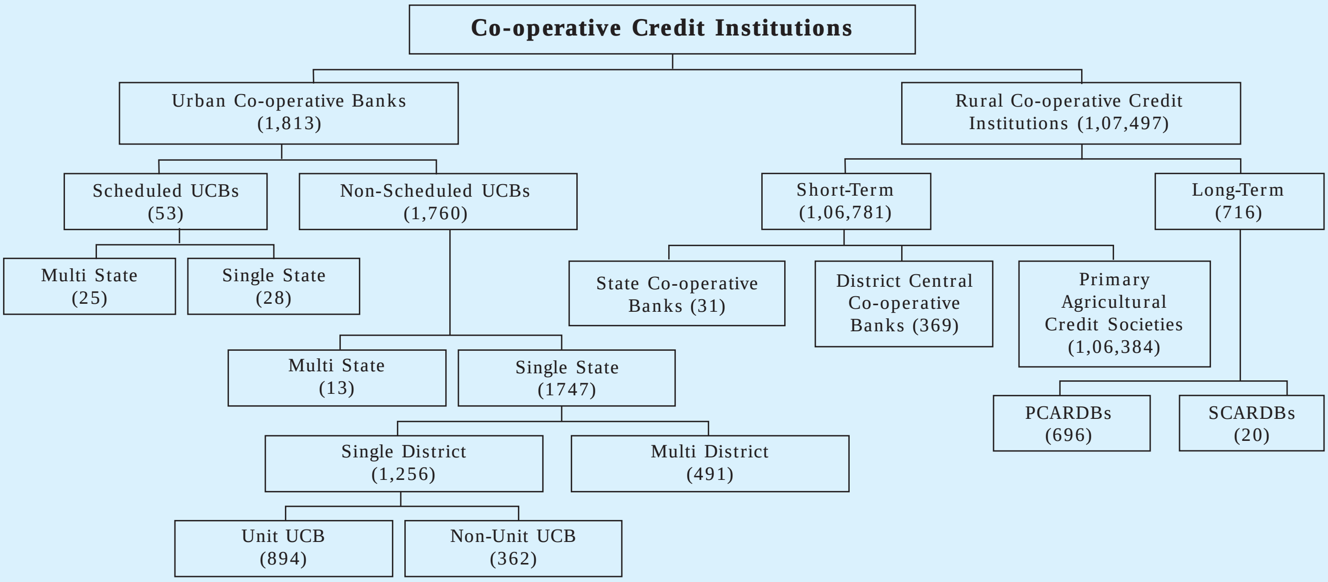
Introduction

4.1 Co-operative banking in India has made substantial progress in dissemination of banking services based on co-operative principles. In view of the special thrust on financial inclusion, co-operative banking has acquired renewed significance in the Indian financial system. The focus of the recent policy measures, therefore, has once again shifted to the strengthening of co-operative banking in India. The review of the problems of rural co-operatives by the Task Force (2004) constituted by the Government of India and the Vision Document on urban co-operative banks (UCBs) released in March 2005 by the Reserve Bank, have provided a fresh framework with practical and implementable arrangements to rejuvenate the Indian co-operative banking structure. The emphasis of the recent initiatives has been to revitalise these institutions for reinstating the confidence of the public in the co-operative banking system. While designing the regulatory and supervisory framework, care is being taken to preserve their co-operative character and institutional specifics.

4.2 The co-operative banking structure in India comprises two main components, *viz.*, urban co-operative banks and rural co-operative credit institutions. While urban co-operative banks have a single tier structure, rural co-operatives have a complex structure. Rural co-operative credit institutions have two distinct structures, *viz.*, the short-term co-operative credit structure (STCCS) and the long-term co-operative credit structure (LTCCS). Within the STCCS, primary agricultural credit societies (PACS) at the village level form the base level, while district central co-operative banks (DCCBs) are placed at the intermediate level, and the State co-operative banks (StCBs) at the apex level. The STCCS mostly provide crop and other working capital loans primarily for a short period to farmers and rural artisans. The long-term structure of rural co-operatives comprises State co-operative agriculture and rural development banks (SCARDBs) at the State level, and primary co-operative agriculture and rural development banks (PCARDBs) at the decentralised district or block level. These institutions focus on providing typically medium to long-tem loans for making investments in agriculture, rural industries, and lately housing. The structure of rural co-operative banks is not uniform across the States of the country, and varies significantly from one State to another. Some States have a unitary structure with the State level banks operating through their own branches, while others have a mixed structure incorporating both unitary and federal systems (Chart IV.1).

4.3 Given the significant role played by urban co-operative banks in providing banking services to the middle and lower income people, the Reserve Bank continued to take initiatives to strengthen these banks. In June 2004, it was decided not to issue fresh licenses for setting up new banks or for opening new branches, until a suitable framework for regulation and supervision was put in place for the existing UCBs. In March 2005, the Reserve Bank prepared a draft Vision document for UCBs which, *inter alia*, discussed the problems of the sector and highlighted the issue of dual regulatory mechanism which restricted the ability of the Reserve Bank in handling the weaknesses of entities in the sector. In order to address the problem of dual control, Vision document proposed the adoption of a consultative approach for deciding the future set up of weak and sick banks in each State. In terms of the Vision document, the Reserve Bank approached the State Governments for signing MOU to ensure greater convergence of approach of the two agencies entrusted with the regulation and supervision of UCBs. As part of the MOU, it was decided to set up State level Task Force for Co-operative Urban Banks (TAFCUBs) comprising representatives of the Reserve Bank, State Government and federation/association of UCBs. The TAFCUB was entrusted to identify the potentially viable and non viable UCBs in the State and provide a revival path for the former and a non-disruptive exit route for the latter set of banks. The exit route could include merger/ amalgamation with stronger banks, conversion

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



SCARDBs: State Co-operative Agriculture and Rural Development Banks.
PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.
Note : Figures in parentheses indicate the number of institutions at end-March 2007 for UCBs and at end-March 2006 for rural co-operative credit institutions.

into societies or ultimately as a last resort, through liquidation. Till date MOUs have been signed with 13 State Governments and Central Government (in respect of multi-State UCBs), which encompass 1,511 UCBs, *i.e.*, 83 per cent of the banks representing 92 per cent of deposits of the sector. The impact of the initiatives in the recent past is perceptible as there is enhancement of public confidence in the sector which is reflected in the increase of deposits during 2006-07 and 2005-06, reversing the declining trend of 2004-05.

4.4 Taking into account the comfort of coordinated supervision/regulation in the States that have signed MOU with the Reserve Bank, certain business opportunities have been extended to the eligible banks in such States as also to the multi-State UCBs. It was announced in the Annual Policy statement for the year 2006-07 that financially sound banks in such States would also be permitted to open new branches, a facility which was not available to UCBs from 2004. The focus for the sector now is, *inter alia*, on development of Human Resources (HR) and Information Technology (IT) infrastructure as also on several aspects of governance. Also, the consolidation of UCBs through the process of merger of weak entities with stronger ones has been set in motion providing transparent and objective guidelines for granting 'no objection' to merger proposals. As on October 30, 2007, a total of 33 mergers had been effected upon the issue of statutory orders by the Central Registrar of Co-operative Societies/Registrar of Co-operative Societies (CRCS/RCS) concerned. In addition to the existing 1,813 UCBs at end-March 2007, 259 UCBs were under various stages of liquidation. Despite the reduction in the number of UCBs, their business operations expanded at a moderate rate. The asset quality of the UCBs also improved significantly.

4.5 The recommendations of the Task Force (Chairman: Prof. A.Vaidyanathan) appointed by the Government of India in 2004 to propose an action plan for reviving the short-term rural co-operative credit structure have been accepted in principle. The Government of India, in consultation with the State Governments, has approved a revival package for the STCCS which was communicated to the State Governments in January 2006. NABARD has been designated the Implementing Agency for implementing the Revival Package in all the States. The process of implementing the revival package in any State begins with the signing of the MoU among the GoI, the participating State Government and NABARD. A special audit of all PACS, DCCBs and StCB in every participating State would be undertaken to arrive at a true and fair assessment of the amount of accumulated losses as on March 31, 2004 as also a fair and acceptable proportion of such losses on the basis of the origin of such losses, *i.e.*, losses due to credit business, public distribution (PDS) business, or other trading business. Every participating State would also promulgate an Ordinance as per para 9 of the MoU to amend the State Co-operative Societies Act to give effect to the institutional and legal reforms envisaged in the revival package or would enact the necessary legislation. Implementation of the package has begun in thirteen States, *viz*., Andhra Pradesh, Arunachal Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttarakhand, Uttar Pradesh and West Bengal, which have executed the MoUs with the Government of India and NABARD with conduct of special audits of PACS and HRD initiatives. These States have also initiated steps for bringing in necessary legal amendments to the respective Co-operative Societies Acts.

4.6 Balance sheets of all segments of the rural co-operative banking sector, except PACS, expanded during 2005-06 (Appendix Table IV.1). However, their financial performance worsened during the year. Wide variations were also observed in the financial performance of different segments of the rural co-operative banking sector. While the upper tier of both short-term and long-term rural co-operative credit institutions made profits during 2005-06, the lower tier (*viz*., PACS and PCARDBs) made overall losses. Asset quality of all types of rural co-operative banks deteriorated, except PACS, which improved their recovery performance. The recovery performance of DCCBs and PCARDBs also worsened during the year.

4.7 This chapter covers the developments in the co-operative banking sector, both rural and urban, as well as deals with the micro-finance initiatives of NABARD. The Chapter is organised into six sections. Section 2 deals with the policy measures as well as the business operations of urban co-operative banks, while Section 3 focusses on the policy developments and performance of rural co-operative banks. The developments in the area of micro credit, which has emerged as an important purveyor of credit in remote and rural areas, are discussed in Section 4. Section 5 delineates the role played by NABARD in shaping the developments in the rural co-operative sector during the year. Section 6 deals with the measures initiated for revival of the rural co-operative banking sector in the light of the Vaidyanathan Committee's recommendations in this area.

2. Urban Co-operative Banks

Policy Developments

4.8 In order to develop a consultative mechanism for regulation and supervision of UCBs, the process of signing of MoUs with the Reserve Bank progressed satisfactorily during the year. The Reserve Bank formulated less stringent prudential norms for smaller UCBs with deposit base of less than Rs.100 crore and having branches limited to a single district, i.e., Tier I banks, in line with the proposals in the Vision Document for UCBs. Besides, the Reserve Bank issued a number of guidelines relating to interest rates, prudential norms, disclosure and exposure norms and risk management. In view of the special dispensation of UCBs with respect to urban poor, the guidelines on credit delivery, customer service and financial inclusion were further fine-tuned.

Structural Initiatives

Vision Document

4.9 The Vision Document for UCBs highlighted the problems of the sector and outlined the broad measures to be adopted to enable the UCBs emerge as a sound and healthy network of banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalised sections of the society. In line with the proposals of the Vision Document, the Reserve Bank continued to take several initiatives during the year.

Two-tier Regulatory Structure

4.10 The Vision Document sets out the objective of rationalising the regulatory and supervisory framework for UCBs to enable the smaller UCBs gain in strength. In order to achieve this objective, banks were classified as Tier I banks, *i.e.*, banks having branch/s within a single district and deposits below Rs.100 crore and Tier II banks, *i.e.*, all other UCBs. Prudential norms for Tier I and Tier II banks were also revised. While Tier II banks are under the 90-days delinquency norm as applicable to commercial banks, the 180-day loan delinquency norm for Tier I banks has been extended up to March 31, 2008. This is intended to provide a measure of relief to the small UCBs as lower provisioning is required, which, in turn, would translate into higher profits that could be used to shore up the capital base of these banks. These banks are, however, required to build up adequate provisions in the intervening period to enable them to migrate to 90-day norms in future.

4.11 Further, the following differential asset classification and provisioning norms have been enunciated for Tier I banks : (i) the 12-month period for classification of a sub-standard asset in doubtful category will be effective from April 1, 2008; (ii) these banks would be required to provide 100 per cent on the secured portion of D-III advances (doubtful for more than 3 years) classified as doubtful more than 3 years on or after April 1, 2010; (iii) For the outstanding stock of D-III advances as on March 31, 2010, banks will be required to provide as under: (a) 50 per cent as on March 31, 2010; (b) 60 per cent as on March 31, 2011; (c) 75 per cent as on March 31, 2012; and (d) 100 per cent as on March 31, 2013. For Tier II banks, (i) 100 per cent provisioning for advances classified as D-III will apply to those classified as such on or after April 1, 2007 instead of those so classified on or after April 1, 2006; (ii) for the outstanding stock of D-III assets as on March 31, 2007, banks are required to provide as: (a) 50 per cent up to March 31, 2007; (b) 60 per cent as on March 31, 2008; (c) 75 per cent as on March 31, 2009; and (d) 100 per cent as on March 31, 2010.

4.12 In order to ensure that asset quality is maintained despite high credit growth, it was decided in respect of Tier II banks to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the existing level of 1.0 per cent to 2.0 per cent.

4.13 Another relaxation extended to Tier I banks pertains to investments made in Government securities. In view of market risks associated with such investments, Tier I UCBs have been given exemption from maintaining SLR in government securities (up to 15 per cent of NDTL) to the extent of funds placed in interest bearing deposits with State Bank of India and its subsidiary banks and the public sector banks including Industrial Development Bank of India Ltd. Tier II banks have also been subjected to the stricter provisioning norms on 'standard advances' which can be 2 per cent for certain type of exposures. As a part of rationalisation of supervision, while the larger UCBs are placed under a composite off-site surveillance (OSS) reporting system comprising a set of eight prudential supervisory returns, a simplified reporting system consisting of five returns has been introduced for the smaller banks having deposits between Rs.50 crore and Rs.100 crore and whose branches are limited to a single district. The simplified OSS reporting framework would be extended to banks with deposits below Rs.50 crore in the near future.

Alternative Mechanism to Address the Problems of Dual Control

4.14 States having a large number of UCBs were approached by the Reserve Bank for signing Memorandum of Understanding (MoU) to develop a consultative mechanism for regulation and supervision of UCBs. So far, MoUs have been signed with 13 States, *viz.*, Gujarat, Andhra Pradesh, Karnataka, Madhya Pradesh, Uttarakhand, Rajasthan, Chhattisgarh, Goa, Maharastra, Haryana, National Capital Territory of Delhi, West Bengal and Assam which together account for 1,511 out of 1,813 banks as at end-March 2007, *i.e.*, 81.5 per cent of total number of UCBs and 67 per cent of total deposits of the sector. In addition, an MOU has also been signed between the Reserve Bank and the Central Government in respect of Multi-State UCBs that account for 25.5 per cent of deposits of the sector. As such, a total of 83 per cent of UCBs accounting for over 92 per cent of total deposits are covered under the MoU arrangements and the problems of all such banks are being addressed through consultation with other significant stakeholders such as State/Central Government and Federation/Association of UCBs.

4.15 As part of the arrangements under MoU, the Reserve Bank is committed to constituting State level Task Force for Cooperative Urban Banks (TAFCUB) comprising representatives of the Reserve Bank, State Government and the UCB sector. Accordingly, TAFCUBs have been constituted in all States with which MoUs have been signed. A Central TAFCUB has been constituted for the Multi-State UCBs. The TAFCUBs identify potentially viable and non-viable UCBs in the State and suggest revival path for the viable and non-disruptive exit route for the non-viable ones.

4.16 The exit of non-viable banks could be through merger/amalgamation with stronger banks, conversion into societies or ultimately as a last resort, through liquidation. This institutional arrangement for addressing issues of supervisory concern is not available for banks in States that are yet to sign MoU with the Reserve Bank.

4.17 Further, arising out of the comfort of coordinated supervision/regulation in States that have signed MoU with the Reserve Bank, certain additional business opportunities have been extended to the eligible banks in such States as also to the Multi – State UCBs. These facilities include permission to set up currency chests, sell mutual fund products, grant of Authorised Dealer category I and II license, permission to open new ATMs, relaxed norms for conducting insurance business on non-risk participation basis and conversion of extension counters into branches. It was also announced in the Annual Policy 2006-07 that financially sound banks in such States would also be considered for being given licences to open new branches, a facility which was not available to the UCBs since 2004.

Merger/Amalgamation and Exit of Unviable Entities.

4.18 The process of mergers among UCBs was provided a fresh impetus with the issue of transparent guidelines for grant of 'no objection' to merger proposals by the Reserve Bank (Box IV.1).

Box IV.1: Merger and Amalgamation of UCBs

The consolidation of the sector through the process of merger of weak entities with stronger ones has been set in motion by providing transparent and objective guidelines for granting no-objection to merger proposals. The Reserve Bank, while considering proposals for merger/ amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. Almost invariably it is a voluntary decision of the banks that approach the Reserve Bank for obtaining no objection for their merger proposal. The guidelines on mergers are intended to facilitate the process by delineating the pre-requisites and steps to be taken for merger between banks.

Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 60 proposals for merger in respect of 52 banks. The Reserve Bank has issued no objection certificate (NOC) in 37 cases. Of these, 20 mergers became effective upon the issuance of statutory orders by the Central Registrar of Co-operative Societies (CRCS)/Registrar of Co-operative Societies (RCS) concerned. Fourteen proposals for merger were rejected by the Reserve Bank, while three proposals were withdrawn by the banks. The remaining six are under consideration (Table 1 and 2). Most of the target banks were loss-making UCBs. In a few cases, mergers were permitted even of profit making banks with the aim of consolidation and in some cases merger were permitted in respect of such banks, as they were not considered viable on a stand-alone basis in the long run.

The process of merger and amalgamation is elaborate. The merger proposal has to be submitted by the acquirer bank to RCS/CRCS and a copy of the proposal is also simultaneously forwarded to the Reserve Bank along with certain specified information. The Reserve Bank examines the proposals and places the same before an Expert Group for screening and recommendations. On evaluation, if the proposal is found to be suitable, the Reserve Bank issues NOC to the RCS/CRCS and the banks concerned. RCS/ CRCS then issues the order of amalgamation of the target UCB in compliance with the provisions of the Co-operative Societies Act under which the bank is registered.

Table 1: State-wise Break up of Acquirer Banks
(as on May 21, 2007)

Sr. No.	Act Under Which Registered	No. of Acquirer Banks	No. of Proposals Submitted	No. of NOC Issued	No. of Proposals Rejected	No. of Proposals Withdrawn	Proposals Under Processing
1	2	3	4	5	6	7	8
1.	Multi-State	7	20	15	4	1	Nil
2.	Maharashtra	11	18	8	6	Nil	4
3.	Gujarat	8	11	9	1	1	Nil
4.	Andhra Pradesh	3	3	2	1	Nil	Nil
5.	Karnataka	3	3	2	1	Nil	Nil
6.	Rajasthan	1	1	Nil	1	Nil	Nil
7.	Punjab	1	1	1	Nil	Nil	Nil
8.	Uttarakhand	3	3	Nil	Nil	1	2
Total (1 to 8)		**37**	**60**	**37**	**14**	**3**	**6**

Table 2: State-wise Break up of Acquired Banks
(as on May 21, 2007)

Sr. No.	Act Under Which Registered	No. of Acquired Banks	No. of Proposals Submitted	No. of NOC Issued	No. of Merged Banks	No. of Proposals Withdrawn	Proposals Rejected	Under process
1	2	3	4	5	6	7	8	9
1.	Multi-State	1	2	1	1	Nil	1	Nil
2.	Maharashtra	17	21	11	5	1	6	3
3.	Gujarat	14	15	13	6	1	1	Nil
4.	Andhra Pradesh	7	7	6	5	Nil	1	Nil
5.	Karnataka	3	5	3	1	Nil	2	Nil
6.	Goa	1	1	1	1	Nil	Nil	Nil
7.	Rajasthan	1	1	Nil	Nil	Nil	1	Nil
8.	Delhi	1	1	Nil	Nil	Nil	1	Nil
9.	Punjab	1	1	1	1	Nil	Nil	Nil
10.	Madhya Pradesh	3	3	1	Nil	Nil	1	1
11.	Uttarakhand	3	3	Nil	Nil	1	Nil	2
Total (1 to 11)		**52**	**60**	**37**	**20**	**3**	**14**	**6**

Interest Rates / Maintenance of CRR

Interest Rates on Non-Resident Deposits

4.19 Urban co-operative banks were prohibited from granting fresh loans in excess of Rs.20 lakh against NRE and FCNR(B) deposits, either to depositors or to third parties. Banks were also advised not to undertake slicing of the loan amount to circumvent the ceiling.

4.20 In keeping with the announcement made in the Review of Annual Policy Statement 2006-07, UCBs, which are authorised dealers in foreign exchange, were advised that in respect of FCNR (B) deposits of all maturities contracted effective from the close of business in India as on January 31, 2007, interest shall be paid within the ceiling rate of LIBOR/ SWAP rates for the respective currency/corresponding maturities minus 25 basis points. From close of business as on April 24, 2007, the rates on FCNR (B) deposits were further revised to the ceiling rate of LIBOR/SWAP rates for the respective currency/corresponding maturities minus 75 basis points. On floating rate deposits, interest can be paid within the ceiling of SWAP rates for the respective currency/maturity minus 25 basis points. For floating rate deposits interest can be reset once in every six months. The interest rates were further revised to the ceiling of SWAP rates for the respective currency/ maturity minus 75 basis points.

Interest Rates on Non-Resident (External) Rupee (NRE) Deposits

4.21 UCBs were advised that with effect from the close of business in India as on April 24, 2007, the interest rates on fresh Non-Resident (External) Rupee term deposits for one to three years maturity should not exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturities

Policy on CRR/SLR

4.22 The cash reserve ratio (CRR) for scheduled primary (urban) co-operative banks as a percentage of net demand and time liabilities (NDTL) was increased from 5 per cent to 7.0 per cent in seven stages (Table IV.1).

4.23 The Reserve Bank also exempted those banks from payment of penal interest which had breached the statutory minimum CRR level of 3.0 per cent during the period from June 22, 2006 to March 2, 2007. The Government of India in the Extraordinary Gazette notification dated March 9, 2007 notified Section 3 of the Reserve Bank of India (Amendment) Act, 2006 and fixed April 1, 2007 as the date on which the related provisions would come into force. Pending notification, it was also decided that the Reserve Bank will also pay interest to all scheduled primary (urban) co-operative banks on the eligible CRR balances maintained with the Reserve Bank at the rate of (a) 3.50 per cent per annum from the fortnight beginning June 24, 2006 to December 8, 2006; (b) 2.00 per cent from the fortnight beginning from December 9, 2006 to February 16, 2007; (c) 1.00 per cent from the fortnight beginning from February 17, 2007. It was also decided that with effect from the fortnight beginning April 14, 2007, all scheduled UCBs would be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank (instead of 1 per cent as hitherto).

Table IV.1: Changes in CRR

	Effective date*	CRR on NDTL (per cent)
	1	2
1.	23-Dec-06	5.25
2.	6-Jan-07	5.50
3.	17-Feb-07	5.75
4.	3-Mar-07	6.00
5.	14-Apr-07	6.25
6.	28-Apr-07	6.50
7.	4-Aug-07	7.00

* : From the fortnight beginning.

4.24 The Extraordinary Gazette notification dated January 9, 2007 of the Government of India, however, notified January 9, 2007 as the date on which all the provisions, except Section 3, of the Reserve Bank of India (Amendment) Act, 2006 would come into force. Section 3 of the Reserve Bank of India (Amendment) Act, 2006 provided for the removal of the ceiling and floor on the CRR to be prescribed by the Reserve Bank as also the provisions for interest payment on eligible CRR balances. Pending the notifications of the relevant provisions, the floor and ceiling on CRR were restored and the Reserve Bank decided to pay interest on eligible CRR balances but consistent with the monetary policy stance and measures at relevant periods of time. Consistent with the amendment, it was decided that with effect from the fortnight beginning March 31, 2007, the Reserve Bank will not be paying any interest on the CRR balances maintained by scheduled primary (urban) co-operative banks.

Regulatory Initiatives

Risk Management

4.25 Tier II banks are required to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the existing level of one per cent to two per cent. Risk weight on exposure to commercial real estate was increased from 100 per cent to 150 per cent.

4.26 UCBs were advised that the bills purchased/discounted/negotiated under LC (where the payment to the beneficiary is not made 'under reserve') should be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above are required to be assigned the risk weight, as is normally applicable to inter-bank exposures, for capital adequacy purpose. In the case of negotiations 'under reserve', the exposure should be treated as on the borrower and risk weight assigned accordingly.

4.27 In the backdrop of a booming stock market, UCBs were advised to monitor on a continuous basis, the end use of funds sanctioned by them. Banks were further advised to submit the reports of the findings of the audit examinations for discussion before the Audit Committee of the Board and with their comments put up the report to the board of directors.

4.28 The issue of correct and realistic valuation of fixed assets owned by banks and those accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position. Accordingly, guidelines were issued to banks, which they should follow while formulating a policy on valuation of properties and appointment of valuers for the purpose.

4.29 The Government of India and the National Security Council has taken a view that disbursement of forged notes through ATMs would be treated as an attempt to circulate forged notes. Accordingly, UCBs were advised to establish a 'Forged Note Vigilance Cell' at their Head Office to perform the function of (i) dissemination of Reserve Bank instructions on forged notes to their branches; (ii) monitoring its implementation; and (iii) compilation of data on detection of forged notes and follow up of such cases filed with police.

4.30 Based on directions of Delhi High Court, UCBs were advised to ensure that housing loans are sanctioned only for authorised structures and the banks have to obtain an undertaking on an affidavit from the loan applicants that the building/s will be constructed as per sanctioned plans, which are to be attached with the undertaking.

KYC Norms/AML Standards/Combating of Financing of Terrorism

4.31 UCBs were advised to ensure that they are fully compliant with anti money laundering standards. Chief Executive Officers (CEOs) of UCBs were required to personally monitor the progress in implementing the KYC guidelines and AML procedures in letter and spirit and put in place a system of fixing responsibility for breach of instructions issued. They were also required to furnish a compliance certificate in this regard.

4.32 As wire transfer is an instantaneous and most preferred route for transfer of funds across the globe, there is a need for preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting any misuse when it occurs. UCBs were, therefore, advised to invariably ensure certain information about all wire transfers. All cross-border wire transfers must be accompanied by accurate and meaningful information about the originator, *i.e.*, name and address of the originator, details of the existing account or unique reference number as prevalent in the country. Complete originator information, *i.e.*, name, address, account number, *etc.*, must be accompanied/made available to the beneficiary bank for all domestic wire transfers of Rs.50,000 and above. If a bank has reason to believe that a customer is intentionally structuring wire transfers to below Rs.50,000 to several beneficiaries in order to avoid reporting or monitoring, the bank must insist on complete customer identification before effecting the transfer. In case of non-co-operation from the customer, efforts should be made to establish his identity and suspicious transaction report (STR) should be made to Financial Intelligence Unit –

India (FIU-IND). When a credit or debit card is used to effect money transfer, necessary information of the originator should be included in the message. Inter-bank transfers and settlements where both the originator and beneficiary are banks or financial institutions are exempted from the above requirements.

4.33 An ordering bank where the wire transfer originates must ensure that qualifying wire transfer contains complete originator information and intermediary bank should ensure that the same is retained with the transfer. The record of such information should be preserved for a period of 10 years. A beneficiary bank should have effective risk-based procedures in place to identify wire transfers lacking complete originator information. The lack of complete originator information may be considered as a factor in assessing whether a wire transfer or related transactions are suspicious and whether they should be reported to the FIU-IND.

Corporate Governance

4.34 In terms of the Joint Parliamentary Committee Report on Stock Market Scam and Matters Related thereto, UCBs were prohibited from October 1, 2003, to extend any loans and advances (both secured and unsecured) to the directors, their relatives and the firms/ concerns/ companies in which they are interested. However, on reconsideration it was decided on October 6, 2005, with the approval of Government of India, to exclude (i) regular employee – related loans to staff directors on the board of UCBs; (ii) normal loans, as applicable to members, to the directors on the boards of salary earners' co-operative banks; and (iii) normal employee-related loans to managing directors of multi-state co-operative banks from the purview of the above instructions. As a further measure of relaxation, UCBs were permitted, in consultation with the Government, to allow the directors and their relatives to avail loans against fixed deposits and life insurance policies standing in their own name.

Credit Delivery and Financial Inclusion

Priority Sector Lending

4.35 With a view to rationalising banks' investment under priority sector lending and to encourage the banks to increasingly lend directly to priority sector borrowers, investments made by banks in the bonds issued by NHB/HUDCO on or after April 1, 2007 are not considered eligible for classification under priority sector lending.

4.36 UCBs have been allowed to extend individual housing loans up to the limit of Rs.25 lakh per beneficiary of a dwelling unit. However, housing finance to borrowers availing loans above Rs.15 lakh is not treated as priority sector lending.

4.37 An important objective of the Prime Minister's 15 Point Programme for the Welfare of Minorities is to ensure that an appropriate percentage of priority sector lending is targeted for the minority communities and that the benefits of various government sponsored schemes reach the under-privileged. UCBs were, therefore, advised to ensure that within the overall target for priority sector lending and the sub-target of 25 per cent for the weaker sections, sufficient care is taken to ensure that the minority communities also receive an equitable portion of the credit.

4.38 The definition of micro, small and medium enterprises was modified and was required to be implemented by the banks with immediate effect. UCBs were advised about the definitions of micro, small and medium enterprises engaged in manufacturing or production and in providing or rendering services as under: (i) Enterprises engaged in the manufacture or production, processing or preservation of goods – (a) where investment in plant and machinery does not exceed Rs.25 lakh is a micro enterprise; (b) where the investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore is a small enterprise; (c) where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore is a medium enterprise; and (ii) Enterprises engaged in providing or rendering services – (a) where the investment in equipments does not exceed Rs.10 lakh is a micro enterprise; (b) where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore is a small enterprise; (c) where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore is a medium enterprise (also refer Box II.4). Bank's lending to medium enterprises is not reckoned for the purpose of lending to priority sector.

Guidelines for Relief to Poultry Industry

4.39 Owing to the outbreak of Avian Influenza (bird flu) in some parts of the country, poultry units were facing severe constraints. According to the guidelines issued to UCBs the principal and interest due on working capital loans as also instalments and interest on term loans fallen due for payments on or after February 1, 2006 were to be converted into term loans which should be recovered in instalments based on projected future inflows over a period of three years with an initial moratorium of up to one year. The relief was extended to all poultry accounts classified as standard as on March 31, 2006. Instructions were issued to UCBs about the scope and manner of calculation and disbursement of interest subvention to poultry industry.

Package of Relief Measures to the Vidarbha Region in Maharashtra

4.40 In order to mitigate distress of farmers in the debt-ridden districts of Vidarbha, banks were advised to implement the rehabilitation package in respect of agricultural credit as announced by the Hon'ble Prime Minister. The package is applicable to the districts of Amaravati, Wardha, Yeotmal, Akola, Washim and Buldhana. The entire interest on overdue loans to farmers as on July 1, 2006 is required to be waived for farmers in the above mentioned six districts and they should have no past interest burden as on that date. The overdue loans as on July 1, 2006 are required to be rescheduled over a period of 3-5 years with a one-year moratorium. After rescheduling as above, fresh need based credit facility can be extended to the farmers.

Relief to be Extended by Banks in Areas Affected by Natural Calamities

4.41 In the context of the recent floods that have affected various parts of the country, banks were advised to ensure accessibility to customers to their bank accounts with alternate arrangements like operating the branches from temporary premises, extension counters, satellite offices and restoration of functioning of ATMs.

4.42 To facilitate opening of new accounts by persons affected by natural calamities, especially for availing various reliefs given by Government / other agencies, banks were advised to open accounts with alternative arrangements for ensuring KYC procedures, in case where the balance in the account does not exceed Rs.50,000, or the amount of relief granted (if higher) than Rs.50,000 and the total credit in the account does not exceed Rs.1,00,000, or the amount of relief, (if higher than Rs.1,00,000) in a year.

4.43 To ensure continuity in clearing service, banks were advised for 'on-city back-up centres' in 20 large cities and effective low-cost settlement solutions for the remaining cities. Banks were advised to consider discounting cheques for higher amounts to meet customers' requirement of funds. They could also consider waiver of fees for EFT, ECS or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity.

4.44 UCBs were advised that the present limit for sanction of consumption loans may be enhanced to Rs.5,000 without any collateral and such loans may be provided even if no risk fund has been constituted by the State Governments. While restructuring existing loans, the principal amount outstanding in the crop loans and agricultural term loans as well as accrued interest thereon may be converted into term loans. The restructured period for repayment may be 3 to 5 years. Where the damage is very severe, banks may extend the repayment period up to 7 years and in extreme hardship cases may be prolonged up to 10 years without additional collateral security.

Relief for Stressed Farmers in Andhra Pradesh, Karnataka and Kerala

4.45 The Union Government had approved a package of relief measures for debt stressed farmers from 25 specified districts in the States of Andhra Pradesh, Karnataka and Kerala. Accordingly, all UCBs in these States and multi-state co-operative banks were advised to ensure that all the farmers' loan-accounts in the specified districts, which are overdue as on July 1, 2006 are rescheduled over a period of 3-5 years with a one-year moratorium and the interest thereon (as on July 1, 2006) is fully waived. Fresh finance could also be extended to such farmers.

Relief Measures to Assist Distressed Farmers

4.46 As per announcement made in the Mid-term Review of Annual Policy Statement for the year 2006-07, it was decided to extend the benefits of one time settlement (OTS) schemes to such distressed farmers whose accounts had earlier been rescheduled/converted on account of natural calamities as also such farmers defaulting on their loans due to circumstances beyond their control. All multi-state UCBs were advised to frame transparent OTS policies for such farmers, with the approval of their boards.

4.47 UCBs were advised to ensure that full address/telephone numbers of the branch is invariably mentioned in the pass book/statement of accounts issued to account holders in order to improve the quality of service available to customers in branches.

Customer Services

4.48 To enable banks to provide better customer service, UCBs were allowed to undertake following limited transactions at the extension counters: (i) deposit/withdrawal transactions; (ii) Issue and encashment of drafts and mail transfers; (iii) issue and encashment of travellers' cheques; (iv) collection of bills; (v) advances against fixed deposits of their customers (within the sanctioning power of the concerned official at the Extension Counter); and (vi) disbursement of other loans (only for individuals) sanctioned by the head office/ base branch up to the limit of Rs.10 lakh only.

4.49 UCBs were advised to implement the recommendations of the Working Group on 'Formulating a Scheme for Ensuring Reasonableness of Bank Charges' as accepted by the Reserve Bank. They were also advised to ensure that customers are made aware of the service charges upfront and are implemented only with the prior notice to the customer.

4.50 In terms of the existing instructions, the decision to prescribe service charges is left to the discretion of the boards of individual banks. Banks are normally expected, while fixing the service charges, to ensure that charges are reasonable, consistent with the cost of providing these services and that the customers with low value/volume of transactions are not penalised. All UCBs have been advised to display and update in their offices/ branches, as also on their website, the details of various service charges in the prescribed format. This is also to be displayed in the local languages.

4.51 Scheduled UCBs have also been advised to display and update on the homepage of their websites the details of certain service charges and fees at a prominent place under the title of 'Service Charges and Fees' so as to facilitate easy access to the bank customers. They were also advised to provide on the homepage itself a complaint form along with the name of the nodal officer for complaint redressal. The form should indicate that the first point for redressal of complaint is the bank itself and that the complainant may approach Banking Ombudsman only if the complaint is not resolved at the bank within a month.

4.52 UCBs are required to ensure that duplicate DDs are issued within a fortnight from the receipt of such requests. For delays beyond this stipulated period, UCBs were advised to pay interest to compensate the customers for such delay.

4.53 In view of the complaints received by the Reserve Bank/Banking Ombudsmen, UCBs were advised not to compel their customers to drop cheques in drop boxes and to invariably display on the cheque drop box itself that: 'Customers can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slip.'

4.54 UCBs were advised to invariably offer passbook facility to all their savings bank account holders (individuals), as it is more convenient than statement of account for small customers. Further, they should not recover the cost of providing such passbooks from the customers.

4.55 UCBs were advised to ensure that cheques/ drafts issued by clients containing fraction of a rupee are not rejected or dishonoured by them. Banks were also advised to ensure that the concerned staffs are well versed with these instructions so that general public does not suffer. They should also ensure that appropriate action is taken against members of their staff who refuse to accept cheques/drafts containing fraction of a rupee. Banks were also advised to note that violation of aforesaid instructions would be liable to be penalised under the provisions of Banking Regulation Act, 1949 [as applicable to co-operative societies (AACS)].

4.56 In keeping with a recent Allahabad High Court judgment, UCBs were advised to generally insist that a person opening a deposit account makes a nomination. The bank should explain the advantages of nomination facility to the depositor and if the person still does not want to nominate, the bank should ask him to give a specific letter to the effect that he does not want to make nomination. In case the person declines to give such a letter, the bank should record the fact on the account opening form and proceed with the opening of the account, if otherwise found eligible.

4.57 Though interest rates charged by UCBs were deregulated, rates of interest beyond a certain level were seen to be usurious and were not conforming to normal banking practice. UCBs were, therefore, advised to lay down appropriate internal principles and procedures, so that usurious interest, including processing and other charges, are not levied by them on loans and advances.

Other Policy Initiatives

Distribution of Units of Mutual Funds

4.58 UCBs registered in States which have signed MoU and those registered under Multi-State Co-operative Societies Act, 2002 were permitted to enter into agreement with mutual funds for marketing their units, subject to certain prescribed norms.

Conduct of Foreign Exchange Business by UCBs

4.59 UCBs registered under the Co-operative Societies Act of a State, which has signed MoU, or under the Multi-State Co-operative Societies Act, 2002, were permitted for Authorised Dealer (AD) Category I and II licence, subject to compliance with certain prescribed norms. In addition to existing two UCBs having AD category I license, two more banks were given AD category I license. Banks having AD category II licence are permitted to release/remit foreign exchange for certain specified non-trade current account transactions. It was also decided not to give any fresh authorisation to UCBs to function as Full Fledged Money Changers (FFMCs).

Installation of Automated Teller Machines (ATMs)

4.60 Sound scheduled and non-scheduled UCBs were permitted to set up select off-site/ on-site ATMs, subject to prescribed eligibility norms. Banks permitted to have ATMs can also issue ATM-cum-debit cards. Prior approval of the Reserve Bank for network connectivity and/or sharing of the ATMs was also dispensed with.

Conversion of Extension Counters into Full-Fledged Branches

4.61 Consequent to the regulatory coordination brought about by signing of MoU with some of the State Governments, it was decided that the Reserve Bank would consider permitting financially sound UCBs registered in States, which have signed MoU with the Reserve Bank and those registered under the Multi-State Cooperative Societies Act, 2002 to convert existing extension counters into full-fledged branches, subject to certain conditions.

Insurance Business

4.62 As announced in the Annual Policy Statement for the year 2007-08, UCBs registered in States that have entered into MoU with the Reserve Bank or those registered under Multi-State Co-operative Societies Act, 2002 were allowed to undertake insurance agency business as corporate agents without risk participation, subject to compliance with the following eligibility norms: (a) UCB should have a minimum net worth of Rs.10 crore; and (b) It should not have been classified as Grade III or IV. In case of UCBs registered in States which have not signed MoUs with the Reserve Bank, the existing norms continue.

Norms for maintaining NRE/NRO accounts

4.63 Banks registered in States that have entered into Memorandum of Understanding (MoU) with the Reserve Bank for supervisory and regulatory co-ordination and those registered under the Multi State Co-operative Societies Act, 2002 were permitted to open NRE account subject to compliance with the certain eligibility norms. In terms of extant instructions, UCBs are not permitted to accept NRO deposits. They were also required to close these accounts, within a given timeframe. It has now been decided that banks may maintain NRO accounts, arising from their re-designation such as upon the account holders becoming non-resident. Opening of fresh NRO accounts is not permitted. Further, no fresh credits, barring periodical credit of interest, are allowed in these accounts. However, these restrictions are not applicable to UCBs holding AD Category - I licence.

Guidelines on One-time Settlement (OTS) Scheme for SME Accounts

4.64 Guidelines for settlement of chronic NPAs in small and medium enterprises sector, were forwarded to the State Governments with a request to notify the scheme to the UCBs under their jurisdiction, keeping in view the legal position obtaining in the State Co-operative Societies Acts/ Rules of the respective States. Similar guidelines were also forwarded to Multi-State UCBs. These guidelines do not cover loans availed of/guaranteed by directors/ their relatives/ firms or companies in which directors are interested and cases of wilful defaults, frauds and malfeasance.

Grant of Loans for Acquisition of Kisan Vikas Patras

4.65 Grant of loans for investing in KVPs does not promote fresh savings. It rather channelises the existing savings in the form of bank deposits to small saving instruments and thereby defeat the very purpose of such schemes. Banks were, therefore, advised not to sanction loans for acquisition of/investing in small savings instruments, including KVPs.

Augmenting Capital of UCBs

4.66 Share capital and retained earnings constitute the owned funds of co-operative banks. Share capital can be withdrawn by members after the minimum lock-in period and does not have the permanence of equity. Co-operative banks are also not allowed to issue shares at a premium. In order to explore various options for raising regulatory capital, it was proposed to constitute a Working Group comprising representatives of the Reserve Bank, State Governments and the UCB sector to examine the issues involved and identify alternate instruments/avenues for augmenting the capital funds of urban co-operative banks (Box IV.2).

Bank and Branch Licensing

4.67 Consequent upon easing of the licensing norms in May 1993, more than 800 banking licenses were issued, up to June 2001. It was, however, observed that close to one third of these newly licensed UCBs became financially weak within a short period. There was, thus, a need to moderate the pace of growth of this sector. Accordingly, it was decided to stop further bank and branch licensing until a suitable framework for regulation and supervision was put in place for the existing large number of UCBs. As at the end of March 2007, out of 1, 813 banks, 925 were unit banks, which were functioning as Head Office-cum-Branch. In the States that have signed MoU with the Reserve Bank, it was decided to consider application for grant of branch licenses from eligible licensed banks, whose net worth was not less than Rs.10 crore and average networth per bank, including the proposed ones was not less than Rs.2 crore in 'A' and 'B' category centres and Rs.1 crore in 'C' and 'D' category centres. The eligibility of the banks is decided on the basis of their audited balance sheet for the financial year ended March 2007.

UCBs under Directions

4.68 Directions are issued to UCBs based on the framework of Graded Supervisory Action (GSA) or due to sudden developments like run on bank, among others. These include restriction on acceptance/withdrawal of deposits, restriction or ban on expansion of loans, incurring of expenditure other than minimum establishment expenses required for day to day running of the bank. The banks placed under directions are monitored and decision on removing restrictions depends upon the ability of banks to rectify its inadequacies. During 2006-07, 23 UCBs were placed under directions as against 7 UCBs during the previous year. The total number of UCBs placed under directions at end-March, 2007 was lower at 73, compared with that of 75 at end-March 2006 (Appendix Table IV.2).

UCBs under Liquidation

4.69 As at end-March 2007, 254 UCBs were under various stages of liquidation compared with 226 banks at end-March 2006 (Appendix Table IV.3). As a result of the consultative process adopted in States that have signed MoUs with the Reserve Bank, the process for liquidation has become smooth and quicker, as the decisions are based on the recommendations of the TAFCUBs. Earlier, the requisition for liquidation of a bank was protested by the bank, the sector and often resulted in delay in implementation of the requisition by the State Governments.

Off-site Surveillance

4.70 An off site surveillance (OSS) software has been developed for UCBs to facilitate the preparation and submission of all supervisory and regulatory (including OSS) returns to the Reserve Bank electronically. The returns are e-mailed by UCBs to the respective Regional Offices (ROs) of the Reserve Bank, which are automatically uploaded to the RO database, and the same are transmitted to Central Office server at night over INFINET. As part of efforts towards continuous supervision, data are subjected to analysis using business intelligence software. Analysis is done, *inter alia*, with the objective of tracking incipient indicators of stress faced by banks as also for identifying outlier banks, *i.e.*, banks that do not fall within reasonable limits in respect of important parameters such as capital adequacy, quality of assets, liquidity, earnings, etc. The OSS

Box IV.2: Report of the Working Group on Issues Concerning Raising of Capital by UCBs

The urban cooperative banking sector has witnessed phenomenal growth during the last one and a half decades. Certain infirmities have, however, manifested in the sector resulting in erosion of public confidence and causing concern to the regulators as also to the well-functioning units in the sector. One of the factors significantly affecting the financial health of the urban co-operative banks (UCBs) was their inability to attract equity/quasi equity investments. At present, UCBs have limited avenues for raising such funds and even their share capital can be withdrawn. Against this backdrop, an announcement was made in the Annual Policy Statement for the year 2006-07 to constitute a Working Group to examine the issue of share capital of UCBs and identify alternate instruments / avenues for augmenting the capital funds of UCBs. Accordingly, a Working Group (Chairman: N.S. Vishwanathan) was constituted.

The major recommendations of the Group are as under:

- Where UCBs with low capital or negative net worth are able to identify potential investors, the monetary ceiling prescribed in the Acts on individual share holding comes in the way of shoring up the share capital through this route. In such cases, the State Governments be requested to exempt the UCBs from the existing monetary ceiling on individual shareholding either through a notification or through amendment to the Act, where necessary.
- To provide instruments and avenues for raising stable and long-term funds having equity or quasi equity characteristics:

  i) UCBs may be permitted to issue unsecured, subordinated (to the claims of depositors), non-convertible, redeemable debentures/bonds, which can be subscribed to by those within their area of operations and outside. Funds raised through such instruments may be treated as Tier II capital, subject to the instruments conforming to certain prescribed features. These bonds could be transferable by endorsement and delivery.

  ii) UCBs be allowed to issue special shares on specific terms and conditions. Banks can also be allowed to issue these shares at a premium, which could be approved by the respective RCS, in consultation with the Reserve Bank. The special shares will be non-voting, perpetual and transferable by endorsement and delivery. They would rank senior to only the ordinary shares and be treated as Tier I capital.

  iii) The Reserve Bank may make an exception with regard to rating requirement to enable the commercial banks to invest in the special shares and Tier II bonds issued by UCBs within the ceiling prescribed for investment in unlisted securities. UCBs may also be permitted to invest in Tier II bonds of other UCBs. The Reserve Bank may prescribe an appropriate limit linked to the investing bank's and recipient bank's net owned funds.

  iv) UCBs be allowed to issue redeemable cumulative preference shares on specific terms and conditions with the prior permission of the respective RCS, granted in consultation with the Reserve Bank. They may be treated as Tier II capital subject to conforming to certain prescribed features.

  v) There is a need to amend the Multi-State Co-operative societies Act to remove the limit prescribed on raising of funds by way of non-convertible debentures/bonds. Wherever such limits are prescribed in other State Acts, necessary amendments may be made.

  vi) UCBs be permitted to raise deposits of over 15 year maturity and such deposits can be considered as Tier II capital, subject to their meeting certain conditions, which, *inter alia*, include that they shall be subordinate to other deposits and ineligible for DICGC cover.

  vii) Where banks with negative net worth raise Tier II capital by way of bonds, preference shares and long maturity deposits, through conversion of existing deposits, the Reserve Bank may, as an exception to the general rule, treat these as part of regulatory capital even though Tier I capital is negative.

- As retained earnings form the only source of owned funds, the Reserve Bank could suggest to the Government of India to defer the application of income tax on UCBs for a period of three years by which time the alternative instruments may also take concrete shape.
- Since UCBs are brought under the regime of linking capital adequacy in terms of a ratio to risk assets, prescribing a share to loan ratio on a borrower-to-borrower basis may not be necessary and hence the extant instructions on share linking to loans may be dispensed with.
- As for International Accounting Standard Board's proposed standard requiring share capital of co-operatives to be treated as outside liabilities, the Working Group recommended that it may continue to be treated as equity and reckoned as Tier I capital for regulatory purposes in view of the restrictions placed on withdrawal of capital in the Co-operative Societies Acts and taking into account the empirical evidence of share capital of UCBs being by and large stable.
- The Working Group has observed that a federated structure can be a lasting solution for the sector. However, it will not only require amendments to the Co-operative Societies Acts, but also entail changes to the supervisory and regulatory practices. The Group has, therefore, recommended that the entire issue of creating an appropriate legislative and supervisory framework for the purpose be separately examined taking into consideration the international experiences and systems.

also acts as a decision support system, as data are presented in an analysed form, which facilitates informed decision making. Further, analytical output for strengthening the MIS of UCBs has also been provided in recently enhanced OSS software.

4.71 Scheduled UCBs were advised to submit the structural liquidity statement and interest rate sensitivity statement through the ALM Module provided in the OSS software. The statement of structural liquidity is required to be prepared at fortnightly intervals beginning with the last reporting Friday of June 2007, *i.e.*, June 22, 2007 and that of interest rate sensitivity on a monthly basis as on last reporting Friday of the month starting with the month of June 2007.

4.72 As there is greater convergence in the supervisory process between the commercial banks and UCBs, the rating model for UCBs was revised to align it with the revised rating model for commercial banks. The new rating models for Tier I and Tier II UCBs have been approved by the Board for Financial Supervision to be adopted with the inspection cycle beginning March 2008 (Box IV.3).

Operations and Financial Performance of Urban Co-operative Banks

A Profile of UCBs

4.73 The urban co-operative banking sector comprises a number of institutions which vary in terms of their size, nature of business and their geographic spread. Primary (Urban) co-operative banks (UCBs) account for about 4.4 per cent of deposits and 3.9 per cent of advances of the banking system, and have 7.1 million borrowers and over 50 million depositors.

4.74 The total number of Grade I and II banks increased consistently during the last three years, while those in Grade III and IV declined. The number of UCBs in Grade III and Grade IV declined to 563 (31 per cent of the total number of UCBs) at end-March 2007, from 677 (37 per cent of the total) at end-March 2006 (Tables IV.2 and IV.3). The improvement in the position of banks signified by an increase in the Grade I and II banks and a decline in Grade III and IV banks, was witnessed in most of the centres. The general improvement in the Grade I and II banks largely reflects the salubrious impact of the consultative process under TAFCUBs.

4.75 The improvement in public confidence in this sector is reflected in the rise in deposit base of the UCBs. The total deposits of UCBs increased by 6.1 per cent during 2006-07, on top of an increase of 8.6 per cent during 2005-06. Besides a few large banks, most of the UCBs are of small

Box IV.3: Revised CAMELS Rating Model for UCBs

At present, a supervisory rating model based on 'CAMELS' (similar to commercial banks) and a simplified rating model based on 'CAEL' are in vogue for scheduled and non-scheduled UCBs, respectively. A system of supervisory grading of UCBs into grades I to IV based on financial parameters, *viz*., CRAR, Net NPA, Net Profit and compliance with CRR/SLR is also in place for both scheduled and non-scheduled UCBs. While the supervisory ratings of UCBs are disclosed to the Board level functionaries only, the grades are advised to the banks concerned and the RCS (except in case of banks classified as Grade I, where grade is not advised to the bank/RCS).

In order to bring about supervisory and regulatory convergence between co-operative and commercial banks, without missing out on the governance structure and the level of MIS and risk management systems obtaining in the UCBs, the rating models for UCBs have been revised. The revised rating model for UCBs is on the lines of revised rating model for commercial banks with suitable adaptation in the parameters rated so as not to unduly raise the bar in respect of UCBs *vis-à-vis* commercial banks keeping in view their overall financial health, the level of MIS and risk management systems prevailing. These apart, the dissimilarities in the structure of management, the size of the regulated entities, the regulations presently applicable to them, the level of use of banking technology, among others, have also been taken into account while adapting the model. Suitable modifications have been made considering the fact that UCBs, as compared to commercial banks, have larger average gross and net NPAs, particularly hardcore NPAs and larger cost-income ratios.

Under the Management head, suitable adaptation has been made keeping in view the election on democratic principle and corporate governance aspects obtaining in the UCB sector. Suitable modifications have also been made under the head Management for UCBs working under Administrators, where the boards have been superceded. (A significant number of UCBs are functioning under Administrators, their boards having been superceded due to various reasons).

Keeping in view the existing twin-track regulatory regime, the revised CAMELS model, which is more akin to the revised model adopted for commercial banks, would be adopted for UCBs with deposits of Rs.100 crore and above and the revised simplified version thereof would be adopted for UCBs with deposits of less than Rs.100 crore. As against the present system of rating of UCBs in four scales under A to D, UCBs would be rated in ten scales under A+ to D, using both positive and negative connotations to the principal rating. For instance, A+, A, A-. All UCBs with deposits of Rs. 100 crore and above would be brought under ALM discipline. The revised rating model will be made applicable to UCBs from the inspection cycle beginning from the year April 2008, *i.e.*, with reference to their financial position as on March 31, 2008 and the existing grading system would be dispensed with.

Table IV.2: Centre-wise Gradation of Urban Co-operative Banks

Centre	Grade I		Grade II		Grade III		Grade IV		**Total**	
	2006	2007	2006	2007	2006	2007	2006	2007	**2006**	**2007**
1	2	3	4	5	6	7	8	9	**10**	**11**
Ahmedabad	136	114	50	88	67	42	43	40	**296**	**284**
Bangalore	90	99	76	92	85	55	46	42	**297**	**288**
Bhopal	16	12	28	24	17	15	14	9	**75**	**60**
Bhubaneswar	1	2	6	4	3	4	4	4	**14**	**14**
Chandigarh	10	9	1	3	1	–	4	4	**16**	**16**
Chennai	54	69	32	34	39	22	7	6	**132**	**131**
Dehradun	–	4	–	–	–	1	–	2	**–**	**7**
Guwahati	6	6	4	6	4	4	4	1	**18**	**17**
Hyderabad	48	65	43	33	18	7	15	11	**124**	**116**
Jaipur	25	24	10	13	3	1	1	1	**39**	**39**
Jammu	2	3	–	–	2	1	–	–	**4**	**4**
Kolkata	30	31	11	10	3	1	7	9	**51**	**51**
Lucknow	47	44	13	17	9	4	8	5	**77**	**70**
Mumbai	173	117	128	178	84	76	71	80	**456**	**451**
Nagpur	53	17	45	76	43	39	33	39	**174**	**171**
New Delhi	12	12	1	1	–	–	2	2	**15**	**15**
Patna	3	5	1	–	1	–	–	–	**5**	**5**
Raipur	–	5	–	5	–	–	–	4	**–**	**14**
Thiruvananthapuram	10	14	11	14	28	23	11	9	**60**	**60**
Total	**716**	**652**	**460**	**598**	**407**	**295**	**270**	**268**	**1,853**	**1,813**

– : Nil.

Note : As at end-March 2006, data for Bhopal include Raipur and data for Lucknow include Dehradun.

to medium size (Table IV.4). As at end-March 2007, of the total 1,813 UCBs, 34.5 per cent of UCBs had deposits less than Rs.10 crore. However, they accounted for only 3.1 per cent of total deposits. At the other end of the spectrum, 77 banks with deposits of Rs.250 crore and above accounted for half of the total deposits. Of these, 15 banks with deposits Rs.1,000 crore and above accounted for 27.1 per cent of total deposits of UCBs at end-March 2007. In all, 95.8 per cent banks had a deposit base of less than Rs.250 crore and accounted for 50 per cent of deposits, while 4.2 per cent banks with a deposit base of Rs.250 crore and above accounted for remaining 50 per cent of the deposits of the UCB sector, reflecting highly skewed distribution of deposits across UCBs.

4.76 Fifty-three UCBs, which were accorded scheduled status constituted a sizeable section of the UCB sector in terms of their share in assets/ deposits/investments/loans and advances which was a little over 40 per cent. On the other hand, 1,760 non-scheduled UCBs accounted for the remaining share (Table IV.5).

Table IV.3: Summary of Grade-wise Position of UCBs

End-March	**No. of UCBs**	**Grade I**	**Grade II**	**Grade III**	**Grade IV**	**Grade I+II**	**Grade III+IV**	**Grade (I+II) as a percent to Total**	**Grade III+IV (as a percent to Total)**
1	2	3	4	5	6	7	8	9	10
2005	1,872	807	340	497	228	1,147	725	61	39
2006	1,853	716	460	407	270	1,176	677	63	37
2007	1,813	652	598	295	268	1,250	563	67	31

Table IV.4: Distribution of UCBs by Deposit-size
(End-March 2007)

Sr. No.	Deposit Base (Rs. crore)	No. of UCBs: No.	No. of UCBs: Share in Total (per cent)	Deposits: Amount (Rs. crore)	Deposits: Share in Total (per cent)
	1	2	3	4	5
1.	≥ 1,000	15	0.8	32,748	27.1
2.	500 to < 1,000	17	0.9	11,897	9.8
3.	250 to < 500	45	2.5	16,152	13.4
4.	100 to < 250	143	7.9	22,042	18.1
5.	50 to < 100	206	11.4	14,948	12.4
6.	25 to < 50	315	17.4	11,283	9.3
7.	10 to < 25	446	24.6	8,198	6.8
8.	< 10	626	34.5	3,715	3.1
	Total	1,813	100.0	1,20,983	100.0

Table IV.6: Liabilities and Assets of Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March 2006	As at end-March 2007 P	Percentage Variations 2006-07
1	2	3	4
Liabilities			
1. Capital	3,488 (2.3)	3,884 (2.4)	11.4
2. Reserves	10,485 (6.9)	10,867 (6.8)	3.6
3. Deposits	1,14,060 (75.6)	1,20,983 (75.7)	6.1
4. Borrowings	1,781 (1.2)	2,602 (1.6)	46.1
5. Other Liabilities	21,140 (14.0)	21,515 (13.5)	1.8
Total Liabilities/Assets	**1,50,954 (100.0)**	**1,59,851 (100.0)**	**5.9**
Assets			
1. Cash in Hand	1,558 (1.0)	1,639 (1.0)	5.2
2. Balances with Banks	9,037 (6.0)	9,806 (6.1)	8.5
3. Money at Call and Short Notice	1,835 (1.2)	1,859 (1. 2)	1.3
4. Investments	50,395 (33.4)	47,316 (29.6)	-6.1
5. Loans and Advances	71,641 (47.5)	78,660 (49.2)	9.8
6. Other Assets	16,488 (10.9)	20,571 (12.9)	24.8

P : Provisional.
Note : Figures in parenthesis are percentages to total liabilities/assets.
Source: Balance sheets of respective UCBs.

Operations, Financial Performance and Asset Quality of Urban Co-operative Banks

Operations of UCBs

4.77 The business operations of UCBs expanded at a much lower rate of 5.9 per cent during 2006-07, compared with a growth of 24.8 per cent by scheduled commercial banks (SCBs) during the same period (Table IV.6). As a result, the relative asset size of UCBs at end-March 2007 declined to around 4.0 per cent of assets of SCBs from the level of 5.0 per cent a year ago. The composition of the assets and liabilities of the UCBs remained broadly on the lines of the last year. Deposits, the main item on the liabilities side, accounted for nearly 75.7 per cent of total resources. Borrowings registered a sharp increase of 46.1 per cent while 'other liabilities' registered a modest rise (1.8 per cent) during 2006-07. Capital and reserves increased at a higher rate of 11.4 per cent and 3.6 per cent during 2006-07 compared with 8.3 per cent and 1.0 per cent, respectively, in the previous year.

Table IV.5: A Profile of UCBs
(End-March 2007)

(Amount in Rs. crore)

	Category	No. of UCBs	Assets	Deposits	Investments	Loans and Advances
1		2	3	4	5	6
1.	**All UCBs**	**1,813 (100.0)**	**1,59,851 (100.0)**	**1,20,983 (100.0)**	**47,316 (100.0)**	**78,660 (100.0)**
2.	Scheduled UCBs	53 (2.9)	71,562 (44.8)	51,173 (42.3)	20,279 (42.9)	32,884 (41.8)
3.	Non-Scheduled	1,760 (97.1)	88,290 (55.2)	69,810 (57.7)	27,037 (57.1)	45,776 (58.2)

Note : 1. Figures in parentheses represent percentages to total of all UCBs.
2. Data are provisional.

Loans and advances and investments, the major constituents on the asset side, constituted 49.2 per cent and 29.6 per cent of the total assets, respectively. While deposits grew by 6.1 per cent during the year, loans and advances increased by 9.8 per cent and investments declined by 6.1 per cent during 2006-07.

Priority Sector Lending

4.78 As against the stipulated target of 60.0 per cent of their total loans and advances to the priority sector and 25.0 per cent of priority sector lending towards weaker sections, UCBs extended 56.0 per cent of total credit to the priority sector and 25.9 per cent of total priority sector loans to the weaker section. Thus, although the UCBs fell short of meeting the priority sector target by a thin margin, they were able to meet the requirements for lending to the weaker sections. (Table IV.7).

4.79 SLR investments constituted bulk of investment (93.1 per cent) of UCBs as at end-

Table IV.7: Priority Sector and Weaker Section Advances by Urban Co-operative Banks - 2006-07

Segment	Priority Sector		Weaker Sections	
	Amount (Rs. crore)	Share in Total Advances (Per cent)	Amount (Rs. crore)	Share in Total Advances (Per cent)
1	2	3	4	5
Agriculture and Allied Activities	2,190	2.8	1,010	1.3
Cottage and Small Scale Industries	12,125	15.4	1,397	1.8
Road and Water Transport Operators	2,147	2.7	497	0.6
Private Retail Trade (Essential Commodities)	2,034	2.6	761	1.0
Retail Trade (Others)	4,699	6.0	1,069	1.3
Small Business Enterprises	6,079	7.7	1,698	2.2
Professional and Self Employed	2,685	3.4	927	1.2
Educational Loans	628	0.8	232	0.3
Housing Loans	10,247	13.0	3,092	3.9
Consumption Loans	1,169	1.5	709	0.9
Software Industries	55	0.1	7	0.0
Total	**44,058**	**56.0**	**11,399**	**14.5**

Note : Data are provisional.

Table IV.8: Investments by Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2006	2007P	2006-07
1	2	3	4
Total Investments (A+B)	**50,395 (100.0)**	**47,316 (100.0)**	**-6.1**
A. SLR Investments (i to v)	**47,635 (94.5)**	**44,060 (93.1)**	**-7.5**
i) Central Government Securities	28,178 (55.9)	28,158 (59.5)	-0.1
ii) State Government Securities	3,902 (7.7)	3,534 (7.5)	-9.4
iii) Other approved securities	935 (1.9)	835 (1.8)	-10.7
iv) Term deposits with StCBs	4,704 (9.3)	4,932 (10.4)	4.9
v) Term deposits with DCCBs	9,916 (19.7)	6,601 (14.0)	-33.4
B. Non-SLR Investments (in bonds of public sector Institutions/AIFIs, shares of AIFIs and units of UTI)	**2,760 (5.5)**	**3,256 (6.9)**	**18.0**

Note: Figures in parentheses are percentages to total investments.

March 2007 (Table IV.8). While investments in Central Government securities remained more or less at the previous year's level, investments in State Government securities and other approved securities declined sharply. All categories of investments declined during 2006-07, except term deposits with state co-operative banks and non-SLR investments.

Capital Adequacy

4.80 As at end-March 2007, 1,496 UCBs out of total 1,813 UCBs, had CRAR of 9 per cent and above (Table IV.9).

Table IV.9: CRAR-wise distribution of All UCBs (End-March 2007)

(Amount in Rs. crore)

Range of CRAR (per cent)	<3	3 to 6	6 to 9	≥9	Grand Total
1	2	3	4	5	6
Non-Scheduled	202	48	57	1,453	1,760
Scheduled	7	0	3	43	53
All UCBs	**209**	**48**	**60**	**1,496**	**1,813**

P : Provisional.

Table IV.10: Gross Non-Performing Assets of Urban Co-operative Banks

(Amount in Rs. crore)

End-March	No. of Reporting UCBs	Gross NPAs (Rs. crore)	Gross NPAs as percentage of total Advances	Net NPAs (Rs. crore)	Net NPAs as percentage of total Advances
1	2	3	4	5	6
2004	1,926	15,406	22.7	8,242	2.1
2005	1,872	15,486	23.2	8,257	12.3
2006	1,853	13,506	18.9	6,335	8.8
2007P	1,813	13,363	17.0	6,044	7.7

P: Provisional.

Asset Quality

4.81 The asset quality of the UCBs improved during the year as reflected in the decline in NPAs (gross and net) in absolute as well as percentage terms. However, NPA ratios of UCBs at 17.0 per cent (gross) and 7.7 per cent (net) at end-March 2007 were high compared with 2.4 per cent (gross) and 1.0 per cent (net), for scheduled commercial banks (Table IV.10).

Operations and Performance of Scheduled Urban Co-operative Banks

4.82 Total assets of scheduled UCBs expanded at a slower rate of 10.6 per cent during 2006-07, compared with 15.1 per cent in the previous year (Table IV.11). Deposits of scheduled UCBs grew at a higher rate in comparison with the previous year. Borrowings by scheduled UCBs increased, although, their share in total liabilities remained below 2 per cent. On the asset side, while loans and advances increased at a higher rate as compared to the previous year, investments declined as against a sharp increase in the previous year (Table IV.11).

Financial Performance

4.83 During 200-07, income and expenditure of scheduled UCBs, increased by 5.5 per cent and 6.3 per cent, respectively. On the income side, while interest income increased by 6.5 per cent, non-interest income witnessed a modest decline during the year. On the expenditure side, while interest expended increased marginally during 2006-07, the non-interest expenses of the scheduled UCBs increased by 19.5 per cent during 2006-07. Net interest income of scheduled UCBs increased to Rs.1,641 crore during 2006-07 as compared to Rs.1,396 crore during 2005-06 and Rs.1,094 crore during 2004-05 (Table IV.12).

Table IV.11: Liabilities and Assets of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March 2006	As at end-March 2007P	Percentage Variation 2006-07
1	2	3	4
Liabilities			
1. Capital	899 (1.4)	1,018 (1.4)	13.2
2. Reserves	5,439 (8.4)	5,918 (8.3)	8.8
3. Deposits	45,297 (70.0)	51,173 (71.5)	13.0
4. Borrowings	922 (1.4)	1,350 (1.9)	46.4
5. Other Liabilities	12,145 (18.8)	12,103 (16.9)	-0.3
Total Liabilities/Assets	**64,702 (100.0)**	**71,562 (100.0)**	**10.6**
Assets			
1. Cash in hand	386 (0.6)	426 (0.6)	10.4
2. Balances with Banks	4,227 (6.5)	4,700 (6.6)	11.2
3. Money at call and short notice	618 (1.0)	1,095 (1.5)	77.1
4. Investments	22,593 (34.9)	20,279 (28.3)	-10.2
5. Loans and Advances	27,960 (43.2)	32,884 (46.0)	17.6
6. Other Assets	8,918 (13.8)	12,178 (17.0)	36.6

P : Provisional.
Note : Figures in parentheses are percentages to total liabilities/assets.
Source: Balance sheet of respective UCBs.

4.84 During 2006-07, while operating profit increased by 2.2 per cent, net profit witnessed a decline by 14.0 per cent reflecting a strong growth in provisions, contingencies, taxes, *etc.*

Operations and Performance of Non-scheduled Urban Co-operative Banks

4.85 The consolidated balance sheet of non-scheduled UCBs expanded at a much lower rate of 2.4 per cent as compared with 10.6 per cent

Table IV.12: Financial Performance of Scheduled UCBs

(Amount in Rs. crore)

				Percentage Variation	
	2004-05 R	2005-06 R	2006-07 P	2005-06	2006-07
1	2	3	4	5	6
A. Total Income (i+ii)	4,182	4,499	4,748	7.6	5.5
	(100.0)	(100.0)	(100.0)		
i. Interest Income	3,675	3,912	4,166	6.4	6.5
	(87.9)	(87.0)	(87.7)		
ii. Non- interest Income	507	587	582	15.8	-0.9
	(12.1)	(13.0)	(12.3)		
B. Total Expenditure (i+ii)	3,560	3,653	3,883	2.6	6.3
	(100.0)	(100.0)	(100.0)		
i. Interest Expenditure	2,581	2,516	2,525	-2.5	0.4
	(72.5)	(68.9)	(65.0)		
ii. Non-Interest Expenditure	979	1,137	1,358	16.1	19.4
of which:	(27.5)	(31.1)	(35.0)		
wage bill	557	634	650	13.8	2.5
	(15.6)	(17.4)	(16.7)		
C. Profit					
i. Amount of operating profit	622	846	865	36.0	2.2
ii. Provisions, contingencies, taxes	371	332	423	-10.5	27.4
iii. Amount of net profit	251	514	442	104.8	-14.0
iv. Accumulated Loss (-)/Surplus carried over (+)	-2,201	-2,032	-1,996	-7.7	-1.8

P: Provisional R: Revised
Note : Figures in brackets are percentages to respective totals.
Source : Balance sheet of respective UCBs.

growth for scheduled UCBs during 2006-07 (Table IV.13). While deposits of non-scheduled UCBs increased at a moderate rate, borrowings showed a higher increase. On the assets side, the loans and advances of non-scheduled UCBs grew by 4.8 per cent, while their investments witnessed a decline.

Table IV.13: Liabilities and Assets of Non-Scheduled UCBs*

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation
	2006	2007P	2006-07
1	2	3	4
Liabilities			
1. Capital	2,589	2,867	10.7
	(3.0)	(3.2)	
2. Reserves	5,046	4,949	-1.9
	(5.9)	(5.6)	
3. Deposits	68,763	69,810	1.5
	(79.7)	(79.1)	
4. Borrowings	859	1,252	45.8
	(1.0)	(1.4)	
5. Other Liabilities	8,994	9,412	4.6
	(10.4)	(10.7)	
Total Liabilities/Assets	**86,251**	**88,290**	**2.4**
	(100.0)	**(100.0)**	
Assets			
1. Cash in Hand	1,171	1,213	3.6
	(1.4)	(1.4)	
2. Balances with Banks	4,810	5,106	6.2
	(5.6)	(5.8)	
3. Money at Call and Short Notice	1,217	764	-37.2
	(1.4)	(0.9)	
4. Investments	27,802	27,037	-2.8
	(32.2)	(30.6)	
5. Loans and Advances	43,680	45,776	4.8
	(50.6)	(51.8)	
6. Other Assets	7,571	8,394	10.9
	(8.8)	(9.5)	

* P : Provisional.
Note : Figures in parentheses are percentages to total liabilities/assets.
Source: Balance sheet of respective UCBs.

Urban Co-operative Banks - Regional Operations

4.86 The spatial distribution of UCBs is highly skewed as they are concentrated mainly in five States/Union Territories, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. As at end-March 2007, nearly 80 per cent of total UCBs with around 85 per cent of total branches operated in five States, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra (including Goa) and Tamil Nadu (including Puducherry). Maharashtra (including Goa) alone accounted for around 53 per cent of total branches of UCBs. Of the 7,453 branches of UCBs at end-March 2007, 894 were unit banks, *i.e.*, banks which function as head office-cum-branch. Maharashtra (including Goa), Gujarat and Karnataka had the highest number (60 per cent) of unit banks (Table IV.14).

4.87 Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu together accounted

Table IV.14: Distribution of Urban Co-operative Banks – State wise

State	As on end-March 2007				As on end-March 2006R				As on end-March 2005R			
	Number of UCBs opera-ting	Unit UCBs	Bran-ches#	Exten-sion Count-ers	Number of UCBs opera-ting	Unit UCBs	Bran-ches#	Exten-sion Coun-ter	Number of UCBs opera-ting	Unit UCBs	Bran-ches#	Exten-sion Coun-ters
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	116	87	273	5	124	95	281	5	127	97	305	10
Asam/Manipur/ Meghalaya/Mijoram /Tripura	17	13	28		18	14	29		18	14	29	
Bihar/Jharkhand	5	4	6	1	5	4	6	1	5	4	6	1
Chhattisgarh	14	10	20	1								
Gujarat	284	151	924	4	296	163	966	7	308	175	990	3
Jammu & Kashmir	4	1	16	4	4	1	16	4	4	1	16	4
Karnataka	288	153	848	16	297	153	870	18	296	153	880	21
Kerala	60	17	324	2	60	17	325	2	60	17	325	2
Madhya Pradesh*	60	45	80		75	58	103	4	77	58	106	4
Maharshtra (including Goa)	622	237	4010	138	630	240	4027	139	633	240	4020	139
New Delhi	15	6	60	1	15	6	60	1	15	6	60	1
Orissa	14	5	51	4	14	5	51	4	12	4	46	4
Punjab/Haryana/ Himachal Pradesh	16	10	39	3	16	10	39	3	17	10	39	3
Rajasthan	39	19	142	7	39	19	142	7	39	19	142	7
Tamil Nadu/ Pondicherry	131	60	311	0	132	62	312		133	63	313	2
Uttar Pradesh**	70	42	173	27	77	45	218	30	77	45	218	30
Uttarakhand	7	3	45	2								
West Bengal/Sikkim	51	31	103	2	51	31	103	2	51	31	103	2
Total	1813	894	7453	217	1853	923	7548	227	1872	937	7598	233

R : Revised.
* : includes Chhattisgarh for data at end-March 2006 and end-March 2005;
** : includes Uttarakhand for data at end-March 2006 and end-March 2005
\# : including head office cum branch.

for 88.2 per cent of the deposits and 89.8 per cent of the credit of the entire UCB sector at end-March 2007. Maharashtra alone accounted for 64.7 per cent of deposits and 66.2 per cent of total advances. As at end-March 2007, the number of districts with the presence of a UCB was the highest in Madhya Pradesh, followed by Uttar Pradesh and Maharashtra (Table IV.15).

4.88 At end-March 2007, the C-D ratio of scheduled UCBs at select centres showed large variations across centres. The C-D ratio was the highest in Ahmedabad (69.7 per cent) followed by Nagpur (67.6 per cent) and Mumbai (63.5 per cent). Mumbai accounted for largest share in deposits (81.1 per cent) (Table IV.16).

4.89 Non-scheduled UCBs in five centres, *viz.*, Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur accounted for more than three-fourths of capital and about four-fifth of reserves, deposits and advances of all non-scheduled UCBs at end-March 2007 (Table IV.17). Wide variations were observed in the C-D ratio of non-scheduled UCBs.

Table IV.15: State-wise Distribution of Urban Co-operative Banks
(As at end-March 2007)

	State	No. of UCBs	Amount of Deposits (Rs. crore)	Total number of districts with a presence of UCB branch
	1	2	3	4
1.	Andhra Pradesh	116	2,665	21
2.	Assam	9	208	1
3.	Bihar	3	26	2
4.	Chhattisgarh	14	233	7
5.	Goa	6	982	5
6.	Gujarat	284	14,660	25
7.	Haryana	7	192	7
8.	Himachal Pradesh	5	176	8
9.	Jammu and Kashmir	4	211	4
10.	Jharkhand	2	8	2
11.	Karnataka	288	8,277	25
12.	Kerala	60	2,878	14
13.	Madhya Pradesh	60	827	48
14.	Maharashtra	616	78,280	34
15.	Manipur	3	108	2
16.	Meghalaya	3	45	1
17.	Mizoram	1	17	1
18.	New Delhi	15	922	1
19.	Orissa	14	617	10
20.	Puducherry	1	79	1
21.	Punjab	4	382	6
22.	Rajasthan	39	1,624	24
23.	Sikkim	1	2	1
24.	Tamil Nadu	130	2,884	30
25.	Tripura	1	10	1
26.	Uttar Pradesh	70	1,998	37
27.	Uttarakhand	7	813	7
28.	West Bengal	50	1,859	11
	Total	**1,813**	**1,20,983**	**336**

The C-D ratio was the highest in Chennai (76.7 per cent), while it was the lowest in Raipur (30.1 per cent). The C-D ratio of non-scheduled UCBs was less than 50 per cent at three centres.

Table IV.17: Centre-wise Select Indicators of Non-Scheduled Urban Co-operative Banks
(As at end-March 2007)

(Amount in Rs. crore)

Centre	Share Capital	Free Reserves	Deposits	Loans and Advances	Demand and Time Liabilities	C-D Ratio (per cent)
1	2	3	4	5	6	7
Ahmedabad	329	1,768	9,512	5,572	10,348	58.6
Bangalore	383	561	7,946	5,332	8,255	67.1
Bhopal	41	31	827	455	962	55.0
Bhubaneswar	32	31	617	419	633	68.0
Chandigarh	33	63	750	426	767	56.8
Chennai	154	137	2,963	2,273	412	76.7
Deharadun	12	68	813	3,238	820	50.7
Guwahati	14	30	388	187	422	48.2
Hyderabad	106	166	1,955	1,144	2,731	58.5
Jaipur	81	59	1,624	958	1,732	59.0
Jammu	4	7	210	113	209	53.5
Kolkata	131	190	1,861	1,211	2,094	65.0
Lucknow	127	87	1,720	1,092	1,977	63.5
Mumbai	1,019	1,026	27,870	19,251	30,591	69.1
Nagpur	252	436	6,687	4,499	6,648	67.3
New Delhi	44	147	922	421	989	45.6
Patna	3	6	34	20	36	58.4
Raipur	8	16	233	70	226	30.1
Thiruvananthapuram	94	120	2,878	1,921	3,042	66.8
Total	**2,867**	**4,949**	**69,810**	**45,776**	**75,721**	**65.6**
Memo Item:						
Share of Major Centres*	74.5	79.4	78.8	80.7	78.0	

* : Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total.

Table IV.16: Centre-wise Select Indicators of Scheduled Urban Co-operative Banks
(As at end-March 2007)

(Amount in Rs. crore)

Centre	No.	Capital	Reserves	Deposits	Loans and Advances	Demand and Time Liabilities	C-D Ratio (per cent)
1	2	3	4	5	6	7	8
Ahmedabad	8	109	2,829	5,148	3,590	6,233	69.7
Bangalore	1	6	23	331	189	470	57.1
Hyderabad	3	31	62	710	432	405	60.8
Lucknow	1	6	12	278	149	304	53.6
Mumbai	35	781	2,848	41,494	26,353	39,501	63.5
Nagpur	5	85	144	3,212	2,171	3,000	67.6
Total	**53**	**1,018**	**5,918**	**51,173**	**32,884**	**49,913**	**64.3**

C-D : Credit to Deposit.

3. Rural Co-operatives

4.90 Rural credit co-operative institutions have wide outreach particularly among the rural and vulnerable segments of society. Recognising their role in purveying rural credit and deposit mobilisation, efforts have been made in recent years to restore operational viability and financial health of these institutions.

4.91 The functioning and performance of rural co-operative credit institutions continued to suffer from several weaknesses including high NPAs/poor recovery and accumulated losses. As on March 31, 2006, four out of 31 SCBs, 88 out of 366 DCCBs, 53,626 out of 1,05,735 PACS, eight out of 19 reporting SCARDBs and 194 out of 696 reporting PCARDBs incurred losses, which together amounted to Rs.1,601 crore (excluding PACS).

4.92 In view of the above, the Reserve Bank and NABARD continued to provide focussed attention to facilitate the growth and development of rural credit institutions. The supervisory measures initiated during 2006-07 are detailed below.

Regulation of Rural Co-operative Banks

4.93 The Fazilka District Central Co-operative Bank Ltd. and Ambala District Central Co-operative Bank Ltd. were granted banking licence during 2006-07. The total number of licensed StCBs and DCCBs as on March 31, 2007 was 14 and 75, respectively. As on date, two StCBs and nine DCCBs are under the Reserve Bank's directions issued in terms of Section 35A of the Banking Regulation Act, 1949 (as Applicable to Co-operative Societies - AACS) prohibiting them from accepting fresh deposits, allowing withdrawal of deposits in excess of stipulated amount, granting loans and advances to certain categories of borrowers, *etc.* Directions imposed on three other DCCBs (Siva gangai DCCB, Vijyanagarm DCCB and Srikakulam DCCB) were withdrawn fully during 2006-07 (April to March). No licence/application for licence was cancelled/ rejected during the year. No StCB was granted scheduled status during the year for inclusion in the Second Schedule under Section 42 of the RBI Act. The total number of scheduled StCBs remains at 16. As on June 30, 2007, seven out of 31 StCBs and 127 out of 367 DCCBs did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (AACS). Similarly, six StCBs and 127 DCCBs did not comply with the provisions of Section 22(3) (a) of the Act *ibid*, implying that they were not in a position to pay their depositors in full as and when their claims accrued. Further, 14 StCBs and 333 DCCBs did not comply with Section 22(3)(b) of the Banking Regulation Act.

Collection of Cheques at Regular Collection Counters

4.94 The Reserve Bank and the Banking Ombudsmen have been receiving complaints that many bank branches were not accepting cheques at the counters and were compelling the customers to drop the cheques in the cheque-drop box. All StCBs/DCCBs were, therefore, advised that customers should not be compelled to drop the cheques in the drop box. While the cheque-drop box facility may be made available to the customers, the facility for acknowledgement of the cheques at the regular collection counters should also be available to the customers. Further, no branch should refuse to give an acknowledgement if the customer tenders the cheque at the counters. Wherever the cheque-drop box facility has been introduced, it is necessary that the customer is made aware of both the options available to him, *i.e.*, dropping cheques in the drop-box or tendering them at the counters, so that he can take an informed decision in this regard. Banks have also been advised to invariably display on the cheque-drop box itself in English, Hindi and the concerned regional language of the State that 'Customers can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slips'.

Prohibition of Stapling of Note Packets

4.95 All StCBs/DCCBs were advised that they should do away with stapling of note packets and instead secure them with paper bands. Further, they were also advised to sort notes into re-issuables and non-issuables, and issue only clean notes to public. Soiled notes in unstapled condition may be tendered at the Reserve Bank in inward remittances through currency chests. They were also advised that they should stop writing of any kind on watermark window of bank notes.

Restrictions on Sanction of Loans for Investing in Small Savings

4.96 StCBs and DCCBs were advised that the sanction of loans for acquisition of small saving instruments, such as, *Kisan Vikas Patra* (KVP) was not in conformity with the objectives of small savings schemes. The basic objective of small savings schemes is to provide a secure avenue of savings for small savers and promote savings, as well as to inculcate the habit of thrift among the people. The grant of loans for acquiring/investing in KVPs does not promote fresh savings. It rather channelises the existing savings in the form of bank deposits to small savings instruments and thereby defeats the very purpose of such schemes. Therefore, all the StCBs/DCCBs were advised to ensure that no loans were sanctioned for acquisition of/investing in small savings instruments, including *Kisan Vikas Patras*.

Prohibition on Charging of various Interest and Other Charges

4.97 Consequent upon the announcement in the Annual Policy Statement for the year 2007-08, boards of all StCBs/DCCBs were advised to lay down appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks are required to take into account, *inter-alia*, the following broad guidelines: (i) an appropriate prior-approval process for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower; (ii) interest rates charged by banks, *inter-alia*, to incorporate risk premium, as considered reasonable and justified, having regard to the internal rating of the borrower and considering the question of risk, to take into account the presence or absence of security and the value thereof; (iii) the total cost to the borrower, including interest and all other charges levied on a loan, to be justifiable having regard to the total cost incurred by the bank in extending the loan, sought to be defrayed and the extent of return reasonably expected from the transaction; (iv) an appropriate ceiling on the interest, including processing and other charges to be levied on such loans, which may be suitably publicised.

Supervision of the Rural Co-operative Structure

4.98 NABARD undertakes inspection of RRBs, StCBs and DCCBs, besides conducting voluntary inspections of SCARDBs, Apex Weavers' Co-operative Societies, State Co-operative Marketing Federations, in accordance with the powers vested under Section 35(6) of the Banking Regulation Act, 1949 (AACS). The objective of NABARD's supervision is to assess the financial and operational soundness and managerial efficiency of co-operative banks (StCBs, DCCBs and SCARDBs) and RRBs as also to ensure that the affairs of these banks are conducted in conformity with the provisions of the relevant Acts/Rules, Regulations, Bye-laws, *etc*., so as to protect the interests of their depositors. It also suggests ways and means for strengthening the institutions to enable them to play a more efficient role in the dispensation of rural credit. Under the revised strategy, the inspection is sharply focussed on the core areas of the functioning of banks pertaining to capital adequacy, asset quality, management, earnings, liquidity, systems and compliance (CAMELSC).

4.99 The frequency of statutory/voluntary inspections by NABARD was increased from 2005-06. Accordingly, statutory inspections of all StCBs as well as of those DCCBs and RRBs, which were not complying with minimum capital requirements as required under the Banking Regulation Act, 1949 (AACS), and the RBI Act, 1934, respectively, are conducted on an annual basis. The statutory inspections of DCCBs and RRBs with positive networth as also the voluntary inspections of Apex Co-operative Societies/ Federations continue to be conducted once in two years. During the year, NABARD carried out statutory inspections of 416 co-operative banks (31 StCBs, 247 DCCBs and 57 RRBs) and voluntary inspections of 18 SCARDBs and two Apex co-operative societies.

4.100 The Board of Supervision [BoS] (for StCBs, DCCBs and RRBs) met thrice during the year. The issues deliberated by the BoS included (i) functioning of StCBs and SCARDBs based on inspection findings; (ii) functioning of co-operative credit institutions of Chhattisgarh, Himachal Pradesh and Uttar Pradesh and that of insolvent StCBs and DCCBs; (iii) need and extent of regulatory action required against StCBs and DCCBs in the context of MoUs executed by the State Governments under the Government of India revival package, based on Vaidyanathan Committee recommendations; (iv) review of frauds, misappropriation, embezzlements, defalcations, *etc.*, in StCBs, DCCBs and RRBs; (v) review of financial position of RRBs sponsored by Bank of Maharashtra; (vi) compliance with Section 42 (6) (a) (i) & (ii) of RBI Act, 1934, by RRBs, their internal control system, status of amalgamation and review of inspection strategy; (vii) review of Section 11 non-compliant/recomplied banks; (viii) review of investment portfolio of banks; (ix) the ways and means for fast tract regulatory action; (x) the scope for refinement of supervisory processes, tools and instruments; (xi) status of implementation of the Reserve Bank guidelines on compounding of interest on agricultural advances; (xii) system of receipt and disposal of public complaints against the banks and strategies for redressal of their grievances; and (xiii) review of audit system for co-operative banks, norms of audit rating *vis-à-vis* supervisory rating.

4.101 As advised by the BoS, for greater sharing of information with the public, the balance sheets of co-operative banks are put on the website of NABARD with a suitable disclaimer. Co-operative banks have also been advised to display the abridged balance sheets in their branches. A separate Trigger Point mechanism for regulatory actions is being evolved for assessing the extent of improvement and compliance in the case of co-operative banks situated in States that have executed the MoU for implementation of reform package, based on the recommendations of the Vaidyanathan Committee for short-term co-operative credit structure.

Management of Co-operatives

4.102 The number of co-operatives where boards were under supersession remained high, even as the percentage of boards under supersession declined to 45.7 per cent at end-March 2006 from 48.3 per cent at end-March 2005. The number and proportion of boards under supersession at end-March 2006 declined for all segments of rural co-operative banking sector, except for DCCBs where it increased marginally (Table IV.18).

A Profile of Rural Co-operative Banks

4.103 Rural co-operative credit institutions (including primary agricultural credit societies) grew modestly by 4.2 per cent during 2005-06. As on March 31, 2006, these institutions together held Rs.3,38,927 crore of assets, Rs.1,53,516 crore of deposits and a loan portfolio of Rs.2,01,118 crore. Total assets held by them at end-March 2006 constituted 12.2 per cent of the total assets of scheduled commercial banks. However, their financial performance deteriorated from an already precarious position with their modest profit turning into overall loss during 2005-06. The number of loss making entities continued to far exceed the number of profit making entities. Institution-wise, while the upper-tier of the short-term and long-term structure made profit, the lower-tier (*i.e.*, PACS and PCARDBs) made losses. The problem of high non-performing assets and low recovery performance aggravated during 2005-06 in respect of rural co-operative banks, especially the long-term structure. While the recovery performance of the lower-tier of the short-term structure (PACS) worsened, their asset quality improved (Table IV.19).

Table IV.18: Elected Boards under Supersession
(As at end-March 2006)

Particulars	StCBs	DCCBs	SCARDBs	PCARDBs	Total
1	2	3	4	5	6
(i) Total no. of Institutions	31	366	20	696	1,113
(ii) No. of Institutions where Boards are under supersession	12	160	7	330	509
Percentage of Boards under supersession [(ii) as percentage of (i)]	**38.7**	**43.7**	**35.0**	**47.4**	**45.7**

Source : NABARD.

Table IV.19: A Profile of Rural Co-operative Banks
(At end-March 2006)

(Amount in Rs. crore)

Item	Short-Term			Long-Term		Total
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs	
1	2	3	4	5	6	7
A. No. of Co-operative Banks	31	366*	1,06,384	20	696**	**1,07,497**
B. Balance Sheet Indicators ^						
i) Owned Fund (Capital+Reserves)	10,545	23,450	9,292	3,352	3,380	**50,019**
ii) Deposits	45,405	87,532	19,561	636	382	**1,53,516**
iii) Borrowings	16,989	24,217	41,018	17,075	13,066	**1,12,365**
iv) Loans and Advances Issued	48,260	73,583	42,920	2,907	2254	**1,69,924**
v) Loans and Advances Outstanding	39,684	79,202	51,779	17,713	12,740	**2,01,118**
vi) Total Liabilities/Assets	76,481	143,090	73,387+	24,604	21,365	**3,38,927**
C. Financial Performance ^						
i) Institutions in Profit						
a) No.	27	278	44,321	11	331	**44,968**
b) Amount of Profit	408	1,116	1,064	335	328	**3,251**
ii) Institutions in Loss						
a) No.	4	88	53,050	8	194	**53,344**
b) Amount of Loss	30	913	1,920	247	411	**3,521**
iii) Overall Profit/Loss (-)	378	203	-856	88	-83	**-271**
iv) Accumulated Loss	274	5,275	N.A.	918	2,672	**9,139**
D. Non-performing Assets ^						
i) Amount	6,360	15,712	15,476@	5,786	4,554	**47,888**
ii) As Percentage of Loans Outstanding	16.0	19.8	30.4#	32.7	35.4	**23.8**
iii) Recovery of Loans to Demand (%)	87	69	62.1	47	48	

N.A. Not available.
* : Taran Taran DCCB IN Punjab excluded as the scheme of bifurcation was not approved by the Reserve Bank.
** : Number reduced due to recognition of 48 PCARDBs in Haryana to 19 District PCARDBs and two PCARDBs in Orissa.
\+ : Working Capital.
@ : Total Overdues.
^ : Figures based on reporting co-operative banks and may not tally with the appendix tables.
\# : Percentage of Overdues to Demand.
Source: NABARD and NAFSCOB.

Rural Co-operative Banks – Short-Term Structure

State Co-operative Banks

4.104 The composition of the liabilities of the State Co-operative Banks (StCBs) in terms of major constituents (*viz.*, capital, reserves, deposits, borrowings and other liabilities) remained broadly unaltered between end-March 2005 and end-March 2006 (Table IV.20). Deposits remained the mainstay of their resources, though the share of deposits in total liabilities declined somewhat. Growth of borrowings continued to be high, reflecting their dependence on outside sources for expansion. On the assets side, investments grew sharply while loans and advances increased by around 6 per cent.

Financial Performance

4.105 While operating profits of StCBs declined by 8.3 per cent during 2005-06, their net profits increased significantly by 32.3 per cent mainly on account of a substantial decline in provisioning (Table IV.21). Out of 31 reporting StCBs, 27 earned profits aggregating Rs.408 crore, while 4 made losses amounting to Rs.30 crore. Interest income contributed almost 94 per cent of total income of StCBs as they had very limited sources of non-interest income. On the other hand, their operating expenses continued to rise.

Asset Quality and Recovery Performance

4.106 The overall NPAs of StCBs increased, both in absolute and percentage terms during 2005-06,

Table IV.20: Liabilities and Assets of State Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5
Liabilities				
1. Capital	1,012 (1.4)	1,114 (1.5)	6.5	10.1
2. Reserves	8,488 (11.8)	9,431 (12.3)	12.8	11.1
3. Deposits	44,335 (61.7)	45,405 (59.4)	2.0	2.4
4. Borrowings	14,602 (20.3)	16,989 (22.2)	17.2	16.3
5. Other Liabilities	3,388 (4.8)	3,542 (4.6)	-1.0	4.5
Total Liabilities/Assets	**71,825 (100.0)**	**76,481 (100.0)**	**5.9**	**6.5**
Assets				
1. Cash and Bank balance	6,600 (9.2)	4,323 (5.7)	10.3	-34.5
2. Investments	23,303 (32.4)	27,694 (36.2)	5.0	18.8
3. Loans and Advances	37,353 (52.0)	39,684 (51.9)	6.4	6.2
4. Other Assets	4,569 (6.4)	4,781 (6.2)	0.2	4.6

Note : 1. Figures in parentheses are percentages to total liabilities/assets.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.
3. Data for StCBs in the States of Manipur and Kerala is repeated for the year 2005-06 from previous year.

Source : NABARD.

Table IV.21: Financial Performance of State Co-operative Banks

(Amount in Rs. crore)

Item	2004-05	2005-06	Percentage Variations	
			2004-05	2005-06
1	2	3	4	5
A. Income (i+ii)	**5,772 (100.0)**	**5,656 (100.0)**	**-4.5**	**-2.0**
i) Interest Income	5,382 (93.2)	5,320 (94.1)	1.3	-1.2
ii) Other Income	390 (6.8)	336 (5.9)	-46.7	-13.8
B. Expenditure (i+ii+iii)	**5,486 (100.0)**	**5,278 (100.0)**	**-3.3**	**-3.8**
i) Interest Expended	3,701 (67.5)	3,658 (69.3)	-7.4	-1.2
ii) Provisions and Contingencies	1,259 (22.9)	1,039 (19.7)	4.6	-17.5
iii) Operating Expenses	526 (9.6)	581 (11.0)	11.6	10.5
of which : Wage Bill	369 (6.7)	381 (7.2)	16.5	3.3
C. Profit				
i) Operating Profit	1,545	1,417	-2.0	-8.3
ii) Net Profit	286	378	-23.6	32.2
D. Total Assets	**71,825**	**76,481**	**5.9**	**6.5**

Note : 1. Figures in parentheses are percentages to the respective total.
2. Data for StCBs in the States of Manipur and Kerala repeated for the year 2005-06 from previous year.
3. Data are provisional.

Source : NABARD.

in contrast to a decline witnessed during the previous year. Substantial asset slippage continued during the year with a decline in the sub-standard assets and an increase in doubtful and loss assets. Recovery performance also remained more or less at the previous year's level. In line with earlier years, StCBs were able to meet the provisioning requirements comfortably during 2005-06 (Table IV.22).

Regional Dimensions

4.107 The recovery performance of StCBs as a proportion of demand at the all-India level increased to 87 per cent in 2005-06 from 86 per cent in 2004-05. Among the various States/Union Territories, the recovery performance improved in Andaman and Nicobar, Arunachal Pradesh, Assam, Chhattisgarh, Chandigarh, Goa, Mizoram, and Puducherry, while it declined in Maharashtra, Manipur and West Bengal. StCBs in States/Union Territories of Andaman and Nicobar, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttarakhand and Tamil Nadu achieved more than 90 per cent recovery during 2005-06.

4.108 Twenty seven StCBs earned profits, while four StCBs made losses. Twenty one StCBs earned higher profits during 2005-06, while five StCBs (in the States of Jammu and Kashmir, Punjab, Bihar, Maharashtra and Puducherry) earned lower profits. While StCB in Kerala maintained the profit at previous year's level, StCBs in Arunachal Pradesh, Nagaland, Tripura and Chhattisgarh incurred losses during the year (Appendix Table IV.6).

4.109 NPAs of StCBs varied widely across the States at end-March 2006. In some States such

Table IV.22: Asset Quality of State Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
A. Asset Classification Total NPAs (i+ii+iii)	**6,073 (100.0)**	**6,360 (100.0)**	**-5.2**	**4.7**
i) Sub-Standard	2,962 (48.8)	2,498 (39.3)	-7.8	-15.7
ii) Doubtful	1,975 (32.5)	2,234 (35.1)	-33.4	13.1
iii) Loss Assets	1,136 (18.7)	1,628 (25.6)	402.7	43.3
B. NPAs to Loans Ratio	**16.3**	**16.0**		
Memo Item:				
i) Recovery to Demand (in per cent)	86	87		
ii) Provisions Required (Rs. crore)	2,806	3,314	-18.3	18.1
iii) Provisions Made (Rs. crore)	2,982	3,558	-19.3	19.3

Note : Figures in parentheses represent percentages to total.
Source : NABARD.

as Haryana, Rajasthan and Punjab, NPAs were less than 3.0 per cent, while in some other States (Arunachal Pradesh, Assam and Nagaland) NPAs were more than 50 per cent. Only in nine out of 31 States/UTs, the NPA ratio was less than 10 per cent. The recovery rate of StCBs also varied significantly across the States. StCBs operating in Haryana, Punjab, Rajasthan, Andaman and Nicobar Island, Madhya Pradesh, Uttarakhand, Karnataka, Kerala, and Tamil Nadu, achieved more than 90 per cent recovery during 2005-06. However, in several States such as Jammu and Kashmir, Assam, Manipur, Meghalaya and Tripura, the recovery rate was less than 50 per cent (Appendix Table IV.6).

District Central Co-operative Banks

4.110 The business operations of district central co-operative banks (DCCBs) registered a healthy growth during 2005-06. On the liability side, the share of deposits declined marginally to 61.2 per cent even as it continued to be the major source of funding. Retained earnings increased sharply during the year. On the asset side, while loans and advances increased by 8.3 per cent, and investments witnessed a modest growth (1.9 per cent) (Table IV.23).

Table IV.23: Liabilities and Assets of District Central Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
Liabilities				
1. Capital	4,342	4,748 (3.3)	11.4 (3.3)	9.3
2. Reserves	16,156	18,702 (12.1)	6.1 (13.1)	15.8
3. Deposits	82,129	87,532 (61.6)	3.8 (61.2)	6.6
4. Borrowings	22,575	24,217 (16.9)	11.4 (16.9)	7.3
5. Other Liabilities	8,174	7,891 (6.1)	14.4 (5.5)	-3.5
Total Liabilities/Assets	**1,33,377 (100.0)**	**1,43,090 (100.0)**	6.1	7.3
Assets				
1. Cash and Bank balance	8,567	10,695 (6.4)	11.4 (7.5)	24.8
2. Investments	35,937	36,628 (26.9)	2.2 (25.6)	1.9
3. Loans and Advances	73,125	79,202 (54.8)	8.9 (55.4)	8.3
4. Other Assets	15,748	16,565 (11.8)	0.5 (11.6)	5.2

Note : 1. Figures in parentheses are percentages to total.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.
3. Data are provisional.

Source : NABARD.

Financial Performance

4.111 Despite expansion in balance sheet of DCCBs, both their income and expenditure declined during 2005-06. However, decline in income was sharper than the decline in expenditure, resulting in a sharp decline in operating and net profits. Interest income accounted for nearly 90 per cent of the total income, while interest expenditure accounted for nearly two-thirds of total expenditure. As observed for StCBs, the non-interest income of DCCBs also declined. Provisions and contingencies made by DCCBs, however, increased. During 2005-06, out of 366 reporting DCCBs, 278 made profits amounting to Rs.1,116 crore, while 88 DCCBs made losses to the tune of Rs.913 crore (Table IV.24).

Table IV.24: Financial Performance of District Central Co-operative Banks

(Amount in Rs. crore)

Item	2004-05	2005-06	Percentage Variations	
			2004-05	2005-06
1	2	3	4	5
A. Income (i+ii)	**12,731 (100.0)**	**11,688 (100.0)**	**6.9**	**-8.2**
i) Interest Income	11,420 (89.7)	10,687 (91.4)	3.6	-6.4
ii) Other Income	1,310 (10.3)	1,000 (8.6)	47.6	-23.7
B. Expenditure (i+ii+iii)	**11,759 (100.0)**	**11,481 (100.0)**	**-0.4**	**-2.4**
i) Interest Expended	7,405 (63.0)	6,577 (57.3)	1.2	-11.2
ii) Provisions and Contingencies	2,125 (18.1)	2,563 (22.3)	-12.0	20.6
iii) Operating Expenses	2,230 (19.0)	2,341 (20.4)	7.7	5.0
of which : Wage Bill	1,607 (13.7)	1,648 (14.4)	5.3	2.6
C. Profit				
i) Operating Profit	3,096	2,769	22.8	-10.6
ii) Net Profit	971	207	799.3	-78.7
D. Total Assets	**1,33,377**	**1,43,090**	**6.1**	**7.3**

Note : 1. Figures in parentheses are percentage to the respective total.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.
3. Data are provisional.

Source : NABARD.

Table IV.25: Asset Quality of District Central Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
A. Asset Classification Total NPAs (i+ii+iii)	**14,520 (100.0)**	**15,712 (100.0)**	**-10.1**	**8.2**
i) Sub-Standard	6,468 (44.5)	6,905 (43.9)	-23.3	6.8
ii) Doubtful	6,053 (41.7)	6,699 (42.6)	-0.2	10.7
iii) Loss Assets	1,999 (13.8)	2,109 (13.4)	21.3	5.5
B. NPAs to Loans Ratio	**19.9**	**19.8**		
Memo Item:				
i) Recovery to Demand	72	69		
ii) Provisions Required	8,678	8,713	37.8	0.4
iii) Provisions Made	11,387	9,440	65.0	-17.1

Note : Figures in parentheses represent percentages to total.

Source : NABARD.

Asset Quality and Recovery Performance

4.112 The NPAs ratio of DCCBs remained more or less unchanged during 2005-06. However, substantial asset slippage was also observed across all categories of assets. Recovery performance declined during the year. Provisions made declined during the year as against a sharp increase during the previous year (Table IV.25).

Regional Dimensions

4.113 During 2005-06, out of 366 reporting DCCBs, 278 made profits amounting to Rs.1,116 crore, while 88 DCCBs made losses to the tune of Rs.913 crore. DCCBs operating in 14 out of 19 States made profits, while DCCBs in five States (Jammu and Kashmir, Uttar Pradesh, Maharashtra, Andhra Pradesh and Tamil Nadu) made losses. Number of profit-earning DCCBs during 2005-06 increased in Rajasthan, Bihar, Madhya Pradesh, Uttarakhand, Maharashtra, Karnataka and Kerala. In the case of Maharashtra, while the number of profit-making DCCBs increased, the amount of profits earned declined. The number of loss making DCCBs as well as overall losses incurred by them increased in seven States (Haryana, Jharkhand, West Bengal, Uttar Pradesh, Gujarat, Andhra Pradesh and Tamil Nadu) (Table IV.26 and Appendix Table IV.7).

4.114 The NPAs ratio in respect of DCCBs varied significantly across the States from 5.2 per cent to 68.7 per cent at end-March 2006. Only in three States (Haryana, Himachal Pradesh and Punjab), the NPAs ratio was less than 10 per cent, while the NPAs ratio was higher than 50 per cent in Jharkhand (68.7 per cent) and Bihar (57.6 per cent). However, NPAs in three States, Rajasthan, West Bengal and Andhra Pradesh, which traditionally had low NPAs (less than 20 per cent), increased during the year. NPAs in some other States such as Jammu and Kashmir, Bihar, Orissa, Chhattisgarh, Madhya Pradesh, Maharashtra and Karnataka which already had high NPA levels (greater than 20 per cent), increased during the year. The sharpest decline (10.4 per cent) in NPA ratio was observed in Jharkhand and the highest increase (12.7 per

Table IV.26: Region-wise Profit/Loss Making District Central Co-operative Banks
(As on March)

State	2004-05				2005-06			
	Profit		Loss		Profit		Loss	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9
Northern Region	66	262.89	4	11.48	64	213.64	5	15.4
Eastern Region	54	123.6	10	16.23	52	92.72	12	28.0
Central Region	70	121.03	34	155.78	74	159.19	30	174.0
Western Region	35	295.39	14	169.49	34	244.23	15	245.8
Southern Region	70	552.42	10	85.9	54	406.6	26	450.0
All India	**295**	**1355.33**	**72**	**438.88**	**278**	**1116.38**	**88**	**913.2**

Note : Data for 2005-06 are provisional and based on the reporting banks.
Source : NABARD.

cent) was observed in Karnataka. At the all-India level, the recovery performance of DCCBs worsened from 72.2 per cent to 69.2 per cent during 2005-06. The recovery by DCCBs generally worsened in all States, except Himachal Pradesh, Jammu and Kashmir, Punjab, Bihar, West Bengal, Chhattisgarh, Uttar Pradesh, Uttarakhand, Andhra Pradesh and Karnataka. In some States such as Haryana, Punjab, Rajasthan, Uttarakhand, Kerala and Tamil Nadu, the recovery rate was more than 80 per cent during 2005-06 (Appendix Table IV.7).

Primary Agricultural Credit Societies (PACS)

4.115 Primary agricultural credit societies (PACS), the grassroot level tier of short-term co-operative credit structure, deal directly with individual borrowers, grant short and medium-term loans and also undertake distribution and marketing functions. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies have been adopted to improve the financial health of the PACS. NABARD has been extending support to develop the infrastructure in PACS out of Co-operative Development Fund (CDF). Total number of PACS declined to 106,384 in 2005-06 from 108,779 in the previous year. The membership of PACS also declined by 3.8 per cent to 123 million. However, the number of borrowing members increased to 46 million, constituting 37.6 per cent of the total membership as compared with 35.4 per cent in the previous year (Table IV.27).

Operations

4.116 While total resources of PACS increased during 2005-06 on the back of modest growth in deposits, the working capital of PACS declined marginally by 2.7 per cent. On the asset side, the loan portfolio expanded by around 10 per cent due entirely to growth of short-term loans. This partly reflected an increase in the total number of borrowing members. Total loans outstanding, however, witnessed a slower growth on account of higher repayments (Table IV.28).

Financial Performance

4.117 During 2005-06, the number of both profit and loss making PACS declined. The total profits

Table IV.27: Primary Agricultural Credit Societies - Membership

(Amount in Rs. crore)

Item	As at end-March	
	2005	2006
1	2	3
1. No. of Societies	108,779	106,384
2. Total Membership (in million)	127.41	122.56
of which:		
a) SC	30.93	30.58
b) ST	11.80	11.66
3. Total No. of Borrowers (in million)	45.07	46.08
of which:		
a) SC	7.25	6.98
b) ST	3.46	3.33
4. Total No. of Employees	388,118	241,609

Note : Data are provisional.
Source : NAFSCOB.

Table IV.28: Primary Agricultural Credit Societies – Select Indicators

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	68,423	69,871	12.5	2.1
2. Owned Funds (a+b)	9,197	9,292	9.5	1.0
a. Paid-up Capital	5,571	5,644	7.8	1.3
of which: Government Contribution	621	622	-1.4	0.2
b. Total Reserves	3,626	3,648	12.2	0.6
3. Deposits	18,976	19,561	4.6	3.1
4. Borrowings	40,250	41,018	17.5	1.9
5. Working Capital	75,407	73,387	21.5	-2.7
B. Assets				
1. Total Loans Issued (a+b)*	39,212	42,920	11.7	9.5
a) Short-Term	31,887	35,624	8.7	11.7
b) Medium-Term	7,325	7,296	26.4	-0.4
2. Total Loans Outstanding (a+b)+	48,785	51,779	11.2	6.1
a) Short-Term	32,481	34,140	5.4	5.1
b) Medium-Term	16,304	17,639	24.8	8.2
C. Overdues				
1. Total Demand	47,785	50,979	8	6.7
2. Total Collection	31,733	35,503	13.6	11.9
3. Total Balance (Overdues) (a+b)	16,052	15,476	-1.5	-3.6
a) Short-Term	11,656	11,387	-5.1	-2.3
b) Medium-Term	4,396	4,089	12.2	-7.0
4. Percentages of Overdues to Total Demand	33.6	30.4		

* : During the year. + : As at the beginning of the year.

Note : Data are provisional.

Source : NAFSCOB.

earned by profit-making PACS increased, while the losses made by loss making PACS declined. In the aggregate, 44,321 PACS earned profits amounting to Rs.1,064 crore, while 53,050 PACS incurred losses of Rs.1,920 crore. As a result, PACS, as a group, incurred lower net losses of Rs.857 crore during 2005-06 as compared with a total loss of Rs.1,261 crore during 2004-05. Both total demand and total collections increased during 2005-06. However, collections grew sharply. As a result, total overdues, as percentage of total demand, declined sharply to 30.4 per cent during 2005-06 from 33.6 per cent during 2004-05.

Regional Dimensions

4.118 On an average, a PACS served seven villages for the country as a whole at end-March 2006. Only in five States/UTs (Chandigarh, Nagaland, Sikkim, Maharashtra and Kerala) the penetration of PACS was high as they served on an average up to two villages. The North-Eastern region is relatively underserved (Table IV.29 and Appendix Table IV.8).

4.119 The average size of deposits mobilised by PACS was Rs.18.4 lakh. The average size of deposits of PACS in Kerala at Rs.563 lakh far exceeded that of any other States. In the States of Tamil Nadu, Orissa and Puducherry the average size of deposits mobilised by PACS was Rs.57 lakh, Rs.59 lakh, Rs.91 lakh, respectively. Average deposit mobilisation by PACS in most other States was insignificant.

4.120 In eleven States (Himachal Pradesh, Punjab, Rajasthan, Arunachal Pradesh, Mizoram, Sikkim, Jharkhand, Uttarakhand, Uttar Pradesh, Goa and Gujarat), the number of profit-making PACS as well as profits earned by them exceeded the number of loss making PACS and the amount of losses incurred by them. In three States/UTs (Chandigarh, Chhattisgarh and Kerala) the losses made by loss making PACS exceeded those of profits of profit-making PACS. In fifteen other States/UTs (Haryana, Jammu and Kashmir, Assam, Manipur, Meghalaya, Nagaland, Tripura, Andaman and Nicobar Island, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka, Puducherry and Tamil Nadu) the number of loss making PACS as well as the amount of losses incurred by them exceeded the number of profit-making PACS and the amount of profits earned by them. Bihar was the only State where PACS earned overall profits even as the number of loss making PACS were more than the number of profit-making PACS. (Appendix Table IV.8).

4.121 Out of 106,376 PACS as on March 31, 2006, 66,525(63.5 per cent) were viable, 29,684 (27.9 per cent) potentially viable, 4,631 (4.4 per cent) dormant, 1,998 (1.9 per cent) defunct and 3,538 (2.4 per cent) others. The number of dormant and defunct PACS was the highest in West Bengal (1,282), followed by Nagaland (1,034) and Gujarat (942) (Appendix Table IV.8).

Table IV.29: Select Indicators of Primary Agricultural Credit Societies – State-wise-2005-06

Sr. No.	State	No. of PACS	No. of Villages covered	Average Deposits (Rs. Lakh)	Working Capital (Rs. Lakh)	Societies in Profit		Societies in Loss	
						No.	Amount (Rs. Lakh)	No.	Amount (Rs. Lakh)
1		2	3	4	5	6	7	8	9
	Northern Region	**13,480**	**74,988**	**13.2**	**12,34,264**	**8,398**	**20,086**	**4,198**	**9,009**
1.	Chandigarh	16	22	0.2	23	14	5	1	12
2.	Delhi	–	–	–	–	–	–	–	–
3.	Haryana	2,441	7,132	13.1	5,03,523	1,198	3,709	1,243	3,906
4.	Himachal Pradesh	2,086	19,388	31.4	93,743	1,701	937	318	84
5.	Jammu and Kashmir	187	2,950	4.9	9,976	22	15	165	130
6.	Punjab	3,978	12,428	15.0	4,16,652	2,403	3,595	1,171	1,574
7.	Rajasthan	4,772	33,068	4.1	2,10,347	3,060	11,825	1,300	3,303
	North-Eastern Region	**3,535**	**35,546**	**3.9**	**6,40,096**	**600**	**7,841**	**867**	**10,253**
8.	Arunachal Pradesh	31	3,649	–	5,64,249	20	25	6	8
9.	Assam	809	23,422	0.6	7,533	309	7,639	419	9,909
10.	Manipur	186	–	35.0	45,904	–	–	108	201
11.	Meghalaya	179	5,780	0.5	1,283	60	27	119	33
12.	Mizoram	175	660	0.1	175	59	70	4	10
13.	Nagaland	1,719	969	3.7	11,246	–	–	–	–
14	Sikkim	166	166	–	146	56	6	37	4
15.	Tripura	270	900	0.3	9,560	96	75	174	89
	Eastern Region	**28,830**	**271,438**	**11.2**	**9,10,708**	**10,971**	**3,517**	**16,455**	**7,742**
16.	Andaman and Nicobar Island	46	204	0.4	638	7	1	37	4
17.	Bihar	5,936	45,098	1.0	44,337	1,168	520	3,953	64
18.	Jharkhand	208	5,185	6.1	1,523	203	91	–	–
19.	Orissa	3,860	43,303	58.8	4,96,403	1,415	1,290	2,352	4,757
20.	West Bengal	18,780	177,648	4.7	3,67,807	8,178	1,615	10,113	2,918
	Central Region	**15,381**	**193,562**	**4.5**	**5,72,972**	**7,401**	**9,041**	**5,080**	**14,718**
21.	Chhattisgarh	1,373	20,841	12.3	87,193	811	1,153	562	1,681
22.	Madhya Pradesh	4,633	54,017	9.2	3,48,022	1,792	6,008	2,450	12,847
23.	Uttarakhand	446	5,900	6.6	11,830	262	107	100	37
24.	Uttar Pradesh	8,929	112,804	0.8	1,25,927	4,536	1,774	1,968	153
	Western Region	**29,607**	**54,701**	**1.1**	**15,57,894**	**12,588**	**21219**	**16,266**	**47,458**
25.	Goa	75	242	28.9	5,203	54	115	21	29
26.	Gujarat	8,487	16,997	2.1	5,29,421	5,027	3,763	2,880	3,487
27.	Maharashtra	21,045	37,462	0.7	10,23,270	7,507	17341	13,365	43,941
	Southern Region	**15,543**	**84,938**	**86.2**	**29,85,282**	**4,357**	**18,074**	**10,160**	**1,02,867**
28.	Andhra Pradesh	4,491	30,715	17.2	5,64,249	1,002	4,015	3,194	17,851
29.	Karnataka	4,911	34,069	20.9	4,70,393	1,732	4,621	2,811	8,239
30.	Kerala	1,600	1,556	562.9	11,31,095	772	4,807	762	8,224
31.	Puducherry	52	287	90.7	7,671	21	1	31	4
32.	Tamil Nadu	4,489	18,311	56.6	8,11,874	830	4,629	3,362	68,549
	All-India Total	**106,376**	**715,173**	**18.4**	**7,338,667**	**44,321**	**71936**	**53,050**	**192,048**

– : Nil/Negligible.

Note : Data on Dadra and Nagar Haveli are not available.

Source : NAFSCOB.

Rural Co-operative Banks - Long-Term Structure

Structure, Spread and Growth

4.122 As at end-March 2006, the long-term co-operative credit structure consisted of 20 state co-operative agriculture and rural development banks (SCARDBs) and 696 primary co-operative agriculture and rural development banks (PCARDBs). Of the 20 SCARDBs (having 864 branches), eight were with unitary structure with branches, while twelve were federal/mixed in nature. In those States which were not served by the long-term structure, separate sections of the state co-operative banks look after the long-term credit needs. In the North-Eastern region, only three States (Assam, Manipur and Tripura) had long-term structure. The number of operational PCARDBs declined to 696 in March 2006 from 727 in March 2005 due to the amalgamation/ merger of PCARDBs.

State Co-operative Agriculture and Rural Development Banks

Operations

4.123 The assets/liabilities of the SCARDBs registered a moderate growth of 1.4 per cent during 2005-06 in comparison with 3.8 per cent in the previous year. On the liability side, the growth rate of deposits decelerated sharply while borrowing, which is the main source of resources for the SCARDBs, registered a marginal decline. On the asset side, the trend of unwinding of the investment portfolio in favour of loans and advances witnessed in 2004-05 was arrested as SCARDBs made fresh investments during the year. The growth rate of loans and advances extended by them, however, decelerated during 2005-06 (Table IV.30).

Financial Performance

4.124 Income of SCARDBs increased sharply, while their expenditure declined substantially. As a result, operating profits of SCARDBs increased sharply. Provisions and contingencies also declined during the year. Financial performance of the SCARDBs made a turnaround during 2005-06 and earned a net profit of Rs.262 crore during 2005-06 as compared with a net loss of Rs.163 crore during 2004-05 (Table IV.30). However, eight out of twenty SCARDBs recorded losses. The SCARDBs in Assam, Maharashtra, Karnataka and Tamil Nadu made a turnaround (Appendix Table IV.9). As a result of net profit during the year, accumulated losses declined to Rs.918 crore at end-March 2006 from Rs.1,098 crore at end-March 2005.

Table IV.30: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
Liabilities				
1. Capital	791 (3.3)	801 (3.2)	3.6	1.3
2. Reserves	2,165 (8.9)	2,354 (9.6)	-40.5	8.7
3. Deposits	608 (2.5)	636 (2.6)	16.0	4.7
4. Borrowings	17,182 (70.8)	17,075 (69.4)	1.5	-0.6
5. Other Liabilities	3,525 (14.5)	3,738 (15.2)	131.0	6.0
Total Liabilities/Assets	**24,271 (100.0)**	**24,604 (100.0)**	**3.8**	**1.4**
Assets				
1. Cash and Bank Balances	360 (1.5)	365 (1.5)	-46.7	1.4
2. Investments	1,867 (7.7)	1,885 (7.7)	-19.2	1.0
3. Loans and Advances	17,403 (71.7)	17,713 (72.0)	7.0	1.8
4. Other Assets	4,641 (19.1)	4,641 (18.8)	12.2	0.0

Note : 1. Figures in parentheses are percentages to total.
2. Data for Jammu and Kashmir repeated from 2004 and Manipur from 2002, respectively.
3. Data for SCARDBs in the States of Assam, Kerala and Himachal Pradesh repeated for the year 2005-06 from previous year.
4. Data are provisional.

Source : NABARD.

Asset Quality and Recovery Performance

4.125 The overall NPAs of SCARDBs continued to increase during 2005-06, both in absolute terms and in relation to total loan portfolio, although at a slower rate. However, increase in NPAs during the year was entirely on account of increase in NPAs in the 'sub-standard' category. NPAs in the 'doubtful' and 'loss' category declined

Table IV.31: Financial Performance of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5
A. Income (i+ii)	**2,145 (100.0)**	**2,369 (100.0)**	**3.0**	**10.5**
i) Interest Income	2,100 (97.9)	2,269 (95.8)	2.5	8.0
ii) Other Income	45 (2.1)	101 (4.3)	28.2	124.3
B. Expenditure (i+ii+iii)	**2,308 (100.0)**	**2,107 (100.0)**	**4.8**	**-8.7**
i) Interest Expended	1,371 (59.4)	1,335 (63.4)	-5.0	-2.6
ii) Provisions and Contingencies	727 (31.5)	531 (25.2)	31.9	-27.0
iii) Operating Expenses	209 (9.1)	241 (11.4)	1.5	15.2
of which : Wage Bill	165 (7.2)	181 (8.6)	1.9	9.7
C. Profit				
i) Operating Profit	564	793	30.4	40.5
ii) Net Profit	-162.6	262.1	36.6	-261.2
D. Total Assets	**24,271**	**24,604**	**3.8**	**1.4**

Note : 1. Figures in parentheses are percentages to respective totals.
2. Data for Jammu and Kashmir and Manipur repeated from 2003-04 and Manipur from 2001-02, respectively.
3. Data for SCARDBs in the States of Assam, Kerala and Himachal Pradesh repeated for the year 2005-06 from previous year.
4. Figures may differ from Appendix Table IV.9 due to different data sources.
5. Data are provisional.

Source : NABARD.

Table IV.32: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
A. Asset Classification Total NPAs (i+ii+iii)	**5,437 (100.0)**	**5,786 (100.0)**	**25.4**	**6.4**
i) Sub-Standard	3,288 (60.5)	3,758 (65.0)	25.0	14.3
ii) Doubtful	2,129 (39.2)	2,011 (34.8)	26.2	-5.5
iii) Loss Assets	20 (0.4)	17 (0.3)	0.0	-16.9
B. NPAs to Loans Ratio	**31.2**	**32.7**		
Memo Item:				
i) Recovery to Demand	44	47		
ii) Provisions Required	1,024	1445	22.9	41.1
iii) Provisions Made	1,097	1573	31.8	43.4

Note : Figures in parentheses are percentages to total.

Source : NABARD.

during the year. Recovery performance witnessed sharp variations across the SCARDBs. However, on the whole overall recovery performance improved during the year. As a result of increase in NPAs, provisioning requirement and provisioning made increased during 2005-06 (Table IV.32).

Regional Dimensions

4.126 While SCARDBs operating in 11 States earned profits, in eight States they incurred losses (information for one State was not available). Profits earned by SCARDBs in four States (Punjab, Assam, Gujarat, and Kerala) improved during the year, while they declined in four States (Rajasthan, West Bengal, Madhya Pradesh and Uttar Pradesh). The performance of three SCARDBs in three States (Himachal Pradesh, Chhattisgarh and Puducherry) worsened during the year as they registered losses against net profits during 2004-05. Losses incurred by SCARDBs in Haryana, Tripura and Bihar increased further, while they declined for Orissa and Jammu and Kashmir (Appendix Table IV.9).

4.127 NPAs, as percentage of advances, of SCARDBs across States varied from nil (Punjab) to 100 per cent (Manipur) at end-March 2006. NPAs in four other States (Orissa, Chhattisgarh, Madhya Pradesh and Kerala) were less than 20 per cent. In as many as six States (Assam, Manipur, Bihar, Gujarat, Maharashtra, and Tamil Nadu), the NPA ratio was more than 50.0 per cent. The recovery ratio also varied widely between 1.9 per cent (Bihar) and 94.1 per cent (Punjab). The average recovery of SCARDBs increased to 47.3 per cent during 2005-06 of total demand from

44.0 per cent during 2004-05. In as many as 12 States, the recovery rate was less than 50 per cent (Appendix Table IV.9).

Primary Co-operative Agriculture and Rural Development Banks

Operations

4.128 Assets/liabilities of PCARDBs expanded moderately during 2005-06. Like SCARDBs, PCARDBs meet most of their fund requirement through borrowings which increased moderately during the year. Their reserves, another important source of funds, however, increased sharply, reversing the trend of the previous year. On the asset side, investment declined while loans and advances registered a marginal growth (Table IV.33).

Table IV.33: Liabilities and Assets of PCARDBs

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2005	2006	2004-05	2005-06
1	2	3	4	5
Liabilities				
1. Capital	920 (4.5)	922 (4.3)	0.7	0.2
2. Reserves	2,196 (10.8)	2,665 (12.5)	-25.4	21.4
3. Deposits	364 (1.8)	382 (1.8)	-7.8	4.9
4. Borrowings	12,750 (62.5)	13,066 (61.2)	7.3	2.5
5. Other Liabilities	4,184 (20.4)	4,330 (22.5)	23.6	3.5
Total Liabilities/Assets	**20,413 (100.0)**	**21,365 (100.0)**	**4.6**	**4.7**
Assets				
1. Cash and Bank Balances	209 (1.0)	224 (1.1)	-9.2	7.3
2. Investments	804 (3.9)	778 (3.6)	3.1	-3.3
3. Loans and Advances	12,622 (61.9)	12,740 (59.6)	11.6	0.9
4. Other Assets	6,778 (33.2)	7,623 (35.7)	-5.8	12.5

Note : 1. Figures in parentheses are percentages to total.
2. 'Reserves' include provisions and credit balance in profit and loss account.
3. Data for PCARDBs in the States of Tamil Nadu and Kerala repeated for the year 2005-06 from previous year.
4. Data are provisional.

Source : NABARD.

Financial Performance

4.129 The financial performance of the PCARDBs deteriorated during 2005-06. Net interest income of PCARDBs increased significantly. On the expenditure side, operating expenses were also contained during the year. However, sharp decline in non-interest income resulted in sharp decline in operating profits. This combined with sharp growth in provisions and contingencies resulted in a net loss during 2005-06 as against net profit during 2004-05. In 2005-06, 331 PCARDBs registered profit of Rs.328 crore, while 194 loss-making PCARDBs incurred losses amounting to Rs.411 crore. The rise in overall losses led to an increase in the accumulated losses of PCARDBs to Rs.2,672 crore at end-March 2006 from Rs.2,475 crore at end-March 2005 (Table IV.34, Appendix Table IV.10).

Asset Quality and Recovery Performance

4.130 The overall NPAs of the PCARDBs, both in absolute amount and as percentage of total loans and advances, registered significant increases during 2005-06. Increase in NPAs was observed in 'sub-standard' asset categories, while NPAs in the'doubtful' and 'loss' asset category declined. Recovery performance also deteriorated at the aggregate as well as for most of the States. Provisioning requirement declined during the year. As a result, provisions made also declined somewhat. As in the previous year, provisions made exceeded the provisioning requirement (Table IV.35).

Regional Dimensions

4.131 Out of the 696 PCARDBs operating in 12 States, information was available for only 525 banks. While 331 PCARDBs made profits, 194 incurred losses. Himachal Pradesh and Maharashtra did not have any profit-making PCARDB (Appendix Table IV.10).

4.132 The NPA ratio of PCARDBs in all the States was more than 20.0 per cent at end-March 2006. PCARDBs operating in Punjab had the lowest NPA ratio (21.1 per cent), while those in Tamil Nadu the highest (69.9 per cent). NPAs of PCARDBs operating in Orissa, and Maharashtra were above 40 per cent, while those of Haryana, Himachal Pradesh, Madhya Pradesh, Karnataka and Kerala were above 30 per cent (Appendix Table IV.10).

Table IV.34: Financial Performance of PCARDBs

(Amount in Rs. crore)

Item	2004-05	2005-06	Percentage Variations 2004-05	Percentage Variations 2005-06
1	2	3	4	5
A. Income (i+ii)	**2,345 (100.0)**	**2,123 (100.0)**	**30.8**	**-9.5**
i) Interest Income	1,465 (62.5)	1,690 (79.6)	-0.4	15.4
ii) Other Income	880 (37.5)	433 (20.4)	174.2	-50.8
B. Expenditure (i+ii+iii)	**1,986 (100.0)**	**2,232 (100.0)**	**-3.1**	**12.4**
i) Interest Expended	1,130 (56.9)	1,239 (55.5)	-1.3	9.6
ii) Provisions and Contingencies	545 (27.5)	698 (31.3)	-10.9	28.1
iii) Operating Expenses	311 (15.6)	295 (13.2)	6.4	-5.1
of which : Wage Bill	204 (10.3)	205 (9.2)	0.1	0.5
C. Profit				
i) Operating Profit	904	589	155.4	-34.8
ii) Net Profit	359	-109	-239.2 *	-130.3
D. Total Assets	**20,413**	**21,365**	4.6	4.7

* : Represents an increase over a net loss of Rs.258 crore during 2003-04.

Note : 1. Figures in parentheses are percentages to respective total.
2. Data for PCARDBs in the States of Tamil Nadu and Kerala repeated for the year 2005-06 from previous year.
3. Figures may differ from Appendix Table IV.10 due to different data sources.
4. Data are provisional.

Source : NABARD.

The average recovery PCARDBs in three States (Himachal Pradesh, Karnataka and Tamil Nadu) was more than 60 per cent of total demand. The recovery rate of PCARDBs in seven more States (Punjab, Rajasthan, Orissa, West Bengal, Chhattisgarh, Madhya Pradesh, and Kerala) ranged between 40 per cent and 60 per cent. In the remaining two States (Haryana and Maharashtra), recovery rates were below 40 per cent (Appendix Table IV.10).

Table IV.35: Asset Quality of PCARDBs

(Amount in Rs. crore)

Item	As at end-March 2005	As at end-March 2006	Percentage Variations 2004-05	Percentage Variations 2005-06
1	2	3	4	5
A. Asset Classification Total NPAs	**4,056 (100.0)**	**4,554 (100.0)**	**1.0**	**12.3**
i) Sub-Standard	2,161 (53.3)	2,635 (57.9)	3.9	21.9
ii) Doubtful	1,845 (45.5)	1,873 (41.1)	-2.4	1.5
iii) Loss Assets	50 (1.2)	46 (1.0)	6.4	-8.0
B. NPAs to Loans Ratio	**32.1**	**35.7**		
Memo Item:				
C. Recovery to Demand	**54**	**48**		
D. Provisions Required	**872**	**745**	**-7.6**	**-14.6**
E. Provisions Made	**910**	**786**	**-3.5**	**-13.6**

Note : Figures in parentheses represent percentages to total.
Source : NABARD.

4. Micro Finance

4.133 In the post-nationalisation era, the banking system in India witnessed unprecedented growth and achieved phenomenal outreach. Notwithstanding this, empirical studies in the 1980s revealed that a very large number of the poorest of the poor continue to remain outside the reach of the formal banking system. It was realised that the existing banking policies, systems and procedures and deposits and loan products were not well suited to meet the credit needs of the poor. Apart from the existing banking network, with a view to developing a supplementary credit delivery system that is cost effective and user friendly for both banks and the poor, micro finance initiatives were encouraged in India. These initiatives have been centered around two models, *i.e.*, the SHG-Bank Linkage Programme and the Micro Finance Institutions (MFIs) model.

Self-Help Group (SHG) - Bank Linkage Programme

4.134 The SHG-Bank Linkage Programme was started as an action research project in 1989. The findings of the project led to the launching of the pilot project by NABARD in 1992 with policy support from the Reserve Bank. The pilot project was designed as a partnership model between three agencies, *viz.*, the SHGs, banks and non-government organisations (NGOs). The SHGs were expected to facilitate collective decision making by the poor and provide 'doorstep banking', the banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them.

4.135 The programme has since come a long way from the pilot project of financing 500 SHGs across the country. It has proved its efficacy as a mainstream programme for banking with the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep "saving and credit" facility for the poor and exploitation of the untapped business potential of the rural areas. The programme, which started as an outreach programme has not only aimed at promoting thrift and credit, but also contributed immensely towards the empowerment of the rural women.

Progress during 2006-07

4.136 The SHG-Bank Linkage Programme continued to be the predominant micro finance model in the country. During 2006-07, 686,408 new SHGs were credit linked with banks, taking the cumulative number of SHGs credit linked to 2.92 million. In addition, 457,410 existing SHGs received repeat finance during the year. Bank loans disbursed to SHGs during 2006-07 amounted to Rs.6,643 crore taking the cumulative bank loan disbursed to SHGs up to March 2007 to Rs.18,041 crore. The phenomenal outreach of the programme has enabled more than 41 million poor households to gain access to micro finance from the formal banking system, registering a growth of 24 per cent over 2005-06 (Table IV.36).

4.137 During 2006-07, NABARD intensified the implementation of the programme in the 13 identified priority States, some of which account for the bulk of the rural poor, *viz.*, Uttar Pradesh, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Gujarat, Rajasthan, Chhattisgarh, Jharkhand, Bihar, Assam, Himachal Pradesh and Uttrakhand. Accordingly, the programme spread rapidly in these states indicating a marked shift from its initial localisation in the Southern region.

Table IV.36: SHG - Bank Linkage Programme

(Amount in Rs. crore)

Year	Total SHGs financed by banks (in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1992-99	33	33	57	57	52	52
1999-00	82	115	136	193	98	1507
	(147.9)	(247.9)	(138.1)	(238.1)	(88.6)	(188.6)
2000-01	149	264	288	481	251	401
	(82.3)	(129.9)	(112)	(149.2)	(155.5)	(167.0)
2001-02	198	461	545	1,026	396	796
	(32.6)	(74.9)	(89)	(113.4)	(57.9)	(98.8)
2002-03	256	717	1,022	2,049	622	1,419
	(29.5)	(55.4)	(87)	(99.6)	(57.2)	(78.1)
2003-04	362	1079	1,856	3,904	706	2,125
	(41.4)		(81)	(90.6)	(13.4)	(49.7)
2004-05	539	1,618	2,994	6,898	968	3,092
	(49.1)	(50.0)	(61)	(76.7)	(37.1)	(45.5)
2005-06	620	2,239	4,499	11,398	1,068	4,160
	(15.0)	(38.3)	(50.3)	(65.2)	(10.3)	(34.5)
2006-07	686	2,924	6,643	18,041	1,299	5,459
	(11.0)	(30.6)	(47.6)	(58.3)	(21.6)	(31.2)

Note : 1. Figures in parentheses indicate annual percentage growth.
2. Data for 2006-07 are provisional.

Source : NABARD.

Table IV.37: Region-wise Growth in Credit Linkage of SHGs

Region	Number of SHGs Credit Linked				Number of SHGs Credit Linked			
	2000-01		Cumulative at end-March 2001		2006-07		Cumulative at end-March 2007	
	Number	Share in total	Number	Share in total	Number	Share in total	Number	Share in total
1	2	3	4	5	6	7	8	9
Northern	4,221	3.0	9,012	3.4	48,921	7.1	182,018	6.3
North-Eastern	160	0.1	477	0.2	29,237	4.2	91,754	3.1
Eastern	11,057	7.9	22,252	8.4	131,530	19.2	525,881	17.8
Central	8,631	6.2	28,851	10.9	64,814	9.5	332,729	11.4
Western	6,911	4.9	15,543	5.9	104,193	15.2	270,447	9.3
Southern	109,218	77.9	187,690	71.2	307,713	44.8	1,522,144	52.0
Total	**140,198**	**100.0**	**263,825**	**100.0**	**686,408**	**100.0**	**2,924,973**	**100.0**

Note : Data for 2006-07 are provisional.
Source : NABARD.

The cumulative share of non-southern regions rose from 29 per cent at end-March 2001 to 48 per cent at end-March 2007 (Table IV.37).

4.138 The low transaction cost and almost zero NPA levels in the SHG portfolio of the banks has made the SHG-Bank Linkage programme a useful commercial proposition for the banks. In terms of relative shares of different agencies, commercial banks continue to maintain their lead both in terms of numbers of SHGs credit linked and loan disbursed. Though RRBs take the second position after banks, their share in the total has declined in recent years. The share of co-operative banks remained unchanged at 14 per cent in terms of number of SHGs credit linked and their share in loan disbursed dropped during the year (Table IV.37).

4.139 Of the approximately 2.9 million SHGs, over one million are mature SHGs and have availed multiple loans from the banking system. Enabling such mature SHGs to take up micro enterprises is a major challenge for development planners. During 2005-06, a focussed and location-specific micro-enterprise development programme (MEDP) on skill upgradation and development for sustainable livelihoods for members of the matured SHGs was launched by NABARD. During 2006-07, 297 MEDPs were conducted covering 7,579 SHG members. The micro enterprises for which training was imparted to the SHG members included diverse activities such as goatery, mushroom cultivation, papad, agarbatti (incense stick) making, candle making, jute products making, among others.

4.140 Out of the three models which emerged under the SHG-Bank Linkage Programme over the years, about 81.1 per cent of the SHGs were financed by banks under Model II which involved NGO and government agencies (Table IV.39).

4.141 NABARD had also launched a pilot project for promotion of micro enterprises among the members of matured SHGs during 2005-2006. This pilot project is being implemented in nine districts spread over nine States. Fourteen NGOs, acting as ‘micro enterprise promotion agency’ (MEPA), are implementing the pilot project under the technical guidance of New Delhi based organisation called Marketing and Research Team (MART). During 2006-07, MEPAs completed the detailed survey of the districts. The surveys typically identified existing opportunities and supply and demand pattern for farm and non-farm activities that can be taken up on a project basis for sustainable income generation in the identified project area. Besides survey analysis, the identification of suitable activities was carried out through participatory processes and in consultation with SHG members. Action plans were finalised by each MEPA after discussions and consultations with the identified members of SHGs and also keeping in view the survey findings. Micro enterprise specific training calendar has been prepared for skill upgradation and better market acceptability of products. So far, out of 14 NGOs, four have completed the training schedule and 141 micro - enterprises have been established with financial assistance of Rs.31.19 lakhs.

Table IV.38: Linkage Position-Agency-wise*
(As at end-March)

(Amount in Rs. crore)

Agency	Number (in '000) of SHGs				Bank Loan Disbursed			
	2005-06	2006-07	Percentage variation		2005-06	2006-07	Percentage variation	
			2005-06	2006-07			2005-06	2006-07
1	2	3	4	5	6	7	8	9
Commercial Banks	1,188 (53.0)	1,595 (55.0)	40.9	34.3	6,988 (61.0)	11,397 (63.0)	68.0	63.09
RRBs	740 (33.0)	911 (31.0)	31.2	23.1	3,322 (29.0)	5,031 (28.0)	58.2	51.4
Co-operative Banks	310 (14.0)	418 (14.0)	46.9	34.8	1,087 (10.0)	1,597 (9.0)	69.8	46.9
Others	271 (12.1)	–	–	–	0.52 (0.005)	15 (0.1)	–	–
Total	**2,239 (100.0)**	**2,924 (100.0)**	**38.4**	**30.6**	**11,398 (100.0)**	**18,040 (100.0)**	**65.2**	**58.3**

*: Cumulative position as at end of the period.
Note : Figures in parentheses are percentages to total.
Source : NABARD.

MFIs-Bank Linkages

4.142 Micro-Finance Institutions (MFIs) are working under various legal forms in the country. These can be broadly classified as (i) a Society registered under the Societies Registration Act, 1860; (ii) a Public Trust registered under the Indian Trust Act, 1882 / Public Trust Act, 1920 or any State enactment governing religious or charitable public trusts; (iii) a co-operative society registered under the provisions of the State Co-operative Societies Act or under the Mutually Aided or Mutual Benefit Co-operative Societies Act or Multi-State Co-operative Societies Act, 2002 or under any other law relating to Co-operative Societies in force in India; (iv) a not-for-profit company registered under Section 25 of the Companies Act, 1956 and specifically exempted from registration by the Reserve Bank; and (v) non-banking financial companies (NBFCs) registered under the Companies Act, 1956 and regulated by the Reserve Bank.

4.143 The Finance Minister in the Budget Speech for 2005-06 had indicated that the Government intended to promote MFIs in a big way. Accordingly the 'Micro-Finance Development Fund' placed with NABARD was re-designated as 'Micro-Finance Development and Equity Fund' and its corpus was enhanced to Rs.200 crore from Rs.100 crore.

4.144 During 2006-07, efforts were made to strengthen MFIs and promote linkages of MFIs with banks. The scheme for providing financial support to banks for rating of MFIs was broad based and extended up to March 2008. Besides, a scheme called 'Capital/Equity support to MFIs from MFDEF' was launched to enable the MFIs to leverage capital/equity for accessing commercial and other funds from banks. Three MFIs were provided capital support to the tune of Rs.3 crore during the year.

4.145 Further, with a view to promoting the orderly growth of the micro finance sector, a Micro Financial Sector (Development and Regulation) Bill, 2007 was prepared by NABARD in consultation with the Ministry of Finance, Government of India. The Bill was introduced in the Lok Sabha on March 20, 2007. It has been referred to the 'Standing Committee' of Parliament for further deliberations.

4.146 Notwithstanding the continuing efforts to improve the micro finance system and extend its outreach, the system faces some challenges at the present juncture (Box IV.4).

Box IV.4: Micro Finance: Future Challenges and Strategy

Micro finance acts as a catalyst in the lives of the poor. It has helped them achieve a reasonable rise in their income level and improve their standards of living. Thus, micro finance is expected to play an important role in promoting financial inclusion and inclusive growth. However, there is a large gap in the demand and supply of credit to the poor. As per some estimates, the credit support for poor households in India has been assessed at about Rs.4,50,000 crore. Some of the micro level studies indicate that the poor still continue to depend on informal sources of credit, accounting for 40 per cent to 60 per cent of the household demand. There are, however, several challenges faced by the micro finance system.

Regional Imbalances : There is a skewed distribution of SHGs in favour of Southern region. The dominance of the Southern States has, *albeit*, declined in recent years on account of rapid progress in promotion and credit linkage of SHGs in non-Southern States. Nevertheless, over 50 per cent of the total SHG credit linkages in the country are concentrated in the Southern States. However, in States which have a larger share of the poor, the coverage is comparatively low.

Quality of SHGs : Sustainability in income generation is dependent on the quality of a SHG. Therefore, ensuring quality of a SHG is a big challenge. Owing to the fast growth of the SHG-Bank Linkage Programme, the quality of SHGs has come under stress. Some of the factors affecting the quality of SHGs are (i) the target oriented approach of some of the government departments in promoting groups; (ii) inadequate incentives to NGOs for nurturing them on a sustainable basis; and (iii) low level of skills on the part of the SHG members in managing their groups.

The strength of the programme stems from the fact that the loan recovery levels under the programme are significantly higher than credit disbursed under various government sponsored programmes. However, the quality of SHGs is of paramount importance to sustain the higher recovery levels.

Training of SHPIs, banks, SHG members : The success of the programme depends on the role played by self-help promoting institutions (SHPIs) in the promotion of quality groups and easy hassle free availability of bank credit. The promotion of quality groups, in turn, depends on the internal strengths – managerial and financial – of SHPIs. Therefore, capacity building through training programmes in respect of various stakeholders remains a challenge in the absence of quality resource centers at the district level as also lack of adequate appreciation on providing training to various personnel involved in the programme implementation.

Graduation from credit to enterprise : The more critical challenge is to induce SHGs to graduate into matured levels of enterprise, livelihood diversification, increased access to the supply chain, linkages to the capital market and appropriate/production and processing technologies.

The SHG Bank-Linkage programme needs to enable SHGs to also meet the non-financial requirements for setting up businesses and enterprises. However, there are not many viable and sustainable livelihoods in the area. This has led to groups turning morbid. *i.e.*, older SHGs not availing credit from banks after the initial few rounds of credit linkage. The job of micro enterprise promotion is further compounded because of factors like self-confidence, ability to invest, and access to market opportunities being unequal among the groups.

Emergence of SHG Federations: Of late, many SHPIs have started promoting federations of SHGs so that some of their functions can be performed by them in a cost effective and sustainable manner. However, no serious efforts have been made towards capacity building of federations. There is no established model which can be replicated across the country.

The emergence of SHG Federations represents the aggregation of collective bargaining power and economies of scale. They are fora for addressing social and economic issues. However, every additional tier adds to its cost and, thus, tends to weaken the primaries. It must, therefore, be ensured that the quality of the federations is good. To ensure the quality of federations, care needs to be taken by monitoring institutions engaged in promoting SHG Federations. One, federation should be evolved based on the felt need of the SHGs and the group should have freedom to or not to join the federation. Two, the federations need to be evolved as member-owned, member-driven institutions so that they can function in a democratic manner, keeping in view the aspirations of their constituents – self-help group. Three, the process and systems of federations need to be designed in such a way that these federations do not depend on the promoter perpetually and become self-managed in a reasonable period of time.

High Cost of Delivery: MFI model is comparatively costlier in terms of delivery of financial services due to low volume of loan and also loan size as also the cost of funds. A good number of MFIs are subsidy dependent and only few MFIs are able to cover more than 80 per cent of their costs. High rate of interest charged by them has become an area of concern. While it is agreed that the cost of services offered by MFIs is high, there is no consensus on the floor limit of rate of interest that could be permitted to be charged by MFIs. They, therefore, need to develop strategies for increasing the range and volume of their financial services so that they can provide their services at a cost affordable by poor.

Capacity building of MFIs: Successful delivery of flexible, client driven and innovative micro finance services to the poor would not be possible without building up the capacities of the MFIs and their primary stakeholders. Innovations in various aspects such as social intermediation, strategic linkages and new approaches centered on the livelihood issues surrounding the poor, and the re-engineering of the financial products offered by them are the need of the hour.

Future Strategies: Inspite of phenomenal growth of SHG-Bank Linkage Programme achieved over the years, there is still a large segment of society that is denied access to financial services. An estimate suggests that only 20 per cent of the low income group population has access to financial services. Thus, there is an urgent need to widen the scope, outreach as also the scale of financial services to cover the un-reached population.

5. NABARD and the Co-operative Sector

4.147 National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 as a development bank to perform the following functions: (i) to serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas; (ii) to take measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions and training of personnel; (iii) to co-ordinate the rural financing activities of all institutions engaged in developmental work at the field level and liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and (iv) to undertake monitoring and evaluation of projects refinanced by it.

4.148 NABARD's refinance is available to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (StCBs), regional rural banks (RRBs), commercial banks and other financial institutions approved by the Reserve Bank, while the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies. Production credit is generally extended to individuals.

Resources of NABARD

4.149 Till 2005-06, the Reserve Bank provided two General Lines of Credit (GLC) to NABARD under Section 17(4E) of the RBI Act 1934, to enable it to meet the short-term requirements of scheduled commercial banks, State co-operative banks and RRBs. During 2005-2006 (July-June), a GLC of Rs.3,000 crore was sanctioned at an interest rate of 6 per cent per annum, for providing refinance to State co-operative banks and RRBs for seasonal agricultural operations (SAO). However, NABARD was permitted to operate the GLC limit sanctioned for 2005-06 for drawals as well as for repayments up to December 31, 2006. As the limit was not available after December 31, 2006, NABARD was advised to consider accessing the markets on a regular basis for sufficient amounts so that the timeframe indicated for withdrawal of GLC was adhered to. Accordingly, the entire outstanding amount was repaid to the Reserve Bank on January 31, 2007.

4.150 Net accretion to the resources of NABARD at Rs.13,615 crore during 2006-07 registered a sharp increase of 199.5 per cent. Rural Infrastructure Development Fund (RIDF) and issuance of bonds emerged as the two most important sources of funds. After repaying the entire outstanding amount to the Reserve Bank as mentioned above, NABARD was left with a sizable amount for lending activity during the year (Table IV.40).

Table IV.39: Model-Wise Linkage Position

Model Type	As at March 31, 2006		As at March 31, 2007 (P)	
	No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)
1	2	3	4	5
i. SHGs promoted, guided and financed by banks	449 (20.1)	1,637 (14.4)	566 (19.4)	2,383 (13.2)
ii. SHGs promoted by NGOs/Government agencies and financed by banks	1,646 (73.5)	9,200 (80.7)	2,162 (73.9)	14,633 (81.1)
iii. SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries	143 (6.4)	561 (4.9)	197 (6.7)	1,024 (5.7)
Total (i+ii+iii)	**2,239**	**11,398**	**2,925**	**18,040**

P : Provisional
Note : Figures in parentheses are percentages to total
Source : NABARD.

Rural Infrastructure Development Fund (RIDF)

4.151 RIDF was set up with NABARD under the initiative of the Central Government in 1995-96 to provide loans to the State Governments for financing rural infrastructure projects. Since then, twelve tranches of allocations have been made towards the fund. Commercial banks make contributions to the fund to the extent of shortfalls in their agriculture and/or priority sector lending. Since 1999-2000, the scope of RIDF has been widened to enable utilisation of loan by Panchayat Raj institutions (PRIs), self-help groups (SHGs), non-government organisations (NGOs), among others.

4.152 In pursuance to the announcement made by the Finance Minister, a separate window was opened under RIDF XII for funding rural road component of Bharat Nirman Programme with an allocation of Rs.4,000 crore during 2006-07. National Rural Roads Development Agency (NRRDA), a society under the Ministry of Rural Development, is the identified nodal Agency to borrow from NABARD for the purpose and a loan of Rs.4,000 crore was also sanctioned to it under RIDF XII.

4.153 With the receipt of Rs. 6,966 crore deposits from commercial banks during the year, the cumulative deposits received under RIDF amounted to Rs.35,716 crore (Table IV.41).

4.154 The total corpus of the RIDF under tranches I to XII (excluding for *Bharat Nirman*) aggregated Rs.60,000 crore. Financial assistance sanctioned and disbursed under RIDF I to XII was Rs.61,540 crore and Rs.37,560 crore, respectively, as on March 31, 2007 (Table IV.42). RIDF V was closed on June 30, 2006 and the disbursements

Table IV.40: Net Accretion to the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	2005-06	2006-07
1	2	3
1. Capital	–	–
2. Reserves and Surplus	775	828
3. National Rural Credit (NRC) (i+ii)	42	42
i) Long-Term Operations (LTO) Fund	31	31
ii) Stabilisation Fund	11	11
4. Deposits (i+ii)	4,827	6,185
i) Ordinary Deposits	21	5
ii) RIDF Deposits	4,806	6,180
5. Borrowings (i+ii+iii+iv+v)	873	5,058
i) Bonds and Debentures	3,609	8,079
ii) Borrowings from Central Government	-4	-18
iii) Borrowings from the Reserve Bank	-929	-2,998
iv) Foreign Currency Loans	-3	-5
v) Borrowings from Commercial Banks	-1,800	0
6. Other Liabilities	60	688
7. Other Funds	249	814
Total	**6,826**	**13,615**

– : Nil/Negligible.
Source : NABARD.

Table IV.41: Deposits Mobilised under RIDF

(Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	RIDF X	RIDF XI	RIDF XII	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1995-96	350	–	–	–	–	–	–	–	–	–	–	–	350
1996-97	842	200	–	–	–	–	–	–	–	–	–	–	1,042
1997-98	188	670	149	–	–	–	–	–	–	–	–	–	1,007
1998-99	140	500	498	200	–	–	–	–	–	–	–	–	1,338
1999-00	67	539	797	605	300	–	–	–	–	–	–	–	2,307
2000-01	–	161	412	440	851	790	–	–	–	–	–	–	2,654
2001-02	–	155	264	–	689	988	1,495	–	–	–	–	–	3,591
2002-03	–	–	188	168	541	817	731	1,413	–	–	–	–	3,857
2003-04	–	–	–	–	261	503	257	681	457	–	–	–	2,159
2004-05	–	–	–	–	125	488	752	1,213	1,354	422	–	–	4,353
2005-06	–	–	–	–	215	165	461	923	1,372	2,020	936	–	6,092
2006-07	–	–	–	–	70	161	202	561	752	2,288	1,586	1,346	6,966
Total	**1,587**	**2,225**	**2,308**	**1,412**	**3,052**	**3,912**	**3,898**	**4,791**	**3,933**	**4,730**	**2,522**	**1,346**	**35,716**

Table IV.42: Loans Sanctioned and Disbursed under RIDF
(As on March 31, 2007)

RIDF	Year	No. of Projects	Corpus (Rs. crore)	Loans Sanctioned (Rs. crore)	Loans Disbursed (Rs. crore)	Loan disbursed as percentage of loans sanctioned
1	2	3	4	5	6	7
I	1995	4,168	2,000	1,906	1,761	92.4
II	1996	8,193	2,500	2,636	2,398	91.0
III	1997	14,345	2,500	2,733	2,454	89.8
IV	1998	6,171	3,000	2,903	2,482	85.5
V	1999	12,234	3,500	3,472	3,055	88.0
VI	2000	43,295	4,500	4,504	3,957	87.9
VII	2001	24,781	5,000	4,625	3,947	85.4
VIII	2002	20,968	5,500	5,987	4,770	79.7
IX	2003	19,595	5,500	5,593	4,008	71.7
X	2004	17,524	8,000	8,117	4,732	58.3
XI	2005	30,434	8,000	8,509	2,456	36.0
XII	2006	42,317	10,000	10,555	1,541	46.9
Total		**2,44,025**	**60,000**	**61,540**	**37,560**	**71.4**

Source : NABARD.

thereunder were allowed up to September 30, 2006. The implementation period for the projects sanctioned under RIDF VI to IX were extended up to March 31, 2007 to enable the State Governments to complete ongoing projects and avail reimbursement of the expenditure.

4.155 Details regarding State-wise cumulative sanctions and disbursements under RIDF scheme are set out in Appendix Table IV.11.

Credit Extended by NABARD

4.156 NABARD provides short-term credit facilities to StCBs for financing Seasonal Agricultural Operations (SAO); marketing of crops; pisciculture activities; production/ procurement and marketing activities of co-operative weavers societies; purchase and sale of yarn by apex/regional societies; production and marketing activities of industrial co-operatives; financing of individual rural artisans through PACS; purchase and distribution of fertilisers and allied activities; and marketing activities. Medium-term facilities were provided to StCBs and RRBs for converting short-term loans for financing SAO to medium-term (conversion) loans and for approved agricultural purposes. Long-term loans are provided to the State Governments for contributing to share capital of co-operative credit institutions. During 2006-07, NABARD sanctioned total credit limits aggregating Rs.16,338 crore as against Rs.13,099 crore during 2005-06 for various short and medium-term purposes to StCBs and RRBs, and long-term loans to the State Governments. While limits granted to the State co-operative banks increased significantly, those granted to RRBs declined during the year. However, amounts drawn by these institutions were significantly lower than the previous year. The repayments were also significantly lower, leading to an increase in outstanding amount at end-June 2007 (Table IV.43).

Interest Rates charged by NABARD

4.157 Interests rate charged by NABARD for term loans effective May 14, 2007 ranged from 9.0 per cent to 9.5 per cent. The interest rate charged for term loan from RRBs were lowered from 9.5 percents to 9 per cent effective November 1, 2007. The interest rate charged by NABARD has been neutral to the size of loan (Table IV.44).

Kisan Credit Card Scheme

4.158 The *Kisan* Credit Card (KCC) scheme, introduced in August 1998 for short-term loans for seasonal agricultural operations, has been under implementation in all States and UTs by all public sector banks, RRBs and co-opeartive banks, facilitating smooth flow of crop loans. To further expand the coverage of borrowers under the KCC scheme and to improve the credit flow

Table IV.43: NABARD's Credit to StCBs, State Government and RRBs

(Amount in Rs. crore)

Category	2005-06				2006-07			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks (a+b)	**9,834**	**13,795**	**10,975**	**9,610**	**13,632**	**12,153**	**3,131**	**11,557**
a. Short-term	9,319	12,594	10,764	7,539	13,404	12,093	3,045	9,512
b. Medium-term	515	1,201	211	2,071	228	60	86	2,045
2. State Governments Long-term	**23**	**47**	**65**	**387**	**20**	**16**	**68**	**335**
3. Regional Rural Banks (a+b)	**3,243**	**3,222**	**1,833**	**2,770**	**2,686**	**2,702**	**327**	**3,147**
a. Short-term	2,761	2,613	1,831	2,142	2,686	2,702	326	2,519
b. Medium-term	482	609	2	628	00	00	1	627
Grand Total (1+2+3)	**13,099**	**17,063**	**12,873**	**12,767**	**16,338**	**14,871**	**3,526**	**15,039**

Note : 1. Short-term includes seasonal agricultural operations (SAO) and other than seasonal agricultural operations (OSAO).
2. SAO (SCBs) period July to June, SAO (RRBs) period July to June, OSAO (SCBs) period April to March, OSAO (RRBs) period July to June.
3. Medium-term includes MT Conversion and Liquidity Support Scheme; MT (SCBs) period July to June, MT (RRBs) period January-December.
4. Loans to State Government period April to March.

Source : NABARD.

under agriculture, the scheme has been extended to borrowers for term credit as also working capital for agriculture and allied activities and a reasonable component for consumption needs, thus, paving the way for acceptance of KCC as a single window for comprehensive credit.

4.159 During 2006-07, the co-operative banks, commercial banks and RRBs issued 2.30 million, 4.81 million and 1.40 million cards, respectively (Table IV.45). Of the total 66.56 million cards issued by the banking system since inception of the scheme upto March 31, 2007, co-operative

Table IV.44: Rate of Interest on refinance from NABARD on Investment Credit under Farm/Non-Farm Sectors*

(per cent per annum)

Size of loan	Rate of Interest to ultimate beneficiaries			Rate of Interest on Refinance	
	Commercial Banks	RRBs	StCBs/ SCARDBs	Commercial Banks/RRBs/ PUCBs	StCBs / SCARDB
1	2	3	4	5	6
Up to Rs.25,000	As per RBI instructions.	As per RBI instructions	As determined by NABARD subject to minimum of 12 per cent for ultimate borrowers	9.5	9
Above Rs.25,000 and up to Rs.2 lakh	Do	Do	Do	Do	Do
Above Rs.2. lakh	Do	Do	Do	Do	Do

* : The above rate of interest on refinance is effective from May 14, 2007 and is neutral to the size of loan.

Note: 1. In respect of externally aided projects, the rate as per provisions contained in the relative agreement /sanction will apply.
2. The rate of interest for refinance is effective in North-Eastern States, Sikkim and Andaman & Nicobar Islands is 9 per cent for all agencies with effect from May 28, 2007.
3. The rate of interest on refinance for Micro Finance Institutions (MFIs) is 3 per cent less than the rate at which commercial banks are financing them subject to minimum of 9.5 per cent.

Table IV.45: Number of Kisan Credit Cards Issued: Agency-wise and Year-Wise
(As on March 31, 2007)

(Numbers in million)

Year	Co-operative Banks	RRBs	Commercial Banks	**Total Banks**
1	2	3	4	**5**
1998-99	0.16	0.01	0.62	**0.78**
1999-00	3.60	0.17	1.37	**5.13**
2000-01	5.61	0.65	2.39	**8.65**
2001-02	5.44	0.83	3.07	**9.34**
2002-03	4.58	0.96	2.70	**8.24**
2003-04	4.88	1.28	3.09	**9.25**
2004-05	3.56	1.73	4.40	**9.68**
2005-06	2.60	1.25	4.17	**8.01**
2006-07	2.30	1.40	3.77*	**7.47**
Total	**32.71**	**8.28**	**25.57**	**66.56**
Share in Total (per cent)	**49.1**	**12.4**	**38.4**	**100.0**

Source : NABARD.
* : Data available upto December 31, 2006.

banks accounted for the largest share (49.1 per cent), followed by commercial banks (38.4 per cent) and RRBs (12.4 per cent). The banking system has been routing crop loans through KCCs, having recognised it as an accepted mechanism for delivery of credit to farmers.

4.160 The State-wise progress in implementation of KCC scheme revealed that Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh were forerunners in the implementation of the scheme, accounting for 75 per cent of the total cards issued by banks across the country. The progress was, however, tardy in Goa, Himachal Pradesh, Jammu and Kashmir, Sikkim and the States in North-Eastern Region (Appendix Table IV.12).

4.161 Keeping in view the Central Government's emphasis on increasing credit flow to the agricultural sector, NABARD advised banks to identify and cover all farmers, including defaulters, oral lessees, tenant farmers and share-croppers who might have been left outside t he hold of the KCC scheme for any reason as also new farmers so that all farmers are covered under the scheme by March 31, 2007. Further, banks were advised to issue KCCs in a hassle free manner, extend crop loans only through KCCs and renew them so as to ensure 'quality in operations'.

Recent initiatives by NABARD

4.162 Several initiatives taken by NABARD during 2006-07 are expected to boost the flow of credit to the rural sector (Box IV.5).

Revival of the Rural Co-operative Banking Sector

Recommendations of the Vaidyanathan Committee

4.163 The Task Force on Revival of Rural Cooperative Credit Institutions (Chairman: Prof. A. Vaidyanathan) observed that the co-operative credit structure (CCS) was impaired in governance both on managerial and financial fronts and, hence, needed to be revived and restructured. The main focus of the recommendations of the Task Force was to restore the autonomous character of credit co-operatives by bringing down the control and interference of State Governments through suitable amendments to the State Co-operative Societies Acts and the Banking Regulation Act, 1949. Further, the Task Force recommended provision of required financial assistance for recapitalisation of the Short-term Co-Operative Credit Structure (STCCS) for funding the accumulated losses of the structure, evolving a common accounting system, management information system (MIS), computerisation and human resource development (HRD) initiatives. Financial assistance was recommended to be back ended, subject to the introduction of institutional, legal and regulatory reforms.

4.164 Based on the recommendations of the Task Force, the Central Government finalised a Revival Package encompassing the financial assistance as well as legal and institutional reforms. Financial assistance to the short-term co-operative credit structure would cover cleansing of the balance sheets as on March 31, 2004, support for minimum capital requirements, developing uniform accounting and monitoring systems, capacity building and computerisation. Funding of financial package, estimated at Rs.13,596 crore, will be shared by the Central Government, the State Governments and CCS based on origin of losses and existing commitments.

Revival of Short-term Co-operative Credit Structure (STCCS) - Status

4.165 Seventeen States and one Union Territory have communicated their 'in principle' acceptance

Box IV.5: Initiatives by NABARD to Boost Credit to the Rural Sector

During 2006-07, NABARD initiated the following measures to boost credit to the rural sector.

Krishak Saathi Scheme (KSS): Farming community in the country faces several hindrances, the major one being lack of institutional credit. Most of the farmers still do not have access to institutional credit, which is forcing them to borrow money from non-institutional sources, mainly money lenders. In order to help such farmers, some of the banks have come out with niche products such as debt refinance product, which enables the farmers to redeem their outstanding dues to the money lenders, thereby leading to 'financial inclusion'. To supplement the efforts of banks in this direction, NABARD has made such lendings eligible for its refinance assistance.

Village Development Plan: Most of the villages in the country still face various constraints such as lack of access to safe drinking water, power and roads and other infrastructural facilities. Keeping these in view and also with a view to bringing about holistic and integrated development of villages, NABARD has decided to implement Village Development Programme (VDP), covering five villages in each of the Pilot Project for integrated development (PPID) districts and one village in each of the district development manager (DDM) districts. The focus of the Programme would be on financial inclusion and livelihood security to the village populace. NABARD has also requested the public sector banks to adopt 2-3 villages on similar lines.

Watershed Projects in 31 Distressed Districts: Pursuant to the Prime Minister's visit to the distressed districts in Vidarbha region of Maharashtra on July 1, 2006 and his announcement of several ameliorative measures, NABARD decided to launch an integrated watershed development intervention combined with livelihood support measures in six affected districts in the Vidarbha region of Maharashtra. The watershed development measures would be taken up in about 15,000 hectares in each of the six distressed districts as a participatory programme for micro level infrastructure development with regard to sustainable management of soil and water resources. Subsequently, it was decided to implement similar programme in 25 distressed districts (16 in Andhra Pradesh, 6 in Karnataka and 3 in Kerala). In all, about 465 micro watersheds, preferably in clusters aggregating 4,65,000 hectares would be developed. The entire fund requirement of about Rs. 300 crore will be provided as grant from the Watershed Development Fund (WDF), maintained by NABARD.

The watershed development interventions would be simultaneously complemented by appropriate agronomic intervention and supplemented with compatible family level livelihood support activities such as agro-horti-silviculture development (*Wadi* development), animal husbandry, non-farm sector activates, micro finance, especially bank linkage of farmers' SHGs. Special intervention for landless and women headed families and need based community health and sanitation measures also have been envisaged in the programme.

Projects have already been identified and are under implementation in all the six districts of Maharashtra. Projects aggregating about 80,000 hectares have been identified and are in different stages of implementation in Andhra Pradesh. Almost 75 per cent of the watersheds/ clusters have been identified in Karnataka. Watersheds aggregating about 15,000 hectares have also been identified in Kerala.

To sum up, latest by November 2007, watershed for the targeted area will be identified and implemented. Simultaneously in all the 31 distressed districts, the implementation of the entire programme is expected to be completed within a period of 3-4 years.

These projects are generally implemented in remote villages and on completion, will ensure financial inclusion, a reasonable standard of living for the community in a sustained manner. It is expected that the credit offtake (on an average of Rs. 100 lakh per project), *i.e.*, Rs.465 crore will be effected in all the 465 watershed project villages over a period of 2-3 years, immediately following the project implementation period.

to the package, of which thirteen States, *viz*., Andhra Pradesh, Arunachal Pradesh, Bihar, Chhattisgarh Gujarat, Haryana, Madhya Pradesh, Maharashtra, Rajasthan, Orissa, Uttarakhand, Uttar Pradesh and West Bengal have executed the MoUs with the Central Government and NABARD to implement the package. A National Level Implementing and Monitoring Committee under the chairmanship of Secretary (FS), Ministry of Finance, Government of India was constituted to guide and monitor the implementation of the Revival Package. State Level and DCCB Level Implementing and Monitoring Committees (SLICs and DLICs) have also been set up for the purpose in the implementing States.

4.166 NABARD as the implementing agency devised field tested formats for special audit of PACS to arrive at the exact extent of accumulated losses. It also trained over 800 master trainers who, in turn, trained departmental auditors in the conduct of special audit. Special audit of PACS has been conducted in eleven States, viz., Andhra Pradesh, Bihar, Rajasthan, Maharashtra, Uttar Pradesh, Gujarat, Haryana, Uttarakhand, Orissa, West Bengal and Madhya Pradesh. Recapitalisation assistance has been released to PACS affiliated to 3 DCCBs in Haryana. In conformity with the reform measures envisaged under the Revival Package, the State Governments of Andhra Pradesh and Haryana have brought in amendments to their respective Co-operative Societies Acts. Several other State Governments are in the process of effecting similar amendments. As regards capacity building of staff and board members of PACS, NABARD has developed training materials/trainers guides and has created a pool of 40 State level master trainers who have already started training of grass root trainers for imparting training to PACS staff / office bearers. NABARD has developed and provided guidelines for 'common accounting system' for PACS. A Technical Committee under the Chairmanship of Managing Director, NABARD is finalising the technical parameters for developing a software based accounting and monitoring system along with computerisation of PACS.

4.167 Once the package is implemented, it would have several benefits such as (i) financial strengthening, including cleansing of balance sheets of co-operatives; (ii) professionalised boards and management; (iii) autonomy to take business related decisions; (iv) ability to access resources through deposit mobilisation and from institutions outside the co-operative fold; (v) autonomy in matters of personnel policy, staffing, recruitment, posting and compensation to staff; (vi) timely elections and conduct of audit; and (vii) computerised operations with a common accounting system, MIS and better internal checks and controls resulting in operational efficiency.

Task Force on Revival of Long-Term Rural Co-operative Credit Structure

4.168 The Task Force appointed under the Chairmanship of Prof. A.Vaidyanathan, for the revival of Long-Term Co-operative Credit Structure submitted its report to the Government of India in August 2006. The Government is formulating a package of measures in consultation with the State Governments.

Chapter V

Non-Banking Financial Institutions

Introduction

5.1 Non-banking financial institutions (NBFIs), a heterogeneous group of diverse institutions, form an integral part of the Indian financial system providing a range of financial services. This is an important segment of financial institutions in India apart from commercial and co-operative banks. Within the non-banking financial institutions, development finance institutions (DFIs) are mostly Government-owned and have been the traditional providers of long-term project loans. Other non-banking institutions include a wide variety of intermediaries such as insurance companies, non-bank financial companies (NBFCs), primary dealers (PDs) and capital market intermediaries such as mutual funds.

5.2 Historically, all-India financial institutions (AIFIs or FIs) have played a very important role in providing medium and long-term credit to various sectors of the economy. However, in the changed operating environment, the relative significance of AIFIs has declined, especially after the conversion of two major financial institutions (IDBI and ICICI) into banks. NBFCs, incorporated under the Companies Act, 1956, are actively engaged in lease finance, hire purchase finance, investments in securities, grants of loans, including bills discounting, insurance, stock broking, merchant banking and housing finance. Primary dealers in the Government securities market constitute a systemically important segment of the NBFCs. The structure of the PD system underwent significant changes during 2006-07 as they were allowed to diversify into other businesses and wind up their step-down subsidiaries, if any. As a result of the restructuring, the number of stand-alone PDs reduced to 8 during 2006-07 from 17 in the previous year. Most of the PDs are promoted by banks.

5.3 NBFIs form a diverse group not only in terms of size and nature of incorporation, but functionally as well. Apart from enhancing competition in the financial system, these institutions play a crucial role in broadening the access of a vast section of the population to financial services by offering a variety of products and services. The overlap between products offered by banks and non-banking institutions is increasing by the day calling for a closer co-ordination in the regulation of banks and non-banks. The role that some of the FIs play acquired greater significance in view of the emergence of financial inclusion as one of the major policy objectives since they can play a critical role as an instrument of credit delivery, particularly in the small scale and retail sectors.

5.4 Given the importance of the NBFC sector, the Reserve Bank is examining the issue of smooth flow of bank finance to NBFCs in order to develop them into a financially strong sector with improved skills and technology. In view of the increased need to support financing of the SME sector and agri-related activities and taking into account the critical role that NBFCs can play as an instrument of credit delivery, the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) have agreed to evolve a viable credit dispensation arrangement to provide resource support to NBFCs catering to the needs of the SME and agriculture sectors. These institutions would also evolve appropriate mechanisms, in consultation with NBFCs, to address their needs in this regard and provide support in terms of their capacity building to develop expertise for financing the SME and agricultural sectors.

5.5 Regulatory initiatives in respect of FIs during 2006-07 focussed mainly on strengthening the prudential guidelines relating to income recognition, asset classification and provisioning. Financial assistants sanctioned by FIs grew at a lower rate as compared with last year, while the disbursements witnessed a sharp rise. However, their balance sheets expanded at a significantly higher rate. Sharp growth in net interest income as well as non-interest income coupled with decline in operating expenses resulted in higher profits for the FIs. Asset quality of FIs improved significantly during the year. The capital adequacy ratio, in general, continued to be significantly higher than the minimum prescribed.

5.6 The focus of regulatory measures in respect to NBFCs was on diversifying their areas of businesses by allowing them to issue co-branded cards and distribute mutual fund products, regulation of systemically important NBFCs, fair practices code and corporate governance. There has been a marked shift in the policy stance of regulating non-deposit taking NBFCs having an asset size of Rs.100 crore and above due to their systemic importance. The assets/liabilities of NBFCs [excluding Residuary Non-banking Companies (RNBCs)] expanded at a much higher rate of 26.9 per cent during 2006-07 as compared with the moderate rise of 5.1 per cent during 2005-06. The financial performance of NBFCs turned around during 2006-07 entirely on account of sharp rise in fund based income, which offset the sharp rise in operating expenditure and financial expenditure. As a result both operating profits and net profit witnessed a rise. The asset quality also improved significantly. The proportion of NBFCs with CRAR above 30 per cent as also with CRAR of less than 12 per cent declined over the year.

5.7 The Primary dealer (PD) system underwent significant changes during 2006-07. In order to diversify the risks inherent in the PD business, PDs were permitted to diversify into other business lines while retaining the requirement of maintaining predominance in Government securities business. Concomitantly, with a view to ensuring that the balance sheets of the PDs do not get affected by the spillover of risks from other businesses/ subsidiaries and that the PDs are focused on their primary dealership activities, it was decided that PDs would not be permitted to set up step-down subsidiaries. Those PDs that already had step-down subsidiaries (in India and abroad) were advised to restructure the ownership pattern of those subsidiaries. In compliance with these guidelines, five PDs, which either had step-down subsidiaries or undertook businesses other than those specifically permitted, restructured their operations.

5.8 The income earned by PDs increased sharply during 2006-07. However, the increase in expenditure was significantly higher than the increase in income. As a result, net profits of PDs declined by 20 per cent. The CRAR of PDs was much in excess of the stipulated minimum of 15 per cent of aggregate risk weighted assets.

5.9 The present chapter is organised into four sections. The policy developments, business operations and financial performance of financial institutions are set out in Section 2. Section 3 focuses on the regulatory measures and the financial performance of NBFCs. The last section of the Chapter deals with the policy developments relating to primary dealers and their operations.

2. Financial Institutions

5.10 Over the years, a wide range of FIs came into existence to cater to the medium to long-term financing requirements of different sectors of the economy. Based on the major activity undertaken by them, AIFIs are classified into three broad categories. First, there exist the term-lending institutions, *viz.*, Industrial Finance Corporation India Ltd. (IFCI), Industrial Investment Bank of India Ltd. (IIBI), Export-Import Bank of India (EXIM Bank) and Tourism Finance Corporation of India (TFCI). Second, there are refinance institutions such as NABARD, SIDBI and National Housing Bank (NHB), which extend refinance to banks as well as NBFIs. In the third category are the investment institutions such as LIC, which deploy their assets largely in marketable securities. State/regional level institutions are a distinct group and comprise various State Financial Corporations (SFCs), State Industrial and Development Corporations (SIDCs) and North Eastern Development Finance Corporation Ltd. (NEDFi). Some of these FIs have been notified as Public Financial Institutions by the Government of India under Section 4A of the Companies Act, 1956.

5.11 As at end-March 2007, there were seven FIs being regulated by the Reserve Bank, *viz.*, EXIM Bank, IFCI, IIBI, NABARD, NHB, SIDBI and TFCI. Of these, five FIs (EXIM Bank, IFCI, NABARD, NHB, SIDBI) were under the full-fledged regulation and supervision of the Reserve Bank. FIs not accepting public deposits but having asset size of Rs.500 crore and above are subject to limited off-site supervision by the Reserve Bank. TFCI belongs to this category, while IIBI is in the process of voluntary winding-up. The exemption given to IFCI from NBFC regulations was withdrawn in August 2007 and it is now being regulated as a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI).

Regulatory Initiatives for Financial Institutions

5.12 In continuation with the policy initiatives undertaken by the Reserve Bank in recent years for progressive upgradation of the regulatory norms for FIs in convergence with the norms across the financial sector, a number of measures were undertaken during 2006-07.

Income Recognition, Asset Classification and Provisioning

5.13 Norms for income recognition, asset classification and provisioning concerning

Government guaranteed exposures were modified during 2006-07. Previously, asset classification and provisioning requirements in respect of State Government guaranteed exposures were contingent upon the invocation of the Government guarantee. Pursuant to the recommendations of the Technical Group on Refinancing Institutions (Chairman: Shri G P Muniappan), the asset classification and provisioning requirements were de-linked from the invocation of Government guarantee. With effect from March 31, 2007, State Government guaranteed advances and investments in State Government guaranteed securities attract the asset classification and provisioning norms if the interest and/or principal or any other amount due to the FI remains overdue for more than 90 days. However, the period of default in respect of agricultural activity is related to the agricultural cycle instead of 90 days. The credit facilities backed by guarantee of the Central Government, though overdue, may be treated as NPA only when the Government repudiates its guarantee when invoked. This provision for exemption from classification of Central Government guaranteed advances as NPA, however, is not applicable in the case of income recognition, where the existing norms continue.

Reduction in Regulatory Forbearance

5.14 Previously, certain public sector banks (PSU banks) were given relaxation from the prudential norms in respect of their restructured investment in IFCI Ltd. on a year-to-year basis from the year 2002-03. This relaxation was withdrawn during the year and the PSU banks were advised to mark to market their restructured investment in IFCI as on June 30, 2007. These banks have been allowed to phase out the necessary provisioning on a quarterly basis in respect of their restructured investment in IFCI Ltd. over four-quarters on a *pro-rata* basis, ensuring that the full provision is made by March 31, 2008.

Strengthening of Regulatory Focus on SIDBI

5.15 A number of measures were undertaken for tightening the regulatory focus on SIDBI, particularly with regard to its exposure to SFCs. The risk weight on SIDBI's exposure to SFCs was raised from 100 per cent to 125 per cent. SIDBI was advised to make full provisions in respect of the SFCs that had defaulted even after restructuring/one-time settlement (OTS) package was extended to them and not to sanction refinance to those SFCs that continue to show negative net worth. Furthermore, in view of the large exposure of SIDBI to SFCs, which are prone to risks, SIDBI was advised to follow the norms applicable to banks in asset classification and provisioning in respect of its exposure to SFCs which involved a change to 'borrower-wise' classification from that of 'facility-wise' classification applicable to FIs. SIDBI has also been advised to ensure that all SFCs follow uniform accounting standards similar to those followed by banks.

Operations of Financial Institutions

5.16 Financial assistance sanctioned and disbursed by FIs continued to expand during 2006-07. While sanctions grew at a lower rate as compared with the last year, disbursements witnessed a sharp rise. The slowdown in sanctions was accounted for mainly by all-India term-lending institutions, especially SIDBI. Financial assistance sanctioned and disbursed by specialised financial institutions accelerated. In the case of investment institutions, while financial assistance sanctioned decelerated, financial assistance disbursed accelerated sharply accounted for mainly by LIC (Table V.1 and Appendix Table V.1).

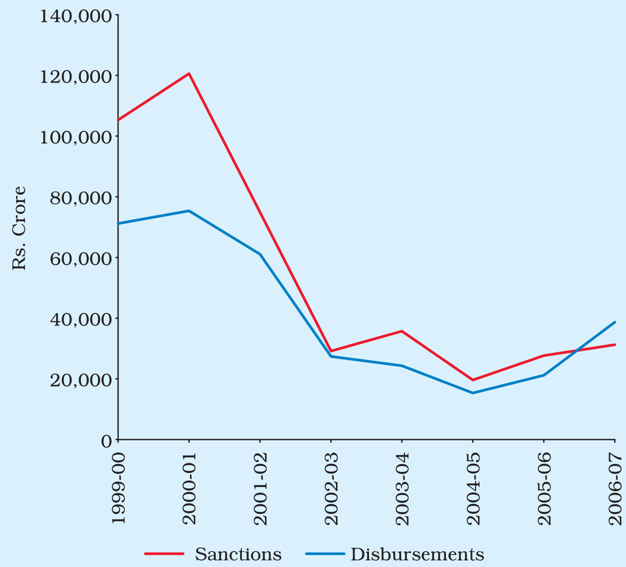
Table V.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in Rs. crore)

Item	Amount				Percentage Variation			
	2005-06		2006-07		2005-06		2006-07	
	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9
i) All-India Term-lending Institutions*	11,975	9,287	12,234	10,679	31.4	47.1	2.2	15.0
ii) Specialised Financial Institutions#	133	88	245	120	19.0	22.0	84.0	36.0
iii) Investment Institutions@	15,558	11,771	18,759	27,857	49.0	31.0	20.6	136.0
Total Assistance by FIs (i+ii+iii)	**27,666**	**21,146**	**31,238**	**38,656**	**41.0**	**38.0**	**12.9**	**82.8**

S : Sanctions. D : Disbursements.
* : Relating to IFCI, SIDBI and IIBI.
\# : Relating to IVCF, ICICI Venture and TFCI.
@ : Relating to LIC, GIC and erstwhile subsidiaries (NIA,UIIC & OIC).
Note : All data are provisional.
Source : Respective Financial Institutions.

Chart V.1: Financial Assistance Extended by AIFIs



5.17 Financial assistance sanctioned and disbursed (in absolute terms) by AIFIs, after showing a decline between 2000-01 and 2004-05, increased in the last two years. In contrast to the trend witnessed in the last few years, the disbursements during 2006-07, were larger than the sanctions (Chart V.1).

Assets and Liabilities of FIs

5.18 The combined balance sheets of FIs during 2006-07 expanded at a higher rate of 14.9 per cent compared with 8.2 per cent in the previous year. On the liabilities side, the resources raised by way of bonds and debentures, which form the major constituent with 43.5 per cent share, increased at a lower rate of 8.4 per cent compared with 11.6 per cent during 2005-06 (Table V.2). Deposits and borrowings with their respective shares of about 13 per cent each, registered a much sharper increase during the year. The growth in deposits during the year was far more pronounced at 51.5 per cent in comparison with the modest increase of 8.7 per cent in the past year. On the assets side, loans and advances portfolio continued to expand, *albeit* with some moderation in sync with the sharp credit growth by the banking sector. Investment portfolio of FIs declined by 14.4 per cent over and above the decline of 23.5 per cent in the previous year.

Resources Mobilised by FIs

5.19 AIFIs raised resources during 2006-07 in both rupee and foreign currency. Rupee resources include both long-term and short-term funds. While long-term rupee resources consist of bonds and borrowings, short-term resources comprise of commercial paper (CP), term deposits, inter-corporate deposits (ICDs), certificate of deposits (CDs) and borrowings from the term money market. Foreign currency resources mainly include bonds and borrowings.

5.20 Resources raised by FIs during 2006-07 were higher than those raised during 2005-06.

Table V.2: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Item	Amount		Percentage Variation	
	2006	2007	2005-06	2006-07
1	2	3	4	5
Liabilities				
1. Capital	5,431 (3.7)	4,888 (2.9)	1.9	-10.0
2. Reserves	15,211 (10.5)	15,886 (9.5)	8.1	4.4
3. Bonds and Debentures	67,145 (46.2)	72,766 (43.5)	11.6	8.4
4. Deposits	14,520 (10.0)	21,998 (13.2)	8.7	51.5
5. Borrowings	18,950 (13.0)	22,401 (13.4)	8.8	18.2
6. Other Liabilities	24,217 (16.7)	29178 (17.5)	0.5	20.5
Total Liabilities/Assets	**1,45,474 (100.0)**	**1,67,117 (100.0)**	**8.2**	**14.9**
Assets				
1. Cash and Bank Balance	9,915 (6.8)	10,125 (6.1)	-39.9	2.1
2. Investments	10423 (7.7)	8,922 (5.3)	-23.5	-14.4
3. Loans and Advances	1,11,441 (76.6)	1,32,424 (79.2)	21.3	18.8
4. Bills Discounted/ Rediscounted	1,810 (1.2)	1,922 (1.2)	72.7	6.2
5. Fixed Assets	1,088 (0.8)	1,489 (1.0)	-5.0	36.9
6. Other Assets	10,797 (7.4)	12,235 (7.3)	5.2	13.3

Note : 1. Data pertain to six FIs, *viz*., IFCI Ltd., TFCI Ltd. NABARD, NHB, SIDBI and EXIM Bank. IIBI Ltd. was under voluntary winding up as on March 31, 2007. Data including IIBI Ltd. are only for the year ended March 31, 2006.
2. Figures in parentheses are percentages to total liabilities/assets.

Source : Balance sheets of respective FIs, unaudited off-site returns for NHB and audited limited supervisory return for TFCI Ltd.

Table V.3: Resources Mobilised by Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding	
	Long-term		Short-term		Foreign Currency		Total			
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9	10	11
TFCI	–	–	66	–	–	–	66	–	390	331
EXIM Bank	3,260	3,212	1,124	3,249	3,063	4,159	7,446	10,620	15,836	21,137
SIDBI	2,610	572	420	1,274	459	331	3,489	2,176	11,030	10,928
NABARD	8,395	10,899	–	–	–	–	8,395	10,899	23,313	31,260
NHB	5,342	9,682	1,220	3,079	–	–	6,562	12,761	16,344	18,475
Total	**19,607**	**24,365**	**2,764**	**7,602**	**3,522**	**4,490**	**25,958**	**36,456**	**66,913**	**82,131**

– : Nil/Negligible.

Note : Long-term rupee resources comprise borrowings by way of bonds/debentures, while short-term resources comprise CPs, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise largely bonds and borrowings in the international market.

Source : Balance Sheets of respective FIs.

Both short-term and long-term rupee resources increased. Resources raised in foreign currency also increased significantly. NHB mobilised the largest amount of resources, followed by NABARD, EXIM Bank and SIDBI (Table V.3 and Appendix Table V.2). IFCI and IIBI continued to be barred from mobilising fresh resources on account of their poor financial performance.

5.21 Resources raised by FIs from the money market during 2006-07 were significantly higher than those raised during 2005-06. In all, however, FIs utilised just 17.3 per cent of the umbrella limit sanctioned; the utilisation was 13.1 per cent during the previous year (Table V.4).

Table V.4: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instrument	2004-05	2005-06	2006-07
1	2	3	4
A. Total	**3,339**	**1,977**	**3,293**
i) Term Deposit	705	44	89
ii) Term Money	175	–	–
iii) Inter-corporate Deposits	477	–	–
iv) Certificate of Deposits	233	2	663
v) Commercial Paper	1,749	1,931	2,540
Memo:			
B. Umbrella limit	**13,001**	**15,157**	**19,001**
C. Utilisation of Umbrella limit (A as percentage of B)	**25.7**	**13.1**	**17.3**

– : Nil/Negligible.

Source : Balance sheets of respective FIs.

Sources and Uses of Funds

5.22 Total sources/deployment of funds of FIs increased sharply by 80.0 per cent to Rs.1,80,862 crore during 2006-07. Significantly, 45.6 per cent of the funds by FIs were generated internally and 48.6 per cent from external sources while 5.8 per cent of resources were generated through other sources. A large part of the funds raised were used for fresh deployments (58.8 per cent as against 71.9 per cent last year). The repayment of past borrowing registered a sharp rise, constituting 31.2 per cent of total deployments as against 14.3 per cent in the previous year. Interest payments increased sharply during the year (Table V.5 and Appendix Table V.3).

Cost and Maturity of Borrowings

5.23 The weighted average cost of resources of IFCI and TFCI declined marginally during 2006-07, while that of EXIM Bank, SIDBI, NABARD and NHB increased (Table V.6 and Appendix Table V.4). The weighted average maturity of resources of TFCI and NHB declined, while it increased in the case of IFCI, EXIM Bank, SIDBI and NABARD.

Lending Interest Rates

5.24 While NHB maintained its Prime Lending Rate (PLR), EXIM Bank, TFCI and SIDBI raised the rate during the year (Table V.7).

Table V.5: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Item	2005-06	2006-07	Percentage Variation	
			2005-06	2006-07
1	2	3	4	5
A) Sources of Funds (i+ii+iii)	**1,00,455 (100.0)**	**1,80,862 (100.0)**	**17.9**	**80.0**
(i) Internal	63,557 (63.3)	82,441 (45.6)	18.7	29.7
(ii) External	33,475 (33.3)	87,844 (48.6)	15.7	162.4
(iii) Others@	3,424 (3.4)	10,578 (5.8)	23.7	208.9
B) Deployment of Funds (i+ii+iii)	**1,00,455 (100.0)**	**1,80,862 (100.0)**	**17.9**	**80.0**
(i) Fresh Deployments	72,273 (71.9)	1,06,295 (58.8)	35.6	47.1
(ii) Repayment of past Borrowings	14,402 (14.3)	56,436 (31.2)	-28.1	291.9
(iii) Other Deployments	13,781 (13.7)	18,132 (10.0)	15.6	31.6
of which :				
Interest Payments	4,502 (4.5)	5,567 (3.1)	-2.1	23.7

* : IFCI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.
@ : Includes cash and balances with banks (cash in hand), balances with the Reserve Bank and other banks.
Note : Figures in brackets are percentages to total.
Source : Respective FIs.

Financial Performance of Financial Institutions

5.25 Net interest income of select all-India FIs increased to Rs.2,598 crore during 2006-07 from Rs.2,555 crore during 2005-06. In line with the trend in the previous year, non-interest income of FIs increased significantly during the year. However, in contrast to the sharp increase in the previous year, the operating expenses of FIs registered a decline of 55.9 per cent during the year. As a result, the operating profit increased sharply by 73.6 per cent during the year. This was also reflected in the significant increase in net profit of FIs, despite higher provisions earmarked for taxation (Table V.8).

Table V.6: Weighted Average Cost and Maturity of Rupee Resources Raised by Way of Bonds/ Debentures by Select AIFIs

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5
IFCI	7.8	7.6	7.2	8.6
TFCI	10.1	9.9	5.2	4.3
EXIM Bank	6.9	7.3	4.6	4.9
SIDBI	5.9	6.5	3.9	4.5
NABARD	5.8	8.7	3.5	5.0
NHB	6.4	7.5	2.2	2.0

Source : Respective FIs.

Table V.7: PLR Structure of Select Financial Institutions

(per cent)

Effective From	NHB	EXIM Bank	TFCI	SIDBI
1	2	3	4	5
March 2006	10.5	11.5	10.5	11.5
March 2007	10.5	12.5	11.0	12.0

Source : Respective FIs.

Table V.8: Financial Performance of Select All-India Financial Institutions*

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Amount	Percent-age
1	2	3	4	5
A) Income (a+b)	**9,599**	**11,478**	**1,879**	**19.6**
a) Interest Income	8,246 (85.9)	9,565 (83.3)	1,319	16.0
b) Non-Interest Income	1,353 (14.1)	1,913 (16.7)	560	41.4
B) Expenditure (a+b)	**7,606**	**7,811**	**205**	**2.7**
a) Interest Expenditure	5,691 (74.8)	6,967 (89.2)	1,276	22.4
b) Operating Expenses	1,915 (25.2)	844 (10.8)	-1,071	-55.9
of which: Wage Bill	372	462	90	24.2
C) Provisions for Taxation	**591**	**990**	**399**	**67.5**
D) Profit				
Operating Profit (PBT)	1,993	3,460	1,467	73.6
Net Profit (PAT)	1,402	2,470	1,068	76.2
E) Financial Ratios@				
Operating Profit (PBT)	1.4	2.1		
Net Profit (PAT)	1.0	1.5		
Income	6.6	6.9		
Interest Income	5.7	5.7		
Other Income	0.9	1.1		
Expenditure	5.2	4.7		
Interest expenditure	3.9	4.2		
Other Operating Expenses	1.3	0.5		
Wage Bill	0.3	0.3		
Provisions	0.4	0.6		
Spread (Net Interest Income)	1.8	1.6		

* : IFCI, IIBI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.
@ : As percentage of total assets.
Note : Figures in brackets are percentage shares in the respective total.
Source : Balance sheets of respective FIs, unaudited off-site returns for NHB and audited limited supervisory return for TFCI Ltd.

Table V.9: Select Financial Parameters of Financial Institutions
(As at end-March)

(Per cent)

Institution	Interest Income/ Average Working Funds		Non-interest Income/Average Working Funds		Operating Profits/Average Working Funds		Return on Average Assets		Net Profit per Employee (Rs. crore)	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9	10	11
IFCI	11.3	8.3	2.3	8.2	6.7	10.2	-0.6	5.8	-0.2	..
IIBI	11.0	–	8.4	–	-1.4	–	..	–	-0.1	–
TFCI	10.2	9.3	0.2	0.8	4.0	3.9	1.9	2.3	0.4	..
EXIM Bank	7.6	8.1	0.6	0.5	2.1	1.7	1.5	1.3	1.4	1.4
NABARD	6.3	6.8	-0.1	-0.2	2.1	1.8	1.8	1.6	0.2	0.2
NHB*	6.2	6.8	0.2	0.1	1.1	0.9	0.5	0.5	1.1	..
SIDBI	6.2	7.1	0.2	0.4	3.4	3.8	2.0	2.2	0.3	0.4

– : Nil/Negligible. .. : Not Available. * : Position as at end-June.
Source : Balance sheets of respective FIs, unaudited off-site returns for NHB and audited limited supervisory return for TFCI Ltd.

5.26 Although interest income of all FIs combined together as percentage of total assets remained unchanged at 5.7 per cent during 2006-07, interest income as percentage of working funds declined for IFCI and TFCI, while it increased for other FIs (Table V.9). The non-interest income to total assets ratio increased during 2006-07 to 1.1 per cent at the aggregate level from 0.9 per cent in the previous year. At individual FI level, the non-interest income as a percentage of total working funds increased significantly for IFCI, while it remained negative for NABARD during the year. Operating profit as percentage of average working funds improved for IFCI and SIDBI during 2006-07. This ratio was the highest for IFCI, followed by TFCI and SIDBI. Return on average assets of IFCI, TFCI and SIDBI improved during the year. Net profit per employee of SIDBI increased during the year. Net profit per employee in respect of EXIM Bank during 2006-07 was more than Rs.1 crore.

Soundness Indicators

Asset Quality

5.27 In absolute terms, net NPAs of EXIM Bank and NABARD increased during 2006-07, while those of SIDBI declined sharply (Table V.10). However, in terms of net NPA to net loans ratio, the asset quality of SIDBI improved sharply, while that of EXIM Bank improved marginally.

5.28 Improvement in asset quality was also observed in terms of a substantial increase in standard assets of all the major FIs, except TFCI (Table V.11). IFCI, IIBI, TFCI and SIDBI reduced their assets in the doubtful category to less than Rs.10 crore during 2006-07, while there were no doubtful assets in the case of IFCI. None of the FIs had any assets in the 'loss' asset category at end-March 2007.

Capital Adequacy

5.29 The capital adequacy ratio of FIs continued to be significantly higher than the minimum stipulated norm of 9 per cent (Table V.12). The CRAR of IFCI and TFCI increased significantly

Table V.10: Net Non-Performing Assets
(As at end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2006	2007	2006	2007
1	2	3	4	5
IFCI	667	–	9.1	–
IIBI	132	–	13.1	–
TFCI	15	–	3.0	–
EXIM Bank	105	115	0.6	0.5
NABARD	–	23	–	–
NHB*	–	–	–	–
SIDBI	261	22	1.9	0.1

– : Nil/Negligible.
* : Position as at end-June.
Source : Balance sheets of respective FIs, unaudited off-site returns for NHB and audited limited supervisory return for TFCI Ltd.

Table V.11: Asset Classification of Financial Institutions

(Amount in Rs. crore)

Institution	At end-March							
	Standard		Sub-Standard		Doubtful		Loss	
	2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9
IFCI	6,635	6,791	54	–	613	–	–	–
IIBI	874	–	14	–	118	–	–	–
TFCI	546	399	–	–	15	–	–	–
EXIM Bank	17,692	22,772	105	108	–	7	–	–
NABARD	58,088	69,485	–	18	–	5	–	–
NHB*	16,241	18,917	–	–	–	–	–	–
SIDBI	13,001	15,511	1	17	260	5	–	–

– : Nil/Negligible. * : Position as at end-June.
Source : Balance sheets of FIs.

during the year due to improved profitability of these institutions. The CRAR of NHB improved marginally, while that of EXIM Bank, NABARD and SIDBI declined during the year.

3. Non-Banking Financial Companies

5.30 Amendment to the Reserve Bank of India Act, 1934 in 1997 gave comprehensive powers to the Reserve Bank to regulate the NBFCs. The amended Act, *inter alia*, provided for compulsory registration of all NBFCs. NBFCs can be classified into two broad categories, *viz.*, (i) NBFCs accepting public deposit and (ii) NBFCs not accepting/holding public deposit.

5.31 This section focuses mainly on the regulatory and supervisory initiatives of the Reserve Bank during the year. The operations of NBFCs and RNBCs are dealt with separately in view of their diverse nature. Besides, operations of NBFCs not accepting public deposits but having asset size of Rs.100 crore and above have also been analysed separately considering the systemic implications for their operations.

Regulatory and Supervisory Initiatives

5.32 The Reserve Bank has been strengthening the regulatory and supervisory framework for NBFCs since 1997 with the objective of making the NBFC sector vibrant and healthy. These efforts were pursued further during 2006-07. During the year, a major thrust was on strengthening the regulatory framework with regard to systemically

Table V.12: Capital Adequacy Ratio of Select Financial Institutions*

(Per cent)

Institution	As at end-March						
	2001	2002	2003	2004	2005	2006	2007
1	2	3	4	5	6	7	8
IFCI	6.2	3.1	1.0	-17.0	-23.4	-27.9	14.0
IIBI	13.9	9.2	-11.0	-20.1	-41.1	-64.2	–
TFCI	18.6	18.5	19.8	22.8	27.4	34.9	40.9
EXIM Bank	23.8	33.1	26.9	23.5	21.6	18.4	16.4
NABARD	38.5	36.9	39.1	39.4	38.8	34.4	27.0
NHB@	16.8	22.1	27.9	30.5	22.5	22.3	24.0
SIDBI	28.1	45.0	44.0	51.6	50.7	43.2	37.5

* : Net of provisioning and write-offs.
@ : Position as at end-June.
Source : Respective balance sheets of FIs.

important non-banking financial companies so as to reduce the regulatory gaps. Systemically important non-deposit taking NBFCs were also defined and prudential norms were specified for these entities. Some of the major regulatory and supervisory initiatives taken during the year are set out below.

Reclassification of NBFCs

5.33 Until December 6, 2006, NBFCs were classified as equipment leasing, hire-purchase, investment companies and loan companies. Pursuant to the announcement made in the Mid-Term Review of Annual Policy Statement for the year 2006-07 to re-group the companies engaged in financing real/physical assets supporting economic activity such as automobiles, general purpose industrial machinery and the like as asset financing companies, all NBFCs were advised on December 6, 2006 that the re-classification of the categories of NBFCs would be as asset finance companies (AFC), investment companies and loan companies.

5.34 AFC is defined as any company which is a financial institution carrying on as its principal business of financing the physical assets supporting productive/economic activity such as automobiles, tractors, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/ physical assets supporting economic activity and income arising therefrom not less than 60 per cent of the total assets and total income, respectively. Since the classification for the purpose of income recognition, asset classification and provisioning norms is based on asset specification, the extant prudential norms will continue as hitherto. The companies satisfying the above conditions have been advised to approach the Regional Office of the Reserve Bank in the jurisdiction in which their Registered Office is located, along with the original certificate of registration (CoR) issued by the Reserve Bank to recognise their classification as asset finance companies. Their request must be supported by their Statutory Auditor's certificate indicating the asset/income pattern of the company as on March 31, 2006. The change in classification would be incorporated in the certificate of registration issued by the Reserve Bank as NBFC-Asset Finance Company (NBFC-D-AFC), if accepting deposits and NBFC-ND-AFC, if not accepting deposits.

Financial Regulation of Systemically Important NBFCs and Banks' Relationship with Them

5.35 The application of different levels of regulations to the activities of banks and NBFCs, and even among different categories of NBFCs, had given rise to some issues relating to uneven coverage of regulations. The Reserve Bank had, therefore, set up an Internal Group to examine the issues relating to level playing field, regulatory convergence and regulatory arbitrage in the financial sector. Based on the recommendations of the Internal Group and taking into consideration the feedback received thereon, a revised framework to address the issues pertaining to the overall regulation of systemically important NBFCs (NBFCs-ND-SI) and the relationship between banks and NBFCs was put in place on December 12, 2006.

5.36 All NBFCs–ND with an asset size of Rs.100 crore and more as per the last audited balance sheet are now considered as systemically important NBFCs–ND (NBFC-ND-SI). NBFCs–ND–SI are required to maintain a minimum CRAR of 10 per cent. No NBFC–ND–SI is allowed to (i) lend to any single borrower/group of borrowers exceeding 15 per cent / 25 per cent of its owned fund; (ii) invest in the shares of another company/ single group of companies exceeding 15 per cent / 25 per cent of its owned fund; and (iii) lend and invest (loans/investments taken together) exceeding 25 per cent of its owned fund to a single party and 40 per cent of its owned fund to a single group of parties.

5.37 If the additional exposure is on account of infrastructure loan and/or investment, then the NBFCs are allowed to exceed the prescribed limit of credit/investment for single party or a single group of parties, *i.e.*, 5 per cent for any single party and 10 per cent for a single group of parties. In addition to the single party and a single group of parties exposure norms prescribed for NBFCs-D and NBFCs-ND-SI, AFCs are permitted to exceed the exposure to a single party and a single group of parties up to a further 5 percentage points of their owned fund in exceptional circumstances with the approval of their boards. NBFCs-ND-SI not accessing public funds both directly and indirectly may apply to the Reserve Bank for an appropriate dispensation, consistent with the spirit of the exposure limits. Taking into account the likelihood that some of the NBFCs may not be in compliance with some of the elements of the revised regulatory framework, it was decided to provide for a transition period up to end-March 2007. Accordingly, NBFCs were required to comply with all elements of the revised framework with effect from April 1, 2007.

5.38 The residuary non-banking companies (RNBCs) and primary dealers (PDs) are subject to a separate set of regulations. The Reserve Bank had constituted an Internal Group to review the existing guidelines applicable to these entities in the light of the revised guidelines and examine the need for prescribing supplementary guidelines which will be issued separately. Till such time, these entities will continue to be governed by the existing regulations.

5.39 Government owned NBFCs are exempted from certain provisions of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, at present. There is, however, a proposal to bring all deposit-taking and systemically important Government owned companies under the provisions of the Directions, 1998. However, the date from which they are to fully comply with the regulatory framework will be decided later. These companies were, therefore, required to prepare a roadmap for compliance with the various elements of the NBFC regulations, in consultation with the Government, and submit it to the Reserve Bank by March 31, 2007.

5.40 With a view to ensuring adherence to compliance with the regulatory framework for systemically important non-deposit taking/holding NBFCs (NBFC-ND-SI) as on December 12, 2006, such companies were advised on April 27, 2007 to put in place a system for submission of an annual statement of capital funds and risk asset ratio, among others, as at end of March every year. The first such return was required to be submitted for the year ended March 31, 2007. The return may be submitted within a period of three months from the close of the financial year, every year.

Exposure Norms and Risk Weights

5.41 The Reserve Bank amended the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998. Under the amended directions, NBFCs were advised on September 20, 2006 that while calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, they may 'net-off' against the total outstanding exposure to the borrower advances collateralised by cash margins/security deposits/caution money against which the right to set off is available.

Securitisation Companies and Reconstruction Companies

5.42 On March 29, 2004, the Reserve Bank increased, the minimum owned fund requirement for commencing the business of securitisation or asset reconstruction to an amount not less than 15 per cent of the total financial assets acquired or to be acquired by the securitisation company or reconstruction company on an aggregate basis or Rs.100 crore, whichever is lower, irrespective of whether the assets are transferred to a trust set up for the purpose of securitisation or not. The securitisation companies/reconstruction companies were directed that they may invest the amount of owned fund in the security receipts issued by the trust set up for the purpose of securitisation. It was, however, decided on September 20, 2006 that Securitisation Companies or Reconstruction Companies shall invest in Security Receipts an amount not less than 5 per cent issued under each scheme with immediate effect. In the case of Securitisation Companies or Reconstruction Companies which have already issued the Security Receipts, such companies should achieve the minimum subscription limit in Security Receipts under each scheme, within a period of six months from the date of notification.

5.43 The Reserve Bank on October 19, 2006 directed that a securitisation company or reconstruction company, which has obtained a certificate of registration (CoR) from the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 should commence business within six months from the date of grant of CoR. The Reserve Bank may, on an application made by the securitisation company or reconstruction company, grant extension of time for commencement of business beyond six months, on merits, but in no case, such extension of time shall exceed 12 months from the date of grant of certificate of registration. Those securitisation companies or reconstruction companies, which had already obtained a CoR from the Reserve

Bank under Section 3 of the Act and did not commence business, were required to commence business within a period of six months from the date of the notification of the Directions.

Continuation of Business of NBFI -Submission of Statutory Auditors Certificate

5.44 It was observed that there were NBFCs which were not engaged in the business of non-banking financial institution (NBFI) but still held the CoR, even though they were not required/eligible to hold the CoR granted by the Reserve Bank. In order to ensure that only NBFCs which are actually engaged in the business of NBFI hold CoR, NBFCs were advised on September 21, 2006 that they should submit a certificate from their statutory auditors every year to the effect that they continue to undertake the business of NBFI requiring the holding of CoR under Section 45-IA of the RBI Act, 1934. The certificate from the statutory auditors in this regard is required to be submitted to the Regional Office of the Reserve Bank under whose jurisdiction the NBFC is registered, latest by June 30, every year with reference to the position of the company as on March 31 of that year.

Definition of Principal Business

5.45 The term 'principal business' in the case of NBFIs has not been defined in law. However, the Reserve Bank decided to describe principal business for the purpose of identification of an NBFC. It was clarified on October 19, 2006 that the business of non-banking financial institution means a company engaged in the business of financial institution as contained in Section 45 I(a) of the RBI Act, 1934. For this purpose, the definition of 'principal business' given, *vide* Press Release of April 8, 1999 is to be followed, which states that a company will be treated as a non-banking financial company if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets is more than 50 per cent of the gross income. Both these tests are required to be satisfied as the determinant factors for principal business of a company. In the case of an existing company, which has been granted the CoR by the Reserve Bank to carry on NBFI, it is possible that its business profile has undergone a change over a period of time. In the case of new companies, since these companies cannot commence business of NBFI without obtaining CoR, the Reserve Bank grants CoR on the basis of their intention to engage in the business of NBFI. However, such an intention may not materialise. Hence, it is possible, that there are companies holding the CoR to commence/carry on the business of NBFI without actually undertaking NBFI activity. It was for this reason that the submission of auditor's certificate in support of commencement/continuance of the business of NBFI and fulfilling the criteria of the principal business was prescribed.

Guidelines on Fair Practices Code

5.46 NBFCs were advised on September 28, 2006 to prescribe the broad guidelines on fair practices that are to be framed and approved by the boards of directors of all non-banking financial companies (including RNBCs). The fair practices code so framed and approved by the board of directors is to be published and disseminated on the website of the company, if any, for the information of the public. The salient features of the guidelines are: (i) loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower; (ii) NBFCs should devise a system of giving acknowledgment for receipt of all loan applications and preferably the timeframe, within which loan applications will be disposed off, should also be indicated; (iii) NBFCs should convey in writing to the borrower by means of sanction letter or otherwise, the amount of loan sanctioned, along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record; (iv) NBFCs should give notice to the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges and prepayment charges, among others; (v) decision to recall/ accelerate payment or performance under the agreement should be in consonance with the loan agreement; (vi) NBFCs should release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim NBFCs may have against borrower; (vii) NBFCs should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement; (viii) in case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise, *i.e.*, objection of the NBFC, if any, should be conveyed within 21 days from the date of receipt of request; (ix) in the matter of recovery of loans, NBFCs should not resort to undue harassment; and (x) the boards of directors of NBFCs should also put in place the appropriate grievance redressal mechanism within the organisation to resolve disputes in this regard.

Prior Public Notice about Change in Control/ Management

5.47 NBFCs, including RNBCs, were advised from time to time that whenever there was change of management and control of NBFCs, prior public notice should be given 30 days before effecting the sale, or transfer of the ownership by sale of shares, or transfer of control, or by way of amalgamation/merger of an NBFC with another NBFC or a non-financial company by the NBFC and also by the transferor, or the transferee. The matter was reviewed and NBFCs, including RNBCs, were advised on October 27, 2006 that such prior public notice shall be given by the NBFC and also by the transferor or the transferee or jointly by the parties concerned.

Distribution of Mutual Fund Products by NBFCs/ Issue of Co-branded Credit Cards

5.48 With a view to strengthening the NBFCs through diversification and pursuant to the announcement made in the Mid-Term Review of Annual Policy Statement for the year 2006-07 on October 31, 2006, it was decided on December 4, 2006 to allow NBFCs, selectively, to market and distribute mutual fund products as agents of mutual funds, with prior approval of the Reserve Bank, for an initial period of two years. It was also decided on December 4, 2006 to allow NBFCs, selectively, registered with the Reserve Bank to issue co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Bank, for an initial period of two years. NBFCs fulfilling the following minimum requirements are eligible to apply: (i) minimum net owned fund of Rs.100 crore; (ii) the company should have made net profit as per the last two years audited balance sheets; (iii) the percentage of net NPAs to net advances of the NBFC as per the last audited balance sheet should not be more than 3 per cent; and (iv) the non-deposit-taking NBFCs (NBFCs-ND) should have CRAR of 10 per cent and deposit-taking NBFCs (NBFCs-D) should have CRAR of 12 per cent or 15 per cent, as applicable to the company. In addition, for distributing mutual fund products, the NBFC (i) should comply with the SEBI guidelines/regulations; (ii) should not adopt any restrictive practice of forcing its customers to go in for a particular mutual fund product sponsored by it; (iii) and the customers should be allowed to exercise their own choice. In the case of co-branded credit card business, the role of the NBFC under the tie-up arrangement should be limited only to marketing and distribution of the co-branded credit cards and the co-branded credit card issuing bank would be subject to all the instructions/guidelines issued by its concerned regulatory authority. The guidelines would be reviewed after two years.

Cover for Public Deposits – Creation of Floating Charge on Liquid Assets

5.49 All NBFCs accepting/holding public deposits were advised in February 2005 to create floating charge on the statutory liquid assets invested in terms of Section 45-IB of the RBI Act, 1934, in favour of their depositors. In view of the practical difficulties expressed by the NBFCs in creating charge on the statutory liquid assets in favour of a large number of depositors, it was decided in January 2007 that NBFCs accepting/ holding public deposits may create the floating charge on the statutory liquid assets, in favour of their depositors, through the mechanism of 'Trust Deed'. The charge is required to be registered with the Registrar of Companies and the information in this regard is required to be furnished to the trustees and the Reserve Bank. A copy each of the 'Draft Trust Deed' containing the details and the 'Trustee Guidelines' was sent for the guidance of the NBFCs. They were further advised to put a system in place latest by March 31, 2007.

Submission of Returns by Mutual Benefit Financial Companies (MBFCs) and Mutual Benefit Companies (MBCs)

5.50 The Ministry of Company Affairs took over the entire regulation of Mutual Benefit Financial Companies (Notified *Nidhis*) and Mutual Benefit Companies (Potential Nidhis). Accordingly, the position regarding submission of annual returns by MBFCs and MBCs was reviewed by the Reserve

Bank and it was decided on January 4, 2007 not to call for annual return, audited balance sheet and profit and loss account, auditor's certificate and other particulars as contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 from MBFCs and MBCs. However, if the application of MBCs (Potential *Nidhis*) for grant of *nidhi* status is rejected by the Ministry of Company Affairs, the provisions of the Directions, 1998 as applicable to NBFCs would apply to such companies.

Prudential Norms

5.51 In terms of the provisions of the prescribed regulatory framework for systemically important non-deposit taking NBFCs, as on December 12, 2006, the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 were required to be amended. It was, however, felt that a separate set of prudential norms directions in supersession of the extant Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 may be issued for deposit taking NBFCs (including RNBCs) and non-deposit taking NBFCs for operational convenience. Accordingly, two sets of prudential norms directions, *viz*., Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 for deposit taking NBFCs (including RNBCs) and Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 for non-deposit taking NBFCs were issued in February 2007.

5.52 Further, all deposit taking NBFCs and RNBCs with total assets of Rs.100 crore and above were advised to submit the return on capital market exposure on a monthly basis within seven days of the close of the month. The first such return based on revised criteria was required to be submitted for the month ended April 30, 2007. NBFCs with deposits of Rs 50 crore and above were advised to continue to submit return on capital market exposure as hitherto being submitted by them till the month ended March 31, 2007, after which they are required to follow the revised instructions.

Misuse of Bank Finance for Hoarding

5.53 Concerns were expressed that some of the corporates/entities were hoarding foodgrains possibly using the resources borrowed from the NBFCs. Accordingly, NBFCs-ND-SI (all non-deposit taking NBFCs with asset size of Rs.100 crore and above) were advised on February 23, 2007 to undertake a scrutiny of their financial exposures to large borrowers for procurement of foodgrains and also consider quick scrutiny of the accounts on whom they have large exposure to confirm to themselves that funds were not diverted for procurement of foodgrains with a view to hoarding.

Advertisement in Electronic Media

5.54 NBFCs were advised in May 2005 to explicitly include in their advertisements soliciting deposits issued in print or electronic media (including websites) a statement to the effect that 'the Reserve Bank does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company'. It is possible that the advertisement released by NBFCs accepting deposits purely for promoting its business may attract deposits. In the interest of depositors in the context of such advertisements and draw attention of the depositors to the above provision, a suitable provision was incorporated in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 on April 4, 2007 advising NBFCs that where any advertisement is displayed in electronic media such as TV, even without soliciting deposits, it should incorporate a caption/band in such advertisements indicating the following: (i) 'As regards deposit taking activity of the company, the investors may refer to the advertisement in the newspaper/information furnished in the application form for soliciting public deposits'; (ii) 'The company is having a valid Certificate of Registration issued by the Reserve Bank of India under section 45-IA of the Reserve Bank of India Act, 1934. However, the Reserve Bank does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company'.

Ceiling on Rate of Interest

5.55 In the Annual Policy Statement for the year 2007-08, released in April 2007, an announcement was made regarding increase in the ceiling on the rate of interest payable by NBFCs (other than RNBCs) on deposits by 150 basis points to 12.5 per cent per annum. Accordingly, the maximum interest rate payable on public deposits by NBFCs was revised to 12.5 per cent per annum from April 24, 2007. This is the maximum permissible rate an NBFC can pay on its public deposits; NBFCs are free to offer lower rates. The new rate of interest will be applicable to fresh public deposits and renewals of matured public deposits. The ceiling rate of interest of 12.5 per cent per annum is also applicable to the deposits accepted/renewed by Miscellaneous Non-Banking Companies (Chit Fund Companies).

Guidelines on Corporate Governance

5.56 Corporate governance is the key to protecting the interests of the stakeholders in the corporate sector. NBFCs are no exception as they too are corporate entities. In order to enable NBFCs to adopt best practices and ensure greater transparency in their operations, guidelines were proposed on May 8, 2007 for consideration of the boards of directors of all deposit taking NBFCs with deposit size of Rs.20 crore and above, and all non-deposit taking NBFCs with asset size of Rs.100 crore and above (NBFCs-ND-SI). The guidelines relate to constitution of audit, nomination and risk management committees, disclosure and transparency and connected lending relationship.

5.57 An NBFC having assets of Rs.50 crore and above as per its last audited balance sheet is already required to constitute an audit committee, consisting of not less than three members of its board of directors. An NBFC-D with deposit size of Rs.20 crore may also consider constituting an audit committee on similar lines. With respect to the constitution of nomination committee, the guidelines require that it is necessary to ensure that the general character of the management or the proposed management of the NBFC is not prejudicial to the interest of its present and future depositors. In view of the interest evinced by various entities in this segment, it is desirable that NBFC-D with deposit size of Rs.20 crore and above and NBFC-ND-SI form a nomination committee to ensure 'fit and proper' status of proposed/existing directors. For risk management committee, the guidelines require that in order to manage risk on an integrated basis, a risk management committee be constituted. The market risk for NBFCs with public deposit of Rs.20 crore and above or having an asset size of Rs.100 crore or above as on the date of last audited balance sheet is addressed by the Asset Liability Management Committee (ALCO) constituted to monitor the asset liability gap and strategise action to mitigate the risk associated. The guidelines also require that the following information should be put up by NBFCs to the boards of directors at regular intervals as may be prescribed by it in this regard: (i) progress made in putting in place a progressive risk management system, and risk management policy and strategy followed; and (ii) conformity with corporate governance standards, *viz*., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions.

5.58 Alongwith the above, instructions on connected lending relationship were also released which relate to credit facilities to the directors, loans and advances to relatives of the NBFC's directors or to the directors of other companies and their relatives and other entities and timeframe for recovery of such loans, among others.

Complaints About Excessive Interest Charged by NBFCs

5.59 In view of several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs, they were advised on May 24, 2007 to lay down appropriate internal principles and procedures in determining interest rates and processing and other charges, even though interest rates are not regulated by the Reserve Bank. NBFCs were advised to keep in view the guidelines on Fair Practice Code about transparency in respect of terms and conditions of loans.

Profile of NBFCs (Including RNBCs)

5.60 Total number of NBFCs registered with the Reserve Bank, consisting of NBFCs-D (Deposit taking NBFCs), RNBCs, mutual benefit companies (MBCs), miscellaneous non-banking companies (MNBCs) and *Nidhi* companies, declined from 13,014 at end-June 2006 to 12,968 at end-June 2007 (Table V.13). The number of NBFCs-D

Table V.13: Number of NBFCs Registered with the Reserve Bank

End-June	NBFCs	NBFCs-D
1	2	3
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710
2004	13,764	604
2005	13,261	507
2006	13,014	428
2007	12,968	401

declined from 428 as at end-June 2006 to 401 as at end-June 2007. The decline was mainly due to the exit of many NBFCs from deposit taking activity. The number of RNBCs remained unchanged at three as at end-March 2007.

5.61 Of the 401 deposit taking NBFCs, 362 NBFCs filed annual return for the year ended March 2007 by the cut-off date of September 30, 2007. Despite a significant decline in the number of reporting NBFCs from the previous year, assets, public deposits and net owned funds increased by Rs.11,452 crore, Rs.2,042 crore and Rs.924 crore, respectively, during 2006-07 (Table V.14). Public deposits held by RNBCs constituted 91.7 per cent of total deposits of all NBFCs at end-

Table V.14: Profile of NBFCs*

(Amount in Rs. crore)

Item	As at end-March			
	2006		2007 P	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5
Number of Reporting Companies	435	3	362 @	3
Total Assets	59,719	21,891 (36.7)	71,171	23,172 (32.6)
Public Deposits	22,623	20,175 (89.2)	24,665	22,622 (91.7)
Net Owned Funds	7,677	1,183 (15.4)	8,601	1,366 (15.9)

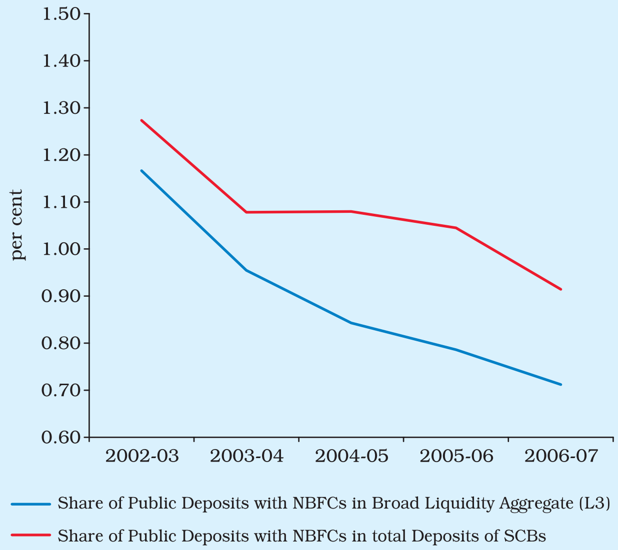
P : Provisional

* : NBFCs comprise NBFCs-D and RNBCs.

@: Out of 403, 362 NBFCs filed annual returns.

Note : Figures in brackets are percentages to respective total of NBFCs.

Chart V.2 : Share of Public Deposits of NBFCs in Broad Liquidity (L3) and Total SCBs Deposits



March 2007, slightly higher than 89.2 per cent in the previous year. However, the share of RNBCs in total assets of NBFCs declined to 32.6 per cent at end-March 2007 from 36.7 per cent at end-March 2006.

5.62 Despite the increase in public deposits held by NBFCs at end-March 2007, the ratio of deposits of reporting NBFCs to the aggregate deposits of scheduled commercial banks dropped to 0.95 per cent at end-March 2007 from 1.1 per cent at end-March 2006. The share of NBFC deposits in broad liquidity aggregate (L_3) also declined during the period (Chart V.2).

Operations of NBFCs-D (excluding RNBCs)

5.63 Total assets/liabilities of NBFCs (excluding RNBCs) expanded at a much higher rate of 26.9 per cent during 2006-07 compared with 5.1 per cent during 2005-06 (Table V.15). Borrowings, which is the major source of funds for these NBFCs, increased by 30.6 per cent during the year, while public deposits declined by 16.5 per cent indicating a shift in the pattern of resources raised. On the assets side, hire purchase assets increased sharply, while loans and advances, equipment leasing assets and bills purchased/discounted declined during 2006-07. Total investments of NBFCs increased sharply entirely on account of non-approved investments, while approved investments declined during the year.

Table V.15: Consolidated Balance Sheet of NBFCs-D

(Amount in Rs. crore)

Item	As at End-March		Variation			
			2005-06		2006-07	
	2006	2007 P	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7
Liabilities						
1. Paid-up Capital	1,827 (4.8)	2,289 (4.8)	-379	-17.2	462	25.3
2. Reserves and Surplus	5,625 (14.9)	5,969 (12.4)	1,081	23.8	344	6.1
3. Public Deposits	2,447 (6.5)	2,042 (4.3)	-1,478	37.7	-405	-16.5
4. Borrowings	24,942 (65.9)	32,563 (67.8)	1,897	8.2	7,621	30.6
5. Other Liabilities	2,987 (7.9)	5,136 (10.7)	704	30.8	2,149	72.0
Total Liabilities / Assets	**37,828**	**47,999**	**1,824**	**5.1**	**10,171**	**26.9**
1. Investments	4,326 (11.4)	7,508 (15.6)	369	9.3	3,182	73.5
i) Approved Securities @	292	241	-1,945	-87.0	-51	-17.3
ii) Other Investments	4,034	7,267	2,314	134.6	3,232	80.1
2. Loans and Advances	10,686 (28.2)	10,602 (22.1)	-2,063	-16.2	-84	-0.8
3. Hire Purchase Assets	20,008 (52.9)	26,048 (54.3)	5,608	38.9	6,040	30.2
4. Equipment Leasing Assets	1,502 (4.0)	1,334 (2.8)	-523	-25.8	-168	-11.2
5. Bill Business	44 (0.1)	6 (0.0)	-427	-90.6	-38	-85.7
6. Other Assets	1,261 (3.3)	2,500 (5.2)	-1,140	-47.5	1,239	98.3

P : Provisional.

@ : SLR assets comprise 'approved securities' and 'unencumbered term deposits' in scheduled commercial banks.

Note : Figures in brackets are percentages to total liabilities/assets.

Source : Annual Returns.

5.64 Among NBFC groups, asset finance companies (AFCs) held the largest share in total assets/liabilities (51.5 per cent), followed by hire purchase finance companies (35.7 per cent), loan companies (8.7 per cent) and investment companies (3.4 per cent) (Table V.16). The share of equipment leasing companies declined to below 1 per cent subsequent upon the re-classification of NBFCs. The relative significance of various NBFC groups reflected largely the pattern of their borrowings as deposits constituted a small share (4.3 per cent) of their total liabilities. Of the total deposits held by all NBFCs, hire purchase finance companies held the largest share in total deposits of NBFCs (81.0 per cent), followed distantly by AFCs with a 9.1 per cent share.

Deposits

Profile of Public Deposits of Different Categories of NBFCs-D

5.65 Continuing the trend of the previous year, public deposits held by all groups of NBFCs declined during 2006-07 (Table V.17). Deposits of equipment leasing companies and investment companies declined by 73.5 per cent and 44.1 per cent, respectively. The decline was, however, of a relatively low order in the case of deposits of hire purchase companies (18.7 per cent).

Size-wise Classification of NBFCs Deposits

5.66 Deposits held by NBFCs range from less than Rs.0.5 crore to above Rs.50 crore

Table V.16: Major Components of Liabilities of NBFCs-D–Group Wise

(Amount in Rs. crore)

NBFC Group	Liabilities		Deposits		Borrowings	
	2005-06	2006-07 P	2005-06	2006-07 P	2005-06	2006-07 P
1	2	3	4	5	6	7
Asset Finance @	–	24,718 (51.5)	–	186 (9.1)	–	19,091 (58.6)
Equipment Leasing	3,497 (9.2)	325 (0.7)	164 (6.7)	43 (2.1)	2,309 (9.3)	128 (0.4)
Hire Purchase	28,845 (76.3)	17,156 (35.7)	2,035 (83.2)	1,654 (81.0)	19,493 (78.2)	10,478 (32.2)
Investment	1,610 (4.3)	1,633 (3.4)	81 (3.3)	45 (2.2)	697 (2.8)	133 (0.4)
Loan	3,876 (10.2)	4,167 (8.7)	167 (6.8)	114 (5.6)	2,442 (9.8)	2,733 (8.4)
Total	**37,828**	**47,999**	**2,447**	**2,042**	**24,942**	**32,563**

P : Provisional – : Not applicable.
@ : New classification of NBFCs, *viz.* asset finance company (AFC) became effective since December 2006. Companies financing real/physical assets for productive/economic activities are re-classified as AFCs.
Note : Figures in brackets are percentages to respective totals.
Source : Annual Returns.

(Table V.18). The number of NBFCs and deposits held by NBFCs in all deposit sizes declined during 2006-07, except for the deposit-class 'more than Rs.20 crore and up to Rs.50 crore'. Though the number of NBFCs with deposits size of 'Rs.20 crore and above' declined to 11 in 2006-07 from 13 in 2005-06, their share in total deposits held by all NBFCs increased to 82.5 per cent from 78.3 per cent. The remaining 348 companies with deposit size of less than Rs.20 crore held about 18 per cent of total public deposits of the NBFC sector.

Table V.17: Public Deposits held by NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation
	Number of NBFCs		Public Deposits		
	2006	2007	2006	2007 P	2006-07
1	2	3	4	5	6
Asset Finance @	–	72	–	186 (9.1)	–
Equipment Leasing	37	28	164 (6.7)	43 (2.1)	-73.5
Hire Purchase	339	231	2,035 (83.2)	1,654 (81.0)	-18.7
Investment	5	3	81 (3.3)	45 (2.2)	-44.1
Loan	51	25	167 (6.8)	114 (5.6)	-32.0
Total	**432**	**359**	**2,447**	**2,042**	**-16.5**

P : Provisional. – : Not applicable.
@ : New classification of NBFCs *viz*. asset finance company (AFC) became effective since December 2006. Companies financing real/physical assets for productive/economic activities are re-classified as AFCs.
Note : Figures in brackets are percentages in respective totals.
Source : Annual Returns.

Table V.18: Range of Deposits held by NBFCs-D

(Amount in Rs. crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of Deposit	
	2006	2007	2006	2007 P
1	2	3	4	5
1. Less than Rs. 0.5 crore	255	218	39 (1.6)	30 (1.5)
2. More than Rs. 0.5 crore and up to Rs. 2 crore	107	89	100 (4.1)	83 (4.1)
3. More than Rs.2 crore and up to Rs.10 crore	42	34	182 (7.4)	152 (7.4)
4. More than Rs.10 crore and up to Rs.20 crore	15	7	211 (8.6)	93 (4.6)
5. More than Rs.20 crore and up to Rs.50 crore	3	4	102 (4.2)	151 (7.4)
6. Rs.50 crore and above	10	7	1,813 (74.1)	1,533 (75.1)
Total (1 to 6)	**432**	**359**	**2,447**	**2,042**

P : Provisional.
Note : Figures in brackets represent percentages in the respective totals.
Source : Annual Returns.

Region-Wise Composition of Deposits Held by NBFCs

5.67 Following the trend of the previous year, deposits held by NBFCs across all the regions declined during 2006-07 (Table V.19). As in the previous year, the Southern region accounted for the largest share of deposits (79.3 per cent), followed by the Northern region and the Western region. The presence of NBFCs in the North-Eastern region reduced to nil during the year. Among the metropolitan cities, Chennai emerged at the top in terms of amount of deposits held, while Delhi ranked first in terms of number of NBFCs.

Interest Rate on Public Deposits with NBFCs

5.68 The share of deposits contracted by NBFCs in the interest rates up to 10 per cent increased (89.5 per cent from 83.6 per cent), while those contracted in other interest rate ranges declined during the year (Table V.20).

Maturity Pattern of Public Deposits

5.69 Deposits with the maturity period of up to 2 years and between 3-5 years declined during the year. Deposits in the maturity bucket of 'more than 2 and up to 3 years' increased marginally, while deposits in the maturity bucket of '5 years and above' increased significantly at end-March

Table V.19: Public Deposits held by NBFCs-D – Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2006		2007 P	
	Number	Amount	Number	Amount
1	2	3	4	5
1. Central	63	34 (1.4)	59	27 (1.3)
2. Eastern	12	59 (2.4)	8	21 (1.0)
3. North-Eastern	1	0 (0.0)	0	0 (0.0)
4. Northern	215	333 (13.6)	191	288 (14.1)
5. Southern	114	1,917 (78.3)	78	1,620 (79.3)
6. Western	27	104 (4.2)	23	86 (4.2)
Total (1 to 6)	**432**	**2,447**	**359**	**2,042**
Memo:				
Metropolitan cities:				
1. Mumbai	13	94	10	78
2. Chennai	69	1,740	41	1,516
3. Kolkata	9	46	6	21
4. New Delhi	73	240	69	219
Total (1 to 4)	**164**	**2,120**	**126**	**1,834**

P : Provisional.
Note : Figures in brackets are percentages in the respective totals.
Source: Annual Returns.

Table V.20: Distribution of Public Deposits of NBFCs-D According to Rate of Interest

(Amount in Rs. crore)

Interest Range	As at end-March	
	2006	2007 P
1	2	3
Up to 10 per cent	2,047 (83.6)	1,828 (89.5)
More than 10 per cent and up to 12 per cent	318 (13.0)	195 (9.6)
12 per cent and above	82 (3.4)	19 (0.9)
Total	**2,447**	**2,042**

P : Provisional.
Note : Figures in brackets are percentages to the respective totals.
Source: Annual Returns.

2007. As a result, their share in total deposits increased (Table V.21).

5.70 The spread between the maximum interest rate on public sector bank deposits of 'one to three year' maturity and the interest rate offered by NBFCs on deposits with the same maturity narrowed to 1.50 percentage points at end-March 2007 from 4.25 percentage points at end-March 2006 (Table V.22). Subsequently, however, the ceiling interest rate for NBFCs was revised upwards to 12.50 per cent with effect from April 24, 2007 as a result of which the spread has widened to 3.00 percentage points.

Table V.21: Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in Rs. crore)

Maturity Period@	As at end-March	
	2006	2007 P
1	2	3
1. Less than 1 year	878 (35.9)	695 (34.1)
2. More than 1 and up to 2 years	648 (26.5)	473 (23.2)
3. More than 2 and up to 3 years	559 (22.8)	560 (27.4)
4. More than 3 and up to 5 years	360 (14.7)	234 (11.4)
5. 5 years and above	3 (0.1)	80 (3.9)
Total	**2,447**	**2,042**

@ : Based on the of residual maturity of outstanding deposits.
P : Provisional.
Note : Figures in brackets are percentages to the respective totals.
Source: Annual Returns.

Table V.22: Spread in Deposit Interest Rates of Banks and NBFCs

(Per cent)

Interest Rate	As at end-March					
	2002	2003	2004	2005	2006	2007
1	2	3	4	5	6	7
1. Maximum interest rate on public sector bank deposits of 1-3 year maturity	8.50	6.75	6.75	6.50	6.75	9.50
2. Ceiling interest rate for NBFCs	12.50	11.00	11.00	11.00	11.00	11.00
3. Spread (2-1)	4.00	4.25	4.25	4.50	4.25	1.50

Borrowings by NBFCs-D

5.71 The outstanding borrowings by NBFCs increased by 30.6 per cent during 2006-07 (Table V.23). Borrowings by equipment leasing and hire purchase companies and investment companies declined, partly reflecting the reclassification of NBFCs, while those by loan companies increased during the year. AFCs held the largest share of borrowings of all NBFCs, followed by hire purchase companies.

5.72 Borrowings by NBFCs from external sources, and from banks and financial institutions increased sharply by 95.9 per cent and 52.6 per cent, respectively, during 2006-07 (Table V.24). Borrowings from other sources grew

Table V.23: Borrowings by NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation
	No. of NBFCs		Total Borrowings		
	2006	2007 P	2006	2007 P	2006-07
1	2	3	4	5	6
Asset Finance @	–	72	–	19,091 (58.6)	–
Equipment Leasing	37	28	2,309 (9.3)	128 (0.4)	-94.4
Hire Purchase	339	231	19,493 (78.2)	10,478 (32.2)	-46.2
Investment Companies	5	3	697 (2.8)	133 (0.4)	-80.9
Loan Companies	51	25	2,442 (9.8)	2,732 (8.4)	11.9
Total	**432**	**359**	**24,942**	**32,563**	**30.6**

P : Provisional. – : Not applicable.
@ : New classification of NBFCs, *viz*., asset finance company (AFC) became effective since December 2006. Companies financing real/physical assets for productive/economic activities are re-classified as AFCs.
Note : Figures in brackets are percentages to total borrowings.
Source : Annual Returns.

Table V.24: Sources of Borrowings by NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March											
	Government		External Sources @		Banks and Financial Institutions		Debentures		Others		Total	
	2006	2007 P	2006	2007 P	2006	2007 P	2006	2007 P	2006	2007 P	2006	2007 P
1	2	3	4	5	6	7	8	9	10	11	12	13
Asset Finance #	..	..	..	975	..	9,148	..	5,808	..	3,159	..	19,091
Equipment Leasing	–	–	284	–	1,404	39 (-97.2)	338	–	283	89 (-68.6)	2,309	128 (-94.4)
Hire Purchase	–	–	329	225 (-31.4)	7,113	4,203 (-40.9)	7,165	1,847 (-74.2)	4,886	4,203 (-14.0)	19,493	10,478 (-46.2)
Investment	533	–	–	–	–	– (84.0)	9	7 (-22.1)	155	126 (-18.7)	697	133 (-80.2)
Loan	110	25 (-77.0)	–	– –	1,263	1,531 (21.3)	930	1,115 (20.0)	141	61 (-56.9)	2,442	2,732 (-11.9)
Total	**643**	**25 (-96.1)**	**613**	**1,201 (95.9)**	**9,779**	**14,923 (52.6)**	**8,442**	**8,777 (4.0)**	**5,465**	**7,637 (39.8)**	**24,942**	**32,563 (30.6)**

P : Provisional. .. : Not applicable. – : Nil/negligible.
@ : Comprises of (i) Foreign Government, (ii) Foreign Authority, and (iii) Foreign Citizen or Person.
# : New classification of NBFCs, *viz.*, asset finance company (AFC) became effective since December 2006. Companies financing real/physical assets for productive/economic activities are reclassified as AFCs.
Note : Figures in brackets are percentage variations over the previous year.
Source : Annual Returns.

by 39.8 per cent during the year. However, borrowings from the Government declined sharply during 2006-07. Borrowings from the Government relate to one State-owned NBFC operating in the southern region.

Assets of NBFCs-D

5.73 The decline in the assets of equipment leasing and hire purchase companies reflects the reclassification of the NBFCs. Loans and advances as well as investments increased during the year. The sharp decline in total advances and investments of equipment leasing companies and hire purchase companies reflected the reclassification of NBFCs (Table V.25). At end-March 2007, 55 per cent of total loans and advances and 32.1 per cent of investments by all NBFCs were held by asset finance companies.

Table V.25: Major Components of Assets of NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March					
	Assets		Advances		Investment	
	2006	2007 P	2006	2007 P	2006	2007 P
1	2	3	4	5	6	7
Asset Finance @	–	24,718 (51.5)	–	20,882 (55.0)	–	2,413 (32.1)
Equipment Leasing	3,497 (9.2)	325 (0.7)	3,150 (9.8)	252 (0.7)	366 (8.5)	56 (0.7)
Hire Purchase	28,845 (76.3)	17,156 (35.7)	25,479 (79.0)	14,572 (38.4)	2,068 (47.8)	1,722 (22.9)
Investment	1,610 (4.3)	1,633 (3.4)	620 (1.9)	498 (1.3)	968 (22.4)	1,110 (14.8)
Loan	3,876 (10.2)	4,167 (8.7)	2,992 (9.3)	1,787 (4.7)	924 (21.4)	2,207 (29.4)
Total	**37,828**	**47,999**	**32,241**	**37,991**	**4,326**	**7,508**

P : Provisional. – : Not applicable.
@ : New classification of NBFCs, *viz.*, asset finance company (AFC) became effective since December 2006. Companies financing real/physical assets for productive/economic activities are re-classified as AFCs.
Note : Figures in brackets are percentages to respective totals.
Source : Annual Returns.

Table V.26: NBFCs-D According to Asset Size

(Amount in Rs. crore)

Asset size	As at end-March			
	No. of reporting companies		Assets	
	2006	2007 P	2006	2007 P
1	2	3	4	5
1. Less than Rs. 0.25 crore	10	8	1 (0.0)	1 (0.0)
2. More than Rs. 0.25 crore and up to Rs. 0.50 crore	35	28 (0.0)	13 (0.0)	11
3. More than Rs. 0.50 crore and up to Rs. 2 crore	187	155	215 (0.6)	176 (0.4)
4. More than Rs. 2 crore and up to Rs. 10 crore	119	97	551 (1.5)	418 (0.9)
5. More than Rs. 10 crore and up to Rs. 50 crore	48	43	1,127 (3.0)	1,024 (2.1)
6. More than Rs. 50 crore and up to Rs. 100 crore	7	5	473 (1.3)	339 (0.7)
7. More than Rs. 100 crore and up to Rs. 500 crore	12	8	2,362 (6.2)	1,598 (3.3)
8. Above Rs. 500 crore	14	15	33,085 (87.5)	44,433 (92.6)
Total (1 to 8)	**432**	**359**	**37,828**	**47,999**

P: Provisional.
Note : Figures in brackets are percentages in respective totals.
Source : Annual Returns.

Distribution of NBFCs-D According to Asset Size

5.74 The asset size of NBFCs varies significantly from less than Rs.25 lakh to more than Rs.500 crore. The decline in the number of reporting companies (from 432 at end-March 2006 to 359 at end-March 2007) was on account of a decline in the number of companies in all asset ranges, except the marginal rise in the 'above Rs.500 crore' category. The asset holding pattern remained skewed. Fifteen NBFCs with asset size of 'above Rs.500 crore' held 92.6 per cent of total assets of all NBFCs, while the remaining 344 NBFCs held 7.4 per cent of total assets at end-March 2007 (Table V.26).

Distribution of Assets of NBFCs – D Type of Activity

5.75 While assets held in the form of investments and equipment leasing and other assets witnessed a sharp turnaround during 2006-07, assets in the form of hire purchase witnessed a slower growth. Assets in the form of loans and bills continued to decline during the year. Assets held in the hire-purchase activity accounted for the largest share (54.3 per cent), followed by loans and inter-corporate deposits (22.1 per cent), investments (15.6 per cent) and equipment leasing (1.5 per cent) (Table V.27).

Table V.27: Distribution of Assets of NBFCs-D- Activity-wise

(Amount in Rs. crore)

Activity	As at end-March		Percentage Variation	
	2006	2007 P	2005-06	2006-07 P
1	2	3	4	5
1. Loans and Inter-corporate deposits	10,686 (28.2)	10,602 (22.1)	-27.8	-0.8
2. Investments	4,326 (11.4)	7,508 (15.6)	-9.3	73.5
3. Hire Purchase	20,008 (52.9)	26,048 (54.3)	38.1	30.2
4. Equipment and Leasing	617 (1.6)	726 (1.5)	-21.3	17.7
5. Bills	44 (0.1)	6 (0.0)	-90.5	-85.7
6. Other assets	2,146 (5.7)	3,108 (6.5)	-39.1	44.8
Total (1 to 6)	**37,828**	**47,999**	**-1.2**	**26.9**

P : Provisional.
Note : Figures in brackets are percentages in respective totals.
Source : Annual Returns.

Financial Performance of NBFCs-D

5.76 Financial performance of NBFCs turned around during 2006-07. This was entirely on account of sharp rise in fund based income (26.6 per cent), which offset the sharp increase in operating expenditure (33.1 per cent) and financial expenditure (30.0 per cent). As a result, the operating profits increased by 12.7 per cent and the net profits by 1.8 per cent. The cost to income ratio increased moderately (to 83.5 per cent in 2006-07 from 81.6 per cent in 2005-06) (Table V.28).

5.77 While income as percentage of assets declined marginally, expenditure (including provisions) as percentage of assets increased marginally, resulting in a decline in the net profits to asset ratio (Chart V.3).

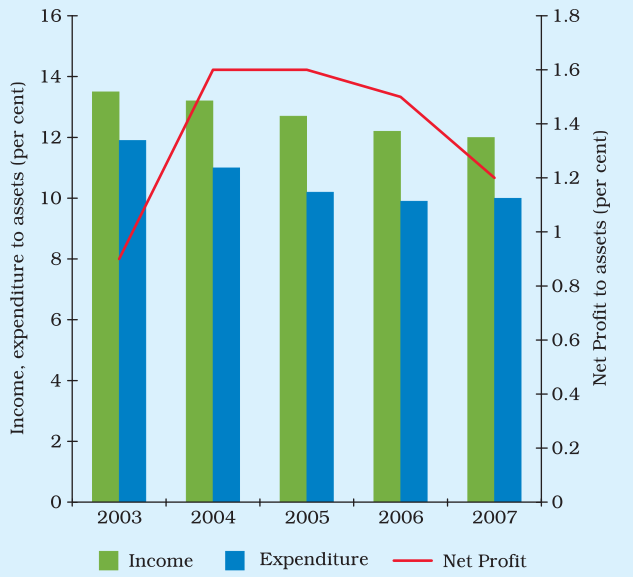
Table V.28: Financial Performance of NBFCs-D

(Amount in Rs. crore)

Indicator	As at end-March		Percentage Variation	
	2006	2007 P	2005-06	2006-07
1	2	3	4	5
A. Income (i+ii)	**4,599**	**5,770**	**-0.1**	**25.4**
(i) Fund Based	4,453 (96.8)	5,635 (97.7)	5.3	26.6
(ii) Fee-Based	147 (3.2)	134 (2.3)	-61.2	-8.3
B. Expenditure (i+ii+iii)	**3,753**	**4,816**	**13.0**	**28.3**
(i) Financial	2,144 (57.1)	2,787 (57.9)	0.3	30.0
of which: Interest Payment	541	540	–	-0.2
(ii) Operating	945 (25.2)	1,257 (26.1)	31.6	33.1
(iii) Others	664 (17.7)	772 (16.0)		16.2
C. Tax Provisions	**291**	**388**	**-17.6**	**33.3**
D. Operating Profit (PBT)	**847**	**954**	**-52.1**	**12.7**
E. Net Profit (PAT)	**556**	**566**	**-73.4**	**1.8**
F. Total Assets	**37,828**	**47,999**	**-1.2**	**26.9**
G. Financial Ratios *				
i) Income	12.2	12.0		
ii) Fund Income	11.8	11.7		
iii) Fee Income	0.4	0.3		
iv) Expenditure	9.9	10.0		
v) Financial Expenditure	5.7	5.8		
vi) Operating Expenditure	2.5	2.6		
vii) Tax Provision	0.8	0.8		
viii) Net Profit	1.5	1.2		
H. Cost to Income Ratio	**81.6**	**83.5**		

* : As percentage to total assets.
P : Provisional.
Note : Figures in brackets are percentages in respective totals.
Source : Annual Returns.

Chart V.3: Financial Performance of NBFCs



Soundness Indicators

Asset Quality of NBFCs-D

5.78 In continuation of the trend witnessed during the last few years, gross NPAs (as percentage of gross advances) as well as net NPAs (as percentage of net advances) of reporting NBFCs declined further during the year ended March 2007 (Table V.29).

5.79 Gross NPAs (as percentage of gross advances) of equipment leasing and investment companies increased during 2006-07, while those of loan companies and hire purchase companies declined. Net NPAs (as percentage of net advances) also showed a decline in the case of equipment leasing and loan companies (Table V.30).

Table V.29: Non-performing Assets of NBFCs-D

(Per cent)

End-March	Gross NPAs to Gross Advances	Net NPAs to Net Advances
1	2	3
2001	11.5	5.6
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	5.7	2.5
2006	3.6	0.5
2007 P	1.9	0.4

P : Provisional.
Source : Half - Yearly Returns.

Table V.30: NPAs of NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to Assets		Amount	Per cent to Net Advances	Per cent to Assets
1	2	3	4	5	6	7	8	9
Asset Finance @								
2007 P	11,799	258	2.2	2.1	11,525	-15	-0.1	-0.1
Equipment Leasing								
2005	4,187	514	12.3	11.0	4,018	345	8.6	7.4
2006	2,878	69	2.4	2.2	2,786	-23	-0.8	-0.7
2007 P	1,035	41	4.0	3.7	973	-21	-2.1	-1.9
Hire Purchase								
2005	15,900	610	3.8	3.6	15,544	253	1.6	1.5
2006	17,607	444	2.5	2.4	17,238	74	0.4	0.4
2007 P	18,079	321	1.8	1.6	17,842	83	0.5	0.4
Investment								
2005	58	10	18.0	1.8	58	10	18.0	1.8
2006	59	0	0.4	0.0	59	0	0.4	0.0
2007 P	31	1	2.8	0.1	31	1	2.8	0.1
Loan								
2005	1,955	117	6.0	5.1	1,772	-65	-3.7	-2.8
2006	690	252	36.5	19.3	483	45	9.3	3.4
2007 P	7,551	94	1.2	4.6	7,548	91	1.2	4.4

P : Provisional

@ : New classification of NBFCs, *viz*., asset finance company (AFC) became effective since December 2006. Companies financing real/ physical assets for productive/economic activities are re-classified as AFCs.

Source : Half-yearly returns of reporting NBFCs.

5.80 Asset quality of various types of NBFCs as reflected in the various categories of NPAs (sub-standard, doubtful and loss) remained broadly at the previous year's level, barring NPAs of loan companies which declined significantly in all categories (Table V.31).

Capital Adequacy Ratio

5.81 The capital to risk-weighted assets ratio (CRAR) norms were made applicable to NBFCs in 1998, in terms of which every deposit-taking NBFC is required to maintain a minimum capital, consisting of Tier-I and Tier-II capital, of not less than 12 per cent (15 per cent in the case of unrated deposit-taking loan/investment companies) of its aggregate risk-weighted assets and of risk-adjusted value of off-balance sheet items. Total of Tier-II capital, at any point of time, cannot exceed 100 per cent of Tier-I capital. The number of NBFCs with less than the minimum regulatory CRAR of 12 per cent declined to 13 at end-March 2007 from 37 at end-March 2006 (Table V.32). At end-March 2007, 319 out of 332 NBFCs had CRAR of 12 per cent or more as against 364 out of 401 NBFCs at end-March 2006. Number of NBFCs with CRAR more than 30 also declined to 275 at end-March 2007 from 304 at end-March 2006.

5.82 Net owned fund (NOF) of NBFCs is the aggregate of paid-up capital and free reserves, netted by (i) the amount of accumulated losses; and (ii) deferred revenue expenditure; and (iii) other intangible assets, if any, and adjusted by investments in shares, and loans and advances to (a) subsidiaries, (b) companies in the same group, and (c) other NBFCs (in excess of 10 per cent of owned fund). Information about NOF can complement the information on CRAR. The ratio of public deposits to NOF in the case of equipment leasing companies declined substantially during the year ended March 2007, while that of other category companies remained more or less at the

Table V.31: Classification of Assets of NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group/ End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Gross NPAs		Gross Advances
	Amount	per cent to gross advances	Amount	per cent to gross advances	Amount	per cent to gross advances	Amount	per cent to gross advances	Amount	per cent to gross advances	
1	2	3	4	5	6	7	8	9	10	11	12
Asset Finance @											
2007 P	11,540	97.8	241	2.0	15	0.1	2	0.0	258	2.2	11,799
Equipment Leasing											
2005	3,673	87.7	383	9.1	91	2.2	39	0.9	514	12.3	4,187
2006	2,809	97.6	12	0.4	21	0.7	36	1.2	69	2.4	2.878
2007 P	994	96.0	4	0.4	2	0.2	35	3.4	41	4.0	1.035
Hire Purchase											
2005	15,290	96.2	386	2.4	130	0.8	94	0.6	610	3.8	15,900
2006	28,170	97.5	184	0.6	47	0.3	212	0.8	444	1.6	17.607
2007 P	17,759	98.4	185	1.0	51	0.3	85	0.5	321	1.8	18.079
Investment											
2005	48	82.8	1	1.7	10	17.2	0	0.0	10	17.2	58
2006	59	99.6	0	0.0	0	0.2	0	0.2	0	0.4	59
2007 P	31	97.2	1	2.8	0	0.0	0	0.0	1	2.8	31
Loan											
2005	1,837	94.0	14	0.7	42	2.1	61	3.1	117	6.0	1,955
2006	438	63.5	19	2.7	99	14.3	134	19.4	252	36.5	690
2007 P	6,913	98.7	9	0.1	78	1.1	8	0.1	94	1.3	7.551

P : Provisional

@ : New classification of NBFCs, *viz.*, asset finance company (AFC) became effective in December 2006. Companies financing real/ physical assets for productive/economic activities are re-classified as AFCs.

Source : Half-yearly returns of reporting NBFCs.

previous year's level. The ratio turned negative in respect of equipment leasing companies because of negative net owned funds. The ratio of public deposit to NOF for all NBFCs was 0.3 per cent at end-March 2007 as compared with 0.4 per cent at end-March 2006 (Table V.33).

Table V.32: Capital Adequacy Ratio of NBFCs-D

(Per cent)

CRAR Range	As at end-March								
	2006				2007 P				
	EL	HP	LC/IC	Total	AFC	EL	HP	LC/IC	Total
1	2	3	4	5	6	7	8	9	10
1) Less than 12 per cent (a+b)	8	23	6	37	0	3	10	0	13
a) Less than 9 per cent	8	23	6	37	0	3	10	0	13
b) More than 9 and up to 12 per cent	0	0	0	0	0	0	0	0	0
2) More than 12 and up to 15 per cent	0	3	0	3	2	0	2	0	4
3) More than 15 and up to 20 per cent	0	11	0	11	2	1	7	1	11
4) More than 20 and up to 30 per cent	5	36	5	46	1	2	21	5	29
5) Above 30 per cent	24	257	23	304	36	19	200	20	275
Total	**37**	**330**	**34**	**401**	**41**	**25**	**240**	**26**	**332**

P : Provisional.

Note : AFC: Asset Finance Company; EL - Equipment Leasing; HP: Hire Purchase; LC/IC - Loan Companies/Investment Companies.

Source : Half-Yearly Returns.

Table V.33: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D – Group-wise

(Amount in Rs. crore)

NBFC Group	Net Owned Funds		Public Deposits		Ratio of Public Deposits to Net Owned Funds	
	2005-06	2006-07 P	2005-06	2006-07 P	2005-06	2006-07 P
1	2	3	4	5	6	7
1. Asset Finance @	–	2,673	–	186	–	0.1
2. Equipment Leasing	542	-15	164	43	0.3	-2.9
3. Hire Purchase	4,106	3,159	2,035	1,654	0.5	0.5
4. Investment	766	822	81	45	0.1	0.1
5. Loan	1,080	596	167	114	0.2	0.2
Total (1 to 5)	**6,494**	**7,235**	**2,447**	**2,042**	**0.4**	**0.3**

P : Provisional – : Not applicable.

@ : New classification of NBFCs, *viz*., asset finance company (AFC) became effective in December 2006. Companies financing real/ physical assetsfor productive/economic activities are re-classified as AFCs.

Source : Annual Returns.

5.83 Net owned funds of NBFCs range from less than Rs.25 lakh to above Rs.500 crore. Public deposits, as multiple of NOF, held by NBFCs in the category of NOF of 'more than Rs.50 crore and up to Rs.100 crore' increased, while those by NBFCs in all other ranges of NOF generally declined (Table V.34).

Residuary Non-Banking Companies (RNBCs)

5.84 Assets of three RNBCs increased by 5.9 per cent during the year ended March 2007. Their assets in the form of unencumbered approved securities as well as bonds/debentures increased sharply, while those in investments in fixed deposits/certificate of

Table V.34: Range of Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs. crore)

Ranges of Net Owned Fund	As at end-March					
	2006			2007 P		
	No. of Companies	Net Owned Funds	Public Deposits	No. of Companies	Net Owned Funds	Public Deposits
1	2	3	4	5	6	7
1. Up to Rs. 0.25 crore	26	-387	113 -(0.3)	17	-279	146 -(0.5)
2. More than Rs. 0.25 crore and up to Rs. 2 crore	295	208	140 (0.7)	243	171	96 (0.6)
3. More than Rs. 2 crore and up to Rs. 10 crore	73	316	180 (0.6)	62	284	129 (0.5)
4. More than Rs. 10 crore and up to Rs. 50 crore	21	486	417 (0.9)	21	473	268 (0.6)
5. More than Rs. 50 crore and up to Rs. 100 crore	3	224	5 (0.0)	2	125	45 (0.4)
6. More than Rs. 100 crore and up to Rs. 500 crore	9	2,095	877 (0.4)	8	1,729	686 (0.4)
7. Above Rs. 500 crore	5	3,552	716 (0.2)	6	4,733	671 (0.1)
Total	**432**	**6,494**	**2447 (0.4)**	**359**	**7,235**	**2,042 (0.3)**

P : Provisional

Note : Figures in brackets are public deposit as multiple of respective net owned fund.

Source : Annual Returns.

Table V.35: Profile of Residuary Non-Banking Companies

(Amount in Rs. crore)

Item	As at end-March		Per cent Variation	
	2006	2007 P	2005-06	2006-07
1	2	3	4	5
A. Assets (i to v)	**21,891**	**23,172**	**14.9**	**5.9**
(i) Investment in Unencumbered Approved Securities	2,346	3,317	15.2	41.4
(ii) Investment in Fixed deposits/Certificate of Deposits of Scheduled Commercial Banks/Public Financial Institutions	6,090	5,604	24.9	-8.0
(iii) Debentures/Bonds/Commercial Papers of Govt. Companies/ Public Sector Banks/Public Financial Institution/Corporations	9,577	11,700	3.8	22.2
(iv) Other investments	1,658	1,156	1.2	-30.3
(v) Other Assets	2,220	1,395	72.7	-37.2
B. Net Owned Funds	**1,183**	**1,366**	**11.1**	**15.5**
C. Total Income (i+ii)	**1,620**	**1,893**	**5.7**	**16.9**
(i) Fund Income	1,616	1,886	5.6	16.7
(ii) Fee Income	3	8	50.0	166.7
D. Total Expenses (i+ii+iii)	**1,439**	**1,648**	**3.1**	**14.5**
(i) Financial Cost	1,165	1,230	-0.9	5.5
(ii) Operating Cost	159	284	8.9	78.6
(iii) Other cost	114	134	55.4	17.5
E. Provision for Taxation	**22**	**44**	**-54.2**	**100.0**
F. Operating Profit (PBT)	**180**	**246**	**32.4**	**36.7**
G. Net profit (PAT)	**158**	**201**	**79.5**	**27.1**

P : Provisional.
Note : PBT - Profit Before Tax; PAT - Profit After Tax.
Source : Annual Returns.

deposits of SCBs and other instruments registered a decline. Net owned funds of RNBCs increased by 15.5 per cent during 2006-07 (Table V.35).

5.85 The increase in income of RNBCs during 2006-07 was more than the increase in expenditure, as a result of which the operating profit of RNBCs increased. The provision for taxation also registered a sharp rise. As a result, net profit of RNBCs increased by only 27.1 per cent during 2006-07 as compared with 79.5 per cent during 2005-06.

Regional Pattern of Deposits of RNBCs

5.86 Of the three RNBCs, two are based in the Eastern region (Kolkata) and one in the Central region. While public deposits held by RNBCs in the Eastern region registered a marginal decline, those held in the Central region increased moderately. Of the four metropolitan cities, RNBCs held public deposits only in one metropolitan city, *i.e.*, Kolkata (Table V.36).

Investment Pattern of RNBCs

5.87 The investment pattern of RNBCs as prescribed in the Residuary Non-Banking (Reserve Bank) Directions, 1987 was reviewed and modified on March 31, 2006. The aggregate liability to depositor (ALD) was bifurcated under two heads, *viz*., aggregate liability to depositor (ALD) as on December 31, 2005 and incremental ALDs. Incremental ALDs are the liabilities to the depositors exceeding the aggregate amount of the liabilities to the depositors as on December 31, 2005. RNBCs were advised to invest, with effect from April 1, 2006, not less than 95 per cent of the ALD as on December 31, 2005 and the entire incremental ALD in the prescribed manner. RNBCs were also advised that on and from April 1, 2007, the entire amount of ALD would be invested in directed investments only and no discretionary investment would be allowed to be made by them.

5.88 ALDs increased by 12.1 per cent during 2006-07. The pattern of deployment of ALDs

Table V.36: Public Deposits held by RNBCs Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2006		2007 P	
	No. of RNBCs	Amount	No. of RNBCs	Amount
1	2	3	4	5
1. Northern	–	–	–	–
2. North-Eastern	–	–	–	–
3. Eastern	2	4,614 (23)	2	4,514 (20)
4. Central	1	15,561 (77)	1	18,108 (80)
5. Western	–	–	–	–
6. Southern	–	–	–	–
Total (1 to 6)	**3**	**20,175**	**3**	**22,622**
Memo:				
Metropolitan Cities:				
1. Mumbai	–	–	–	–
2. Chennai	–	–	–	–
3. Kolkata	2	4,614	2	4,514
4. New Delhi	–	–	–	–
Total (1 to 4)	**2**	**4,614**	**2**	**4,514**

– : Nil/Negligible. P: Provisional.
Note : Figures in brackets are percentages to respective totals.
Source : Annual Returns.

remained broadly unchanged during the year (Table V.37).

Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC- ND -SI)

5.89 Information based on the returns received from 173 non-deposit taking systemically important NBFCs (with asset size of Rs.100 crore and above) for the year ended March 2007 showed an increase of 26.8 per cent in their liabilities/ assets over the year ended March 2006. Unsecured loans constituted the single largest source of funds for large sized NBFCs, followed by secured loans and reserves and surplus. This trend continued during the quarter ended June 2007 (Table V.38).

Borrowings

5.90 Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 21.4 per cent to Rs.2,11,986 crore during the year ended March 2007, constituting 66.7 per cent of their total liabilities. During the quarter ended June 2007, the liabilities increased further by 6.4 per cent (Table V.39).

Application of Funds

5.91 The pattern of application of funds by NBFCs-ND-SI during the year ended March 2007 showed significant variations over the previous year. While unsecured loans had constituted the single largest item on the asset side during 2005-06 (38.4 per cent), secured loans constituted the largest item on the asset side (41.5 per cent), followed by unsecured loans and long-term investments during 2006-07. This trend continued during the quarter ended June 2007 (Table V.40).

Financial Performance

5.92 NBFCs-ND-SI earned a profit of Rs.7,460 crore during the year ended March 2007, which was

Table V.37: Investment Pattern of Residuary Non-Banking Companies

(Amount in Rs. crore)

Item	End-March		Per cent to ALDs	
	2006	2007 P	2006	2007 P
1	2	3	4	5
A. Aggregated Liabilities to the Depositors (ALD)	**20,175**	**22,622**	**100.0**	**100.0**
B. Investments (i to iv)	**19,671**	**21,777**	**97.5**	**96.3**
(i) Unencumbered approved securities	2,346	3,317	11.6	14.7
(ii) Fixed Deposits with banks	6,090	5,604	30.2	24.8
(iii) Bonds or debentures or commercial paper of a Govt. company/ public sector bank/public financial institution/corporation	9,577	11,700	47.5	51.7
(iv) Other investments	1,658	1,156	8.2	5.1

P: Provisional
Source : Annual Returns.

Table V.38: Liabilities of NBFCs-ND-SI

(Amount in Rs. crore)

Item	As at end					
	March 2006		March 2007		June 2007	
	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets
1	2	3	4	5	6	7
Total Liabilities	**2,50,765**	**100.0**	**3,17,898**	**100.0**	**3,38,133**	**100.0**
of which:						
a) Paid up Capital	17,548	7.0	18,904	5.9	20,659	6.1
b) Preference Shares	1,633	0.7	2,192	0.7	2,269	0.7
c) Reserve and Surplus	39,100	15.6	52,090	16.4	57,246	16.9
d) Secured Loans	71,509	28.5	93,765	29.5	94,853	28.1
e) Unsecured Loans	1,03,086	41.1	1,18,221	37.2	1,26,018	37.3

Source : Monthly Returns by NBFCs-ND-SI.

higher by 73.4 per cent as compared with the profit earned during the year ended March 2006 (Rs.4,301 crore), partly reflecting the increase in number of companies in this category (Table V.41).

5.93 While the gross NPAs to total assets ratio of NBFCs-ND-SI at 2.3 per cent declined during the year ended March 2007, the net NPAs to total assets ratio at 1.5 remained constant. Both the

Table V.39: Borrowings by NBFCs-ND-SI

(Amount in Rs. crore)

Item	As at end					
	March 2006		March 2007		June 2007	
	Amount	Per cent to Total Borrowings	Amount	Per cent to Total Borrowings	Amount	Per cent to Total Borrowings
1	2	3	4	5	6	7
A. Secured Borrowings (i to vi)	**71,509**	**41.0**	**93,765**	**44.2**	**94,853**	**42.9**
i. Debentures	39,179	22.4	32,564	15.4	36,566	16.6
ii. Deffered Credit	–	–	–	–	–	–
iii. Term Loan from Banks	16,116	9.2	19,503	9.2	18,972	9.0
iv. Term Loan from FIs	6,997	4.0	5,030	2.4	5,413	2.5
v. Others	8,612	4.9	35,745	16.9	33,049	15.0
vi. Interest Accrued	604	0.3	923	0.4	852	0.4
B. Unsecured Borrowings(i to viii)	**1,03,086**	**59.0**	**1,18,221**	**55.8**	**1,26,018**	**57.1**
i. Loans from Relatives	1,639	0.9	1,621	0.8	1,396	0.6
ii. ICDs	19,459	11.1	20,018	9.4	20,913	9.5
iii. Loans from Banks	28,276	16.2	33,191	15.7	32,098	14.5
iv. Loans from FIs	3,703	2.1	4,218	2.0	4,142	1.9
v. Commercial Papers	13,123	7.5	14,031	6.6	16,743	7.6
vi. Debentures	20,788	11.9	30,549	14.4	35,865	16.2
vii. Others	15,402	8.8	13,786	6.5	13,902	6.3
viii. Loans Interest Accrued	697	0.4	807	0.4	959	0.4
Total Borrowings (A+B)	**1,74,595**	**100.0**	**2,11,986**	**100.0**	**2,20,870**	**100.0**
Memo:						
Total Liabilities	**2,50,765**	**69.6 @**	**3,17,898**	**66.7 @**	**3,38,133**	**65.3 @**

– : Nil/Negligible.
@ : Total borrowings as a percentage to total liabilities.
Source : Monthly Returns by NBFCs-ND-SI.

Table V.40: Select Indicators on Application of Funds by NBFCs-ND-SI

(Amount in Rs. crore)

Item	As at end					
	March 2006		March 2007		June 2007	
	Amount	Per cent to Total Application of Funds	Amount	Per cent to Total Application of Funds	Amount	Per cent to Total Application of Funds
1	2	3	4	5	6	7
Secured Loan	63,120	29.2	1,14,898	41.5	1,25,417	42.5
Unsecured Loan	82,996	38.4	69,609	25.2	74,050	25.1
Hire Purchase Assets	22,613	10.5	28,160	10.2	28,221	9.6
Long-term Investment	30,817	14.3	43,309	15.7	47,350	16.0
Current Investment	16,665	7.7	20,671	7.5	20,236	6.9
Total	**2,16,211**	**100.0**	**2,76,647**	**100.0**	**2,95,274**	**100.0**
Memo:						
Capital Market Exposure	59,583	27.6	81,435	29.4	84,947	28.8
of which:						
Equity Market	27,467	12.7	34,196	12.4	31,658	10.7

Source : Monthly Returns by NBFCs-ND-SI.

Table V.41: Financial Performance of NBFCs-ND-SI

(Amount in Rs. crore)

Item	Year Ended				Quarter Ended	
	Mar-06		Mar-07		Jun-07	
	Amount	Per cent to total Assets	Amount	Per cent to total Assets	Amount	Per cent
1	2	3	4	5	6	7
Total Assets	2,50,765	100	3,17,898	100	3,38,133	100
Total Income@	18,342	7.3	31,281	9.8	8,772	2.6
Total Expenses@	11,874	4.7	20,552	6.5	6,329	1.9
Net Profit@	4,301	1.7	7,460	2.3	1,963	0.6

@ : Cumulative.
Source : Monthly Returns by NBFCs-ND-SI.

ratios, however, declined further during the quarter ended June 2007 (Table V.42).

Table V.42: Gross and Net NPAs of NBFCs-ND-SI

(Per cent)

Item	As at end		
	March 2006	March 2007	June 2007
1	2	3	4
1. Gross NPAs to Total Assets	4.3	2.3	2.0
2. Net NPAs to Total Assets	1.5	1.5	1.0
3. Gross NPAs to Total Credit Exposure	7.0	4.9	4.8
4. Net NPAs to Total Credit Exposure	3.2	1.9	1.9

Source : Monthly Returns by NBFCs-ND-SI.

4. Primary Dealers

5.94 The primary dealer (PD) system underwent significant changes during 2006-07. PDs, as underwriters to the Government's market borrowing and market makers in Government securities, are exposed to significant market risk. In order to diversify the risks inherent in the PD business, PDs were permitted to diversify into other business lines while retaining the requirement of maintaining predominance in Government securities business. PDs were allowed to diversify their investments into corporate debt, equity and securitisation instruments, subject to certain prudential limits so as to enable them to diversify their balance sheet risks. They were also allowed to offer certain fee based services.

5.95 Concomitantly, it was decided that PDs would not be permitted to set up step-down subsidiaries. Those PDs that already had step-down subsidiaries (in India and abroad) were advised to restructure the ownership pattern of those subsidiaries. This was done to ensure that the balance sheet of the PD does not get affected by the spillover of risks from other businesses/ subsidiaries and that the business of the PDs is focused on their primary dealership activities. Consequently, five out of eight stand-alone PDs, which either had step-down subsidiaries or undertook businesses other than those specifically permitted, were required to restructure their operations.

5.96 In compliance with these guidelines, five PDs, namely DSP Merrill Lynch Ltd. (DSPML), ICICI Securities Ltd. (ISEC), IDBI Capital Market Services Ltd. (ICMS), Securities and Trading Corporation of India Ltd. (STCI) and Kotak Mahindra Capital Company Ltd. (KMCC) restructured their operations as they either had step-down subsidiaries or they were undertaking equity broking business, which were not permitted under the guidelines. However, the approach to the restructuring process followed by these PDs was different. KMCC transferred the PD business to the parent bank (Kotak Mahindra Bank). ISEC restructured its subsidiaries so as to make them direct subsidiaries of ICICI Bank, while retaining the PD business with itself. It subsequently renamed itself as ICICI Securities Primary Dealership Ltd. (SEC-PD). STCI was restructured by setting up another subsidiary, *viz.*, STCI Primary Dealer Ltd. (STCI-PD) to undertake PD business. In the case of ICMS, IDBI Gilts Ltd, a direct subsidiary of IDBI Bank Ltd. was set up to take over the PD business from ICMS. DSPML was restructured by setting up another subsidiary in the name of DSPML Securities Trading Ltd. (DSPMLST) for conducting the PD business.

5.97 During the year, the permitted structure of PD business was expanded to include banks, which fulfill certain minimum criteria subject to safeguards. Nine banks, *viz.*, Citibank N.A., Standard Chartered Bank, HSBC Bank, Bank of America, J.P. Morgan Chase Bank, Bank of Baroda, Canara Bank, Kotak Mahindra Bank and Corporation Bank were authorised to undertake PD business departmentally while discontinuing the same from their respective subsidiaries/group companies. One new bank, *viz.*, HDFC Bank Ltd., was authorised to undertake PD business from April 2, 2007.

5.98 Keeping in view the increased responsibility of PDs in the wake of the FRBM Act, 2003, changes were made in the system of underwriting the issues of dated Government securities by PDs. The revised system envisages underwriting the entire issue in an auction. The twin policy measures of expanding the permitted structure of the PD system to include banks and revising the scheme of underwriting have contributed to successful debt management in the post-FRBM scenario. Stand-alone PDs continued to remain adequately capitalised. Although the CRAR of PDs at 33 per cent as on March 31, 2007 declined from the previous year's level, it was much in excess of the stipulated minimum of 15 per cent of aggregate risk-weighted assets (Table V.43 and Appendix Table V.5).

Table V.43: Select Indicators of Primary Dealers
(At end-March)

(Amount in Rs. crore)

Item	2005	2006 $	2007
1	2	3	4
Total Assets*	13,953	10,749	13,557
Of which: Government Securities	8,495	6,646	7,412
Government securities as percentage of total assets	61	62	55
Total Capital Funds	5,992	4,229	4,026
CRAR (in per cent)	57	53	33
Liquidity Support Limit	3,000	3,000	3,000
No. of PDs	17	8	8

* : Net of current assets and liabilities

$: In view of the sharp reduction in the number of PDs operating during 2006-07, the figures for 2005-06 and 2006-07 are not strictly comparable. Comparable data for 2005-06 are presented in column 3 for the eight PDs operational during 2006-07.

Operations and Performance of PDs

5.99 During 2006-07, cumulative bidding commitments in Treasury Bills auctions were fixed at 111 per cent of the issue amount under the normal borrowing programme. The aggregate bids at Rs.2,07,711 crore were 3.2 times the Treasury Bills issuances of Rs.65,500 crore (under the normal/regular borrowing programme) and 1.1 times of the Treasury Bills issuances of Rs.1,85,000 crore [(under the normal/regular borrowing programme and market stabilisation scheme (MSS)]. Of the total bids of Rs.2, 07,111 crore, bids amounting to Rs.70,951 crore were accepted. PDs are required to achieve a success ratio of 40 per cent of bidding commitment in respect of Treasury Bills auctions on a half-yearly basis. The share of PDs in primary market purchases in Treasury Bills auctions (including MSS) was marginally higher during 2006-07 at 38 per cent as against 34 per cent during 2005-06.

5.100 In terms of the Fiscal Responsibility and Budget Management Act, 2003, the Reserve Bank was precluded from participating in the primary auctions of Central Government securities. The PDs were, therefore, enjoined to underwrite the entire notified amount in the auctions of dated Central Government securities. During 2006-07, dated securities worth Rs.1,46,000 crore were issued under normal borrowing programme. In the underwriting auctions, PDs submitted bids worth Rs.1,93,869 crore of which bids worth Rs.1,46,000 crore were accepted. This represented a bid-cover ratio of 1.32 in underwriting auctions. A sum of Rs.5,604 crore devolved on the PDs during 2006-07.

5.101 In the main auctions for dated Government of India securities, PDs submitted bids for Rs.2,02,225 crore against their underwriting commitment of Rs.1,46,000 crore (representing a bid-cover ratio of 1.39), of which bids worth Rs.64,727 crore were accepted. The share of primary dealers in the auctioned dated securities marginally declined to 44 per cent during the period 2006-07 from 48 per cent during the period 2005-06.

5.102 The secondary market turnover of Treasury Bills and Government dated securities (both outright and repo) traded by only stand-alone PDs amounted to Rs.3,24,571 crore and Rs.22,34,630 crore, respectively, constituting 18.3 per cent and 21.8 per cent, respectively, of the market turnover.

Sources and Application of Funds

5.103 The balance sheet size of the eight stand-alone PDs increased significantly during the year ended March 2007 (26.1 per cent) in line with the increase observed in the previous year (24.2 per cent) (Table V.44). Capital funds of stand-alone PDs increased by 46.3 per cent as on March 31, 2007 compared to the position as on March 31, 2006, which was mainly on account of shoring up of capital by one of the PDs through issuance of preference shares for Rs.675 crore. On the deployment side, investments in Government securities and commercial paper registered an increase. Loans and advances declined sharply. The share of Government securities and Treasury Bills in total assets of PDs declined to 55 per cent at end-March 2007 from 62 per cent at end-March 2006.

Table V.44: Sources and Applications of Funds of Primary Dealers

(Amount in Rs. crore)

Item	As at end-March 2006	2006 $	2007	Percentage Variation 2005-06	2006-07
1	2	3	4	5	6
Sources of Funds	**13,953**	**10,749**	**13,557**	**24.2**	**26.1**
1. Capital	2,263	1,427	2,088	-4.6	46.3
2. Reserves and surplus	3,843	2,856	3,102	12.8	8.6
3. Loans (a+b)	7,847	6,466	8,367	39.9	29.4
a) Secured	3,480	2,760	3,910	30.8	41.7
b) Unsecured	4,367	3,706	4,457	47.6	20.3
Application of Funds	**13,953**	**10,749**	**13,557**	**24.2**	**26.1**
1. Fixed assets	71	64	72	-6.1	12.2
2. Investments (a to d)	10,425	7,954	9,248	11.3	16.3
a) Government securities	8,495	6,646	7,412	3.8	11.5
b) Commercial papers	846	626	1,241	223.9	98.2
c) Corporate bonds	1,084	682	595	23.3	-12.7
3. Loans and advances	2,398	1,883	1,135	-6.5	-39.7
4. Non-current assets	–	–	–	-100.0	–
Equity, Mutual Funds *etc.*	–	–	928	–	–
Others*	1,059	848	2,174	-228.2	156.4
No. of PDs	17	8	8	8	8

* : Others include cash + bank balances + accrued interest + DTA-current liabilities and provisions.
$: In view of the sharp reduction in the number of PDs operating during 2006-07, the figures for 2005-06 and 2006-07 are not strictly comparable. Comparable data for 2005-06 are presented in column 3 for the eight PDs operational during 2006-07.

Table V.45: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Item	2005-06	2005-06 $	2006-07	Percentage Variation 2005-06	Percentage Variation 2006-07
1	2	3	4	5	6
A. Income (i to iii)	2,153	1,661	1,950	204	17
i) Interest and discount	1,151	814	986	8	21
ii) Trading Profit	-47	46	-17	-108	-137
iii) Other income	1,049	802	979	118	22
B. Expenses (i+ii)	1,150	884	1,314	42	49
i) Interest	670	485	668	34	38
ii) Administrative Costs	481	398	645	53	62
Profit Before Tax	1,003	778	636	-1142	-18
Profit After Tax	749	557	444	-512	-20
No. of PDs	17	8	8		

$: In view of the sharp reduction in the number of PDs operating during 2006-07, the figures for 2005-06 and 2006-07 are not strictly comparable. Comparable data for 2005-06 are presented in column 3 for the eight PDs operational during 2006-07.

Financial Performance of PDs

5.104 Income earned by stand-alone PDs increased by 17 per cent during 2006-07, on account of significant increase in interest and other income. This rise in income was, however, much lower than that witnessed during the previous year (204 per cent) in the previous year. However, PDs suffered marginal trading losses. The expenditure of the PDs recorded higher growth at 49 per cent due to increase in both interest expenses and other expenses. As a result of sharp increase in expenditure, net profits of the PDs declined by 20 per cent during 2006-07 (Table V.45).

5.105 The number of PDs posting net profit declined to six during 2006-07 from eight in the previous year. The decline in financial performance of PDs was reflected in return on average assets (ROA), which declined from 4.3 per cent during 2005-06 to 3.0 per cent during 2006-07, and return on net worth (RoNW), which declined from 13.6 per cent during 2005-06 to 9.5 per cent during 2006-07 (Table V.46 and Appendix Table V.6).

Table V.46: Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Indicator	2005-06	2005-06 $	2006-07
1	2	3	4
i) Net profit	749	557	444
ii) Average Assets	18,394	13,104	14,984
iii) Return on average assets (in per cent)	4.1	4.3	3.0
Capital Funds	5,992	4,229	4,026
No. of PDs	17	8	8

$: In view of the sharp reduction in the number of PDs operating during 2006-07, the figures for 2005-06 and 2006-07 are not strictly comparable. Comparable data for 2005-06 are presented in column 3 for the eight PDs operational during 2006-07.

Chapter VI

Financial Stability

Introduction

6.1 Financial stability has received greater attention the world over in recent years as is evident from the periodic financial stability reports brought out by several central banks and international financial institutions, including the International Monetary Fund (IMF), the Bank of International Settlements (BIS) and the World Bank. The greater emphasis on financial stability is due to several major trends and developments in the financial systems. Greater deregulation and liberalisation in tandem with technological developments have incentivised development of complex instruments and diversity of activities on the one hand, and enhanced mobility of risks, on the other[1]. Financial systems have expanded at a significantly higher pace than the real economy with rapid growth particularly in equity, debt and derivative markets. The process of financial deepening has been accompanied by changes in the composition of the financial system, with a declining share of monetary assets, thereby resulting in greater leverage of the monetary base. Financial institutions now undertake a broader range of activities than the traditional banking activities of taking deposits and extending loans. As a result of technological developments and increasing degree of cross-industry and cross-border integration, financial systems are also more integrated nationally as well as internationally. A large number of financial conglomerates have also emerged.

6.2 The changing contours of financial system have, however, expanded the sources of financial instability. The developments relating to technological innovation, diversity of financial instruments and the emergence of financial conglomerates have all increased potential severity of financial instability. Furthermore, the sources of financial disturbances have become more unpredictable mainly due to integration of financial markets across national boundaries, thereby exacerbating the possibility of contagion. Thus, the sources of financial instability could range from external factors (such as macroeconomic performance) to national/regional/international security related reasons to internal factors (such as macroeconomic performance, market volatility, counterparty risk and operational risk).

6.3 A stable financial system promotes efficient allocation of economic resources, geographically and over time. In a broader perspective, financial stability analysis focuses on a wide range of issues covering macroeconomic performance of the economy, monetary stability, regulation and supervision of banking and financial institutions and any other risk that may influence the financial system. Very often these aspects happen to be inter-related in a complex manner. Macroeconomic performance of the economy influences the ability of the firms/individuals to abide by the contracts in financial transactions. The soundness of the financial system on the other hand is crucial for providing support to the strong macroeconomic dynamics.

6.4 For practical purposes, financial stability covers a number of interrelated components, which include infrastructure (payment and settlement system, legal framework and accounting practices), institutions (banks, securities firms and institutional investors) and markets (stock, bond, currency, money and derivatives). Financial stability does not require that all parts of the financial system operate in most efficient manner all the time. A stable financial system rather has the ability to resolve imbalances through self-corrective mechanism before they precipitate a crisis.

6.5 The need for concerted efforts for ensuring financial stability has been reinforced in recent times because of increased degree of globalisation and integration of financial markets coupled with emerging signs of volatility in these markets. Although globalisation has expanded the potential output of several economies, the ability of a developing country to derive benefits from financial globalisation in the presence of volatility in international capital flows can be significantly

[1] Schinasi, G.J. (2006), “Safeguarding Financial Stability: Theory and Practice,” International Monetary Fund.

improved by the quality of its macroeconomic framework and institutions.

6.6 Technological developments have also raised concerns for financial stability. In the recent period, there is an increasing trend towards convergence of various financial business segments with significant parts of the convergence chain resting with the banking sector. With the rapid developments in technology and changing customer preferences, delivery channels in the banking sector have concomitantly undergone a metamorphosis in order to remain competitive. Internet-based delivery services and mobile telephony have emerged as potential channels for prompt customer services. Besides several benefits, technological developments have allowed the formation of financial conglomerates and also benefits of economies of scale. Aligning the operations of large financial conglomerates and foreign institutions with local public policy priorities remains a challenge for domestic financial regulators in many Asian emerging economies. Technological developments have also enabled banks and financial institutions to depend on outsourcing to a greater degree. Managing the outsourced entities by banks assumes greater importance. It is important in the context of financial stability to ensure adequate safeguards in the processes of outsourcing and appropriately address confidentiality of the information.

6.7 The episodes of financial instability often have adverse impact on wider sections of the community, including firms and households. The overall cost of such episodes could be enormous for an economic system, which often spills over cross borders. The East Asian crisis during the mid-1990s revealed implications of weaknesses in the financial sector on the economy in terms of severe economic and social consequences. Excessive volatility in financial markets can significantly raise the cost of capital for business investment and adversely affect expansion in output. The weak financial sector may also impede the monetary transmission mechanism when the central bank attempts to stimulate the economy.

6.8 In view of its criticality, policy makers the world over have been seriously concerned about the risks to financial stability. The prime responsibility of soundness of the financial sector in most of the countries lies with the monetary authorities because monetary stability is strongly related to financial stability. At the international level, one of key objectives of the BIS is to promote monetary and financial stability. Within the BIS, the Financial Stability Forum (FSF) was set up in April 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance (Box VI.1). The Forum brings together on a regular basis the national authorities responsible for financial stability for deliberations.

6.9 In response to the crises of the 1990s, the IMF and the World Bank introduced the Financial Sector Assessment Programme (FSAP) to identify strengths, risks and vulnerabilities of financial systems in member countries and also to highlight the financial sector development needs. A key component of FSAP is to assess compliance with the international standards and codes in the financial sector, including the Basel Core Principles of Banking Supervision (BCP); the Insurance Core Principles framed by International Association of Insurance Supervisors; the International Organisation of Security Commissions (IOSCO) Objectives and Principles for Securities Regulation; the IMF's Code of Good Practices in Monetary and Financial Policies; and Financial Action Task Force (FATF) recommendations on Anti-Money Laundering and Combating the Financing of Terrorism.

6.10 In the Indian context, the RBI Act, 1934 does not explicitly mandate the Reserve Bank to ensure financial stability. However, the twin objectives of monetary policy in India have evolved over the years as those of maintaining price stability and ensuring adequate flow of credit to facilitate the growth process (Reddy, 2007). The relative emphasis between the twin objectives is modulated depending upon the prevailing circumstances and is articulated in the policy statements by the Reserve Bank from time to time. Consideration of macroeconomic and financial stability is also subsumed in the mandate. In recent years, financial stability has assumed priority in the conduct of monetary policy. The institutional environment has been changing rapidly including, in particular, due to the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the increased integration of domestic financial markets with the global markets. In this context, it has become important to recognise and exploit the strong complementarity between macroeconomic performance and financial stability.

Box VI.1: FSF Report on Highly Leveraged Institutions: Latest Updates

The Financial Stability Forum (FSF) brings together senior representatives of national financial authorities (central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. The FSF is serviced by a small secretariat housed at the Bank for International Settlements in Basel, Switzerland. The FSF seeks to co-ordinate the efforts of these various bodies so as to promote international financial stability, improve the functioning of markets, and reduce systemic risk.

The FSF constituted a Working Group in 1999 to assess the challenges posed by highly leveraged institutions (HLIs). The Group was also required to achieve consensus on supervisory/regulatory measures to minimise their destabilising potential. The creation of the Group followed two main episodes. First, the near-collapse of Long Term Capital Management (LTCM), which raised concerns about the potential systemic risks posed by a HLI. Second, the spillover effects from the 1997-98 crises in Asia and Russia, when the authorities in some small and medium-sized open economies were concerned that HLIs had exerted a destabilising impact on their markets. The Group made 10 recommendations in the first report submitted in 2000 which, *inter alia*, included stronger counterparty risk, enhanced regulatory oversight of HLI credit providers, greater risk sensitivity in bank capital adequacy regulation and enhanced national surveillance of financial markets. The FSF had subsequently published a report assessing progress against its recommendations in 2001 and 2002.

In its latest update of the Report on Highly Leveraged Institutions (2000) released on May 19, 2007, produced in response to a request by G7 Finance Ministers and Central Bank Governors, the FSF reassessed the financial stability issues and systemic risks posed by hedge funds. The report recognises the contribution hedge funds have made to financial innovation and market liquidity. At the same time, it noted heightened risk measurement, valuation and operational challenges for market participants and made the following recommendations:

- Supervisors should act in such a manner that core intermediaries continue to strengthen their counterparty risk management practices.
- Supervisors should work with core intermediaries to further improve their robustness to the potential erosion of market liquidity.
- Supervisors should explore and evaluate the extent to which developing more systematic and consistent data on core intermediaries' consolidated counterparty exposures to hedge funds would be an effective complement to existing supervisory efforts.
- Counterparties and investors should act to strengthen the effectiveness of market discipline, including by obtaining accurate and timely portfolio valuations and risk information.
- The global hedge fund industry should review and enhance existing sound practice benchmarks for hedge fund managers in the light of expectations for improved practices set out by the official and private sectors.

Reference:

Financial Stability Forum (2007), Update of the FSF Report on Highly Leveraged Institutions, May; www.fsf.org.

6.11 In order to develop a safe, sound and efficient financial system in India, best standards prevailing internationally are suitably adapted to the domestic conditions. Besides voluntarily participating as one of the earliest member countries in the FSAP of the World Bank and the IMF in 2001, India also undertook a self-assessment of all the areas of international financial standards and codes by a committee (Chairman: Dr. Y.V. Reddy). Drawing upon the experience gained during the 2001 FSAP and recognising the relevance and usefulness of the analytical details contained in the Handbook on Financial Sector Assessment jointly brought out by the World Bank and the IMF, in September 2005, the Government of India, in consultation with the Reserve Bank of India, decided to undertake a comprehensive self-assessment of the financial sector. Accordingly, in September 2006, a Committee on Financial Sector Assessment (CFSA) was constituted (Chairman: Dr. Rakesh Mohan; Co-Chairman: Dr. D. Subbarao).

6.12 Though the importance of financial stability is well recognised by the national authorities as well as by international organisations, difficulties in striking a right balance in financial regulation are also acknowledged. While effective regulatory oversight is required to avoid any systemic risk, there is also a need to provide an environment which is conducive to competition and innovation. Rapid changes in the international financial landscapes and processes of innovation have made it difficult for regulators to strike a balance between regulatory safeguards and providing competitive environment. Keeping in view this dilemma, the Reserve Bank has undertaken several policy initiatives to strengthen the financial institutions in India as also to infuse competition in the financial sector. Section 2 of this Chapter discusses these measures in respect of commercial and co-operative banks, financial institutions, and non-banking financial companies. Section 3 draws a comparative picture of Indian scheduled commercial banks (SCBs) *vis-a-vis* select countries in terms of operational efficiency and financial soundness indicators. Developments in financial markets from the perspective of financial stability are discussed in Section 4. Section 5 discusses the progress made in the payment and settlement systems and Section 6 identifies some risks to financial stability. Section 7 presents an overall assessment of the financial stability conditions in India.

2. Strengthening of Financial Institutions

6.13 The resilience of financial institutions is one of the pre-requisites for financial stability. In practical terms, it implies that banks and other financial institutions should be able to absorb shocks in a way that the financial intermediation process is not interrupted. This does not rule out the possibility of individual bankruptcies. Rather for the economy as a whole, financial institutions in aggregate should be able to perform the function of intermediation in an efficient manner even in the wake of shocks to the system. The financial regulators and supervisors, therefore, set out norms, standards and guidelines to be followed by the financial institutions so that competitive forces do not undermine the fundamentals determining the resilience and financial strength of these institutions.

6.14 The financial system in India comprises a large number of financial institutions and financial markets for catering to the financing requirements of the various segments of society. Financial institutions under the regulatory purview of the Reserve Bank encompass commercial banks, urban co-operative banks (UCBs), regional rural banks (RRBs), financial institutions and non-banking financial companies. These financial institutions differ not only in their corporate structure, size, sources of funds, but also in terms of purposes for which loans are extended and the targeted clientele. These institutions also differ in terms of financial and soundness indicators. Besides, the Reserve Bank's regulatory and supervisory powers over various sets of institutions also vary. The responsibility of regulating and supervising banks including urban co-operative banks (UCBs) is vested with the Reserve Bank under the Banking Regulation Act, 1949. However, urban co-operative banks are also regulated by the State Governments (by Registrar of Co-operative Societies in the case of UCBs operating in single State and the Central Registrar of Co-operative Societies in the case of UCBs having presence in more than one State). The Reserve Bank of India Act, 1934 also empowers the Reserve Bank to regulate some of the financial institutions. With the amendments to the RBI Act in 1997, a comprehensive regulatory framework in respect of non-banking financial companies (NBFCs) was put in place. In respect of State and district central co-operative banks, and regional rural banks, while the Reserve Bank is the regulator, the supervision is vested with the National Bank for Agriculture and Rural Development (NABARD).

6.15 As a regulator of the major part of financial system, it is imperative for the Reserve Bank to look at all aspects of financial institutions, including their balance sheets, profitability, non-performing loans and capital adequacy requirements. Therefore, as part of its continuous endeavour to promote financial stability, the Reserve Bank has been taking several initiatives to promote resilience of the financial sector and strengthen financial institutions under its purview. However, the focus of the Reserve Bank's regulatory and supervisory initiatives has been calibrated in a careful manner.

6.16 Furthermore, the Reserve Bank has also to account for the objective conditions that exist in India while introducing new risk management systems, upgrading existing ones and developing new markets for risk management products. It needs to continually keep in view the differential risk-bearing capacities among different economic agents in the country. Even among different financial intermediaries, let alone households and farmers, there is the coexistence of small and widely dispersed entities, such as primary agricultural credit societies (PACSs), rural and urban co-operative banks, public sector banks, new private sector banks, and foreign banks, with each having different degrees of sophistication related to risk management. Hence, the Reserve Bank's approach to the introduction of modern risk management instruments and systems in the country has, per force, to be cognisant of country's requirements and capacity[2].

[2] Mohan, Rakesh (2007), Risk Management in an Open Market Economy, Reserve Bank of India Bulletin, July.

Scheduled Commercial Banks

6.17 As alluded to earlier, a wide variety of financial institutions exist in India. Since scheduled commercial banks constitute systemically the most important segment of the Indian financial system, the focus of reforms in the initial years was on strengthening commercial banks with a view to promoting financial stability. Measures initiated since the early 1990s to strengthen commercial banks included the introduction of prudential norms relating to income recognition, asset classification, provisioning, capital adequacy, exposure norms; putting in place institutional arrangements to manage NPAs; permission to public sector banks to raise capital from the capital market up to 49 per cent; allowing entry of new private sector banks and liberal entry of foreign banks to improve efficiency of financial institutions; and strengthening of corporate governance norms, including 'fit and proper' criteria for the owners, directors and management of the private sector banks. The supervisory mechanism has also been strengthened by introducing risk-based supervision (on a pilot basis), instituting prompt corrective action (PCA) mechanism, compilation of financial soundness indicators, and encouraging merger of weak financial entities with strong financial entities. Appropriate risk management practices have also been put in place. All these measures have had a profound effect on commercial banks and the commercial banking sector has emerged stronger over the years. However, at the same time, some new challenges have emerged. These are smooth transition to Basel II; raising of capital by banks to meet Basel II requirements; and maintain asset quality in the wake of rapid credit expansion. In order to meet these challenges, the Reserve Bank initiated several measures during 2006-07.

Macro Level Measures

6.18 The stipulation of reserve requirement has traditionally been the key instrument of monetary policy. A greater flexibility in use of these instruments provides greater manoeuvrability to the central bank in ensuring monetary stability. Amendments to the Section 24 of the Banking Regulation Act, 1949, effective January 23, 2007, have removed the floor rate of 25 per cent for statutory liquidity ratio (SLR), providing greater flexibility to the Reserve Bank in prescribing the SLR requirement. With the amendment to the Reserve Bank of India Act, 1934, effective April 1, 2007, the floor and ceiling on the cash reserve ratio (CRR) have been removed and the Reserve Bank has been empowered to prescribe the CRR depending upon the prevailing monetary conditions.

Prudential Measures

6.19 Following the revised capital adequacy framework of the Basel Committee on Banking and Supervision (BCBS), the final guidelines for implementing the revised framework in India were issued to banks in April 2007. In view of increased capital requirements and for smooth transition to Basel II framework, banks were allowed in January 2006 to augment their capital funds through issuance of innovative perpetual debt instruments (IPDI) eligible for inclusion as Tier I capital and debt capital instruments eligible for inclusion as Upper Tier II capital. The guidelines were reviewed in July 2006 and the banks were advised that the total amount raised by a bank through IPDIs would not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, would not attract CRR/SLR requirements. Investment by FIIs in IPDI raised in Indian Rupees shall be outside the ECB limit for rupee denominated corporate debt fixed for investment by FIIs in corporate debt instruments.

6.20 With a view to providing a wider choice of instruments to Indian banks for raising Tier I and Upper Tier II capital, guidelines for issuing preference shares as part of regulatory capital were issued on October 29, 2007. It has been decided to allow the banks to issue the following types of preference shares in Indian rupees: i) perpetual non-cumulative preference shares (PNCPS) under Tier I capital; and ii) perpetual cumulative preference shares (PCPS), redeemable non-cumulative preference shares (RNCPS) and redeemable cumulative preference shares (RCPS) under Upper Tier II capital. The addition of above instruments is expected to significantly enhance the range of eligible instruments available to the banks for capital adequacy purposes.

6.21 Recognising the implications of investment pattern of banks on financial stability and with a view to discouraging banks to undertake risky exposures, it was advised to banks in September, 2006 that the exposure of banks to entities for setting up special economic zones (SEZs) or for acquisition of units in SEZs, which included real estate, would be treated as exposure to the commercial real estate sector and banks would have to make provisions as also assign appropriate risk weights for such exposures as per the guidelines laid down for this purpose.

6.22 Considering the high risks inherent in Banks exposure to venture capital funds (VCFs), the prudential framework governing banks' exposure to VCFs was revised on August 23, 2006. Accordingly, all exposures to VCFs (both registered and unregistered) are deemed on par with equity and hence are reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure) and the limits prescribed for such exposure also apply to investments in VCFs. The quoted equity shares/ bonds/units of VCFs in the bank's portfolio should be held under 'available for sale' (AFS) category and marked-to-market preferably on a daily basis, but at least on a weekly basis in line with valuation norms for other equity shares as per the laid down instructions. Banks' investments in unquoted shares/bonds/units of VCFs made after issuance of these guidelines are required to be classified under held-to-maturity (HTM) category for initial period of three years and valued at cost during this period. These attract a risk weight of 150 per cent.

6.23 From the point of view of financial stability, controlling the concentration risk on the liability side of banks is as important as the concentration risk on the asset side. More particularly, uncontrolled inter-bank liabilities may have systemic implications, even if the individual counterparty banks are within the allocated exposure. Uncontrolled liability of a larger bank may also have a domino effect. If the level of total inter-bank liabilities is very high, the process of drying up of liquidity can be much faster than one would otherwise expect. In view of this, a comprehensive framework of liability management was put in place in March 2007 so that banks are aware of the risks inherent in following a business model based on large amount of inter-bank liabilities and the systemic risks implied in such model. Banks were advised to fix an appropriate limit, with the approval of their boards of directors, for their inter-bank liabilities, keeping in view their business model, within the prudential limit of 200 per cent of their net worth based of their audited balance sheet as on March 31, of the previous year. Banks with more than 11.25 per cent CRAR based on their audited balance sheet as on March 31 of the previous year, are allowed to have an additional limit of 100 percentage points. *i.e.*, up to the limit of 300 per cent of the net worth.

6.24 Banks' loans and advances portfolio typically follows a pro-cyclical path, *i.e.*, increases at a faster pace during an expansionary phase and at a lower pace during a recessionary phase. During an expansionary phase and accelerated credit growth, banks usually underestimate the level of inherent risk and the converse holds true during the recessionary phase. This phenomenon is not effectively addressed by the prudential specific provisioning requirements as they capture risk *ex post* but not *ex ante*. It is, therefore, imperative to build up provisioning to cushion banks' balance sheets in the event of a downturn in the economy or credit weaknesses surfacing later.

6.25 Rapid expansion of credit during three years in succession (2004-07), particularly high credit growth in the real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans were viewed as a matter of concern from the point of view of asset quality of banks. Therefore, the general provisioning requirement for banks (excluding RRBs) on standard advances in respect of specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, non-deposit taking systemically important (NBFCs-ND-SI) and commercial real estate loans was increased from 0.40 per cent to 1.0 per cent in May 2006 and further to 2.0 per cent in January 2007.

6.26 Thus, banks are required to make a minimum general provisioning for standard assets at four different rates on a global loan portfolio basis (Table VI.1). As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent. In terms of extant guidelines, provisioning for sub-standard assets is required to be made at 10 per cent for secured exposures and 20 per cent for unsecured exposures. The provisioning requirements for doubtful assets are

Table VI.1: Provisioning Requirement for Standards Assets

(Per cent)

Category	Requirement
1	2
A. Direct advances to the agricultural and SME sectors	0.25
B. Residential housing loans beyond Rs. 20 lakh	1.00
C. Personal loans (including credit card receivables), loans and advances qualifying as capital market exposures, commercial real estate loans, and loans and advances to non-deposit taking systemically important NBFCs	2.00
D. All other advances not included in (A), (B) and (C) above	0.40

graded, depending on the period for which an asset has remained doubtful. The provisioning requirement for doubtful assets, at present, varies in the range of 20 per cent to 100 per cent on the secured portion, while it is 100 per cent on the unsecured portion.

6.27 Higher provisioning for unexpected loan losses improves the overall financial strength of banks and the stability of the financial sector. In order to further strengthen the financial system, banks were urged to voluntarily set apart provisions above the minimum prudential levels as a desirable practice. This may be achieved by banks by either making higher level of specific provisions for NPAs or by making a floating provision for NPAs. In terms of the Reserve Bank's guidelines issued on February 4, 1994, banks were permitted to set-off the floating provisions, wherever available, against provisions required to be made as per the then prevailing prudential guidelines on provisioning. However, the use of floating provisions to set-off against provisions required to be made as per prudential guidelines prescribed appeared to have been used for smoothening of profits in some cases. Hence, the guidelines were reviewed and revised guidelines were issued on June 22, 2006.

6.28 In terms of the guidelines, the floating provisions should not be used for making specific provisions as per the extant prudential guidelines in respect of non-performing assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of the Reserve Bank. The boards of the banks are required to lay down an approved policy as to what circumstances would be considered extraordinary. To facilitate banks' boards to evolve suitable policies in this regard, it was clarified by the Reserve Bank on March 13, 2007 that the extraordinary circumstances refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature. These extraordinary circumstances could broadly fall under three categories, *viz.*, general (unexpected loss to banks due to civil unrest, collapse of currency in a country and natural calamities and pandemics), market (general meltdown in the markets) and credit (exceptional credit losses). Floating provisions cannot be reversed by credit to the profit and loss account. These provisions, however, can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk-weighted assets.

6.29 Monetary stability also contributes to financial stability. Notwithstanding some spikes in inflation rate on some occasions in recent years, overall monetary stability and monetary actions of the Reserve Bank have reinforced financial stability. In recent years, the Reserve Bank raised the risk weights in respect of banks' exposures to certain sectors (such as commercial real estate loans). This measure, apart from moderating the flow of credit, also helped in protecting the banks' balance sheets.

NPA Resolution

6.30 The high level of non-performing loans (NPLs) has been a major reason for banking crisis in many countries. This often accentuated the pressure to restructure the banking system which involved substantial fiscal cost to the Government (Box VI.2). In the Indian context, several mechanisms were followed by the authorities to recover the past dues which have enhanced recoveries of NPAs by SCBs over the years (Table VI.2).

6.31 The draft guidelines on restructuring/ rescheduling were issued in June 2007 so as to align the existing guidelines on restructuring of advances with the provisions under the revised corporate debt restructuring (CDR) mechanism. With a view to providing an additional option and

Box VI.2: NPL Management – Cross Country Experience

Globally, the level of non-performing loans was estimated at about US $1.3 trillion during 2003, of which the Asian region accounted for about US $ 1 trillion, or about 77 per cent of global NPLs (Ernst & Young, 2004). Peak NPLs as per cent of total advances increased to over 20 per cent in several Asian economies during the 1997 crises. In Latin America and developed economies, these figures peaked to uncomfortable levels during the mid 1990s, coinciding primarily with some sort of crises (Table 1). These numbers have since declined sharply to more manageable levels as a result of bank restructuring of which NPLs management was an integral part. By 2004, except for China, Thailand and Malaysia, most countries had low to moderate levels of NPLs. The gross NPL levels in India, which were 7.2 of per cent of total advances at end-March 2004, declined to 2.4 per cent by end-March 2007.

The underlying reasons for problem of non-performing loans vary across countries. The high NPLs level in most of the Asian countries coincided with South East Asian crisis in the latter half of the 1990s. Some of the major factors responsible for NPLs include deterioration in business performance of the state enterprises (China), failure of real estate sector to perform as per the expected trajectory of investors (Thailand and Japan), interest rate controls and selective credit allocations (Korea), slowdown triggered by overvalued exchange rate and lack of financial discipline in bank directors extending loans to companies owned by themselves (Mexico). In Turkey, the problem of NPLs in state banks was mainly the result of politically motivated lending (Steinherr, Tukel, and Ucer, 2004; Reddy K.P. 2002; and Desmet, 2000).

The resolution of the NPLs has two aspects, *viz.*, the 'stock' and the 'flow' problem. The 'stock' problem deals with banks' current balance sheets - raising capital and removing NPLs. The 'flow' problem concerns with improving the quality of banks' earnings to arrest future deterioration in banks' balance sheet. This usually involves operational restructuring to improve efficiency, which encompasses improved credit assessment, specialisation, better information systems and cost cutting. The most common method adopted by different countries to resolve the NPLs problems was the use of asset management companies (AMCs) in the crisis resolution process. Some other options available to deal with NPLs, *inter alia*, include recapitalisation, loan swap and debt for debt exchange. Under loan swap, banks write-down loans to market value, then swap loans among themselves. Debt for debt exchange requires revision of loan contracts after negotiations between parties, often leading to reduction in interest rate and extension of maturity on debt contracts.

Table 1: Gross Non-performing Loans (NPLs) of Banking Systems

(Per cent of total advances)

Country	Peak NPLs	Year of peak NPLs	NPLs, 2004
China	42	..	12.8
Korea	25	1997-99	1.9
Malaysia	25	1997-99	11.7
Thailand	47	1997-99	11.9
Brazil	15	1995-97	3.8
Mexico	13	1995-97	2.8
Turkey	16	2001	6.0
Japan	9	2002	2.9
Sweden	11	1991-93	0.9
India	23*	1993	7.2

* : For public sector banks.

Source : BIS documents; IMF website (country documents and Global Financial Stability Reports).

High level of NPLs often requires restructuring of the banking system, the overall cost of which includes losses in terms of output and employment apart from the fiscal cost. Thus, measuring overall cost of a banking crisis is difficult. The fiscal cost, on the other hand, is easier to specify and measure. The fiscal costs may broadly be defined in terms of gross cost to the public sector (outlays of government and central bank on liquidity support; purchase of impaired assets; deposits payments; and recapitalisation through purchase of equity or subordinated debt) and net cost to the public sector (gross outlays are netted against resources generated from the sale of acquired assets and equity stakes, and repayment of debt by recapitalised entities). These costs have been estimated to be substantially large. According to an estimate from 40 episodes of banking crises across countries, governments spent on an average 12.8 per cent of national GDP to clean up their financial systems (Honohan and Klingebiel, 2000 and 2001). The percentage was even higher (14.3 per cent) in developing countries. Some crises entailed much larger outlays. For instance, the governments spent as much as 40–55 per cent of GDP in the early 1980s crises in Argentina and Chile. Hoelscher and Quintyn (2003) provide an estimate of comparable fiscal costs across countries of various banking crises during 1981-2003. The costs have varied sharply, which ranged from small amounts (close to zero) in Russia and the United States to more than 50 per cent in Indonesia.

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Ernst & Young (2004), Global Nonperforming Loan Report, 2004; www.ey.com

Table VI.2: Recoveries Effected by SCBs

(Rs. crore)

Year	Recoveries
2000-01	16,409
2001-02	17,638
2002-03	23,183
2003-04	28,004
2004-05	26,940
2005-06	29,087
2006-07	27,176

Note : Data on recoveries effected during the year, which include recoveries due to upgradation, actual recoveries and recoveries due to compromise/write-offs, by scheduled commercial banks (SCBs).

Source : Off-site Returns (domestic).

developing a healthy secondary market for NPAs, guidelines on sale/purchase of NPAs were issued in July 2005 covering the procedure for purchase/sale of non-performing financial assets (NPFA) by banks, including valuation and pricing aspects; and prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy and exposure norms, and disclosure requirements. The matter was reviewed in response to difficulties expressed by banks and the guidelines were partially modified in May 2007. It was stipulated that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years.

Strengthening of Risk Management Practices

6.32 Banks are now facing increased risk on account of greater fluctuation in prices, exchange rates and interest rates, which underscore the need for developing regular systems for stress testing. Internationally, stress testing has become an integral part of banks' risk management systems and is used to evaluate the potential vulnerability to some unforeseen events or movements in financial variables.

6.33 There are broadly two categories of stress tests used in banks, *viz.*, sensitivity tests and scenario tests. Sensitivity tests are normally used to assess the impact of change in one variable (for example, a high magnitude parallel shift in the yield curve, a significant movement in the foreign exchange rates and a large movement in the equity index) on the bank's financial position (Box VI.3). Scenario tests include simultaneous moves in a number of variables, for instance, equity prices, oil prices, foreign exchange rates, interest rates, and liquidity based on a single event experienced in the past. The need for banks in India to adopt 'stress tests' as a risk management tool was emphasised in the Annual Policy Statement for 2006-07. Accordingly, guidelines on stress testing were issued by the Reserve Bank on June 26, 2007. Banks are required to put in place appropriate stress test policies and the relevant stress test framework for various risk factors by September 30, 2007 and make formal stress testing operational from March 31, 2008.

Consolidation and Amalgamation

6.34 The increased competition has provided impetus to bank mergers and acquisitions globally. Apart from meeting the challenges of increased competition, the mergers and amalgamations may also be triggered by the deterioration in the financial health of the institutions, in particular those which are no more financially viable. The institutions which are on the verge of collapse adversely affect the interests of depositors and may sometimes trigger contagion. Thus, from the financial stability perspective, mergers and amalgamation could be used as a tool for strengthening the financial system. In India, a conscious approach is followed towards consolidation and merger of smaller banks to reap the benefits of synergy and provide strength to the banking system. During 2006-07 and the first half of 2007-08, four banks were merged/amalgamated with other banks as detailed in Chapter 3 (Section 2).

Supervisory Measures

6.35 From the financial stability point of view, crisis prevention is the major objective of financial regulators and supervisors. This involves continuous monitoring of potential risks and vulnerabilities that may threaten the health of the financial system. The success in preventing the occurrence of crisis depends on the process of information gathering, technical analysis, monitoring and assessment. The analytical process involves gathering information about macroeconomic performance and various aspects of the financial system through supervisory, regulatory and surveillance mechanism. The supervisory process based on information on

Box VI.3: Measurement of Interest Rate Risk

Interest rate risk is the risk of adverse impact of changes in market interest rates on the financials of a financial institution, particularly on earnings or net interest income (NII) and equity. Identification, quantification and measurement of interest rate risk have assumed critical importance, especially in the deregulated environment and reinforced by the requirements of Pillar II of Basel II Capital Accord.

There are different techniques for measurement of interest rate risk such as traditional maturity gap analysis, duration, and simulation. There are two separate, but complimenting, perspectives for measuring a bank's interest rate risk exposure, *viz*., earnings perspective and economic value perspective. The earnings perspective involves ascertaining the impact of changes in interest rates on NII. This approach, also known as Earnings at Risk (EaR), analyses the impact from a short term perspective. The economic value perspective involves an assessment of the present value of expected net cash flows discounted to reflect market rates. It focuses on the sensitivity of a bank's net worth to fluctuations in interest rates and identifies risk from the long-term perspective.

The maturity gap analysis involves distribution of interest rate sensitive assets (RSAs), liabilities (RSLs) and off-balance sheet positions into a certain number of pre-defined time bands according to their maturity (fixed rate) or time remaining for their next repricing (floating rate) whichever is earlier. Assets and liabilities lacking definite repricing intervals (e.g. savings bank, cash credit and overdraft) or with actual maturities varying from contractual maturities (embedded option in bonds with put/call options, loans, cash credit/overdraft and time deposits) are assigned time bands according to the judgment, empirical studies and past experiences of banks. In order to evaluate the impact on the earnings, the RSAs in each time band are netted against the RSLs to produce a repricing gap for that time band. A positive gap indicates that bank has more RSAs than RSLs. A positive or asset sensitive gap implies that the bank's NII will increase if interest rate goes up and vice versa. The gap is used as a measure of interest rate sensitivity. The positive or negative gap is multiplied by assumed interest rate changes to derive the EaR.

Duration or Macaulay's duration is computed as a weighted average of the time until cash flows are received. The weights equal the present value of each cash flow as a fraction of the security's current price, and time refers to the length of time in the future until payment or receipt. It is measured in units of time. A slight variation to Macaulay's duration is Modified Duration which is defined as the approximate percentage change in price for a 100 basis point change in yield. Modified duration equals Macaulay's duration divided by (1+YTM). It has the useful feature of indicating how much the price of a security will change in percentage terms for a given change in interest rates.

In the context of immunisation, duration analysis enables a bank to mitigate the impact of interest rate risk by matching duration of assets and liabilities with the preferred holding period. Duration gap models focus on managing net interest income or the market value of shareholders' equity by recognising the timing of all cash flows for every security on a bank's balance sheet. Unlike static gap analysis, which focuses on rate sensitivity or the frequency of repricing, duration gap analysis focuses on price sensitivity. A bank's interest rate risk is indicated by comparing the weighted average duration of assets with the weighted average duration of liabilities. As with the Gap Analysis, the sign and magnitude of duration gap provide information about when a bank potentially wins and loses, and the magnitude of the interest rate bet. Simulation is a more sophisticated interest rate risk measurement system than that based on simple maturity/repricing schedules. *Simulation techniques* typically involve detailed assessment of the potential effects of changes in interest rates on earnings and economic value by simulating the future path of interest rates, shape of yield curve, changes in business activity, pricing and hedging strategies and their impact on cash flows.

In the Indian context, beginning 1993, administrative restrictions upon interest rates have been steadily eased and at present all interest rates, barring a few, have been deregulated. This has exposed banks to the interest rate changes and consequently interest rate risk has become an important source of vulnerability for banks. Besides, deregulation of interest rates, the norms for classification and valuation of investment portfolio have been aligned to international standards. Banks are required to classify their investment portfolio into three categories, *viz*., 'held for trading' (HFT), `available for sale''(AFS) and 'held to maturity' (HTM). Investments classified under HFT and AFS form the trading book and are required to be marked to market at regular intervals and their depreciation is provided for. Prior to 2005, particularly between 1997 and 2005, Indian banks held Government securities way above the statutory requirement due to various reasons such as lack of credit offtake, existing high non-performing assets and capital adequacy requirement for loans. Though this approach of holding excess Government securities insulated Indian banks from credit risk and need for holding higher regulatory capital, it exposed them to high interest rate risk. Incidentally, this brought windfall gain to the banking industry during the financial years 2002-03 and 2003-04 as interest rates declined. However, as a result of steady rise in yields subsequently, banks were required to book substantial depreciation on their investment portfolio. Regulatory succour had to be provided which allowed banks, as a one time measure, to transfer securities from trading book to banking book to protect their bottomline. In the process, banks' holding of securities in banking book (HTM) increased substantially, and these were effectively insulated from interest rate risk.

The Reserve Bank has been carrying out periodic analysis to assess the interest rate sensitivity of the banking system. Apart from EaR analysis, duration analysis of investment portfolio of banks is carried out at periodic intervals based on methodologies suggested by BCBS in 'Principles for the Management and Supervision of Interest Rate Risk' (September 2003). A periodic sensitivity analysis gauges the likely impact on the investment portfolio of banks for 100, 125 and 150 basis points increase in interest rate and the extent of cushion available to banks to absorb the erosion in their economic value. Yields and coupons are changed to reflect the current scenario. To get an idea of the banking system's capacity to absorb such shocks, the cushion available by way of unrealised gains on investment portfolio and cumulative provision made in depreciation account as calculated. The net erosion in economic value is reduced from banks' regulatory capital to assess the impact on their capital adequacy. Supervisory action is initiated with identified outliers as part of the regular supervisory process.

individual institutions could be gainfully aided by the information on economy's position in the business and credit cycles because macroeconomic and market performance provide the background against which the operational performance of individual institutions should be assessed. Thus, the supervisory framework plays a critical role in maintaining suitable conditions for financial stability and putting in place adequate safeguards so that the impact of shocks on the financial system is minimised[3]. The Reserve Bank has also put in place a robust supervisory framework comprising on-site and off-site supervision. The focus of supervisory measures during 2006-07 was on strengthening the monitoring mechanism of financial conglomerates (FCs).

6.36 The emergence of FCs in India has posed new challenges. The major issue in the regulation of FCs is their exposure to two or more sector-based regulatory regimes. This leads to gaps or overlaps in the overall supervisory process. This, in turn, often makes it difficult to obtain all the relevant information required to effectively supervise and regulate these institutions. The effective supervision of FCs requires a coordinated approach among the supervisors across sectors. Several initiatives, therefore, have been taken in consultation with the peer regulators to strengthen the FC monitoring framework for effective supervision of the FCs. In terms of the definition suggested by the Working Group on Financial Conglomerates (Chairperson: Ms Shyamala Gopinath), 23 financial conglomerates were identified. Many of identified FCs, however, not only had few entities within their fold but also had limited operations beyond one market segment. Intra-group transactions in some of these conglomerates were also few. It was, therefore, felt that it was not effective to subject such groups to focussed FC monitoring. Accordingly, the criteria for identification of FCs were revisited in order to focus on major financial groups which are systemically important and, therefore, require effective supervisory mechanism. In terms of the revised criteria, a FC is defined as a cluster of companies belonging to a group which has significant presence in at least two financial market segments. Banking, insurance, mutual fund and NBFC (deposit taking and non-deposit taking) are considered as financial market segments.

6.37 In order to appropriately focus on the supervisory issues, the format of the quarterly FC return was amended to include information on gross/net NPAs and provisions held for the impaired assets, bad debt, fraud in any group entity, 'holding out' operations undertaken by the group, other assets, and change in accounting policies. While the FC monitoring framework looks at the specified financial intermediaries (SFIs), *i.e.*, entities which are regulated by the Reserve Bank, SEBI, IRDA or NHB, the format of the returns has been suitably modified to capture intra-group transactions and exposures involving regulated and un-regulated entities of the group in order to have a better appreciation of the systemic risk emanating from the group as a whole.

6.38 With a view to minimising the adverse impact of fraud activities on the financial system, a Fraud Monitoring Cell (FrMC) was created in June 2004 for centralised monitoring of frauds detected in entities regulated by the Reserve Bank, *viz.*, commercial banks, urban co-operative banks, financial institutions and non-banking financial companies. The Reserve Bank, in May 2006, had circulated to banks some of the best practices which could be adopted in order to reduce the incidence of frauds in the areas of housing loans. In November 2006, the Reserve Bank alerted banks to be cautious while remitting funds from the accounts of non-residents based on requests received through e-mail/fax messages. They were asked to put in place appropriate systems to verify the authenticity of the messages thoroughly before effecting remittance. Initiatives were also taken to prevent the cross-border movement of money for disruptive activities (Box VI.4).

6.39 To make an assessment of financial stability conditions in India, a Committee on Financial Sector Assessment (CFSA) was constituted by the Government of India in September 2006 (Chairman: Dr. Rakesh Mohan; Co-Chairman: Dr. D. Subbarao). The central plank of the assessment is based on three mutually reinforcing pillars, *viz.*, (i) financial stability assessment and stress testing; (ii) legal, infrastructural and market development issues; and (iii) assessment of the status and progress in implementation of international financial

[3] Schinasi, G.J (2006), Safeguarding Financial Stability – Theory and Practice, IMF.

Box VI.4: Combating Money Laundering, Terrorist Financing and Other Market Abuses

In financial transactions, the probity of customer and purity of funds have always been the regulatory concerns for the Reserve Bank. Various guidelines in this regard were issued to banks in respect of production of permanent account number (PAN), photograph of the customer, not allowing cash transaction in excess of a threshold limit in cases of remittance funds, monitoring transactions *vis-à-vis* the negative list issued by the UN Security Council from time to time with a view to nurturing a proper 'know your customer' (KYC) culture in the industry. The KYC guidelines were revisited in November, 2004 in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering (AML) standards and combating financing of terrorism (CFT) and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision. Banks have reported full compliance to the revised KYC/AML/CFT guidelines in regard to formulation of policy in this respect duly approved by their boards of directors and dissemination of procedural guidelines to rank and file down the line for smooth implementation. The major thrust after November 2004 is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities and to enable banks to know/understand their customers and their financial dealings better which, in turn, would help them manage their risks prudently. While the major objective of the policy is to ensure that no account is opened in anonymous or fictitious/*benami* name(s) for misuse by criminals and terrorists, adequate care has been taken in the formulation of policy to avoid disproportionate cost to banks and a burdensome regime for the customers.

The Government of India has also put in place a legislative framework through enactment of Prevention of Money Laundering Act (PMLA), 2002. Consequent to notification of Rules under PMLA 2002, a reporting regime has been prescribed to banks for making available cash and suspicious transaction reports to Financial Intelligence Unit-India (FIU-IND). While banks enjoy impunity from civil proceeding for their reporting to FIU-IND under the PMLA, they have been cautioned by the Reserve Bank against tipping off to customers in cases relating to suspicious transaction reports to FIU-IND.

In the wake of 9/11 developments, FATF prescribed 9 special recommendations (SRs) to enable prevention of misuse of the financial systems for the purpose of financing terrorist activities. SR VII deals with wire transfers and the precautionary measures related thereto to be ensured by banks/FIs while effecting such transactions. In pursuit of combating financing of terrorism through the conduit of banking channels, the Reserve Bank has advised banks to ensure that all wire transfer transactions are accompanied by full originator information such as name, account number and address of the customer originating the transaction so that appropriate investigating agencies have instant access to such information, if need be. These instructions are applicable to both domestic and cross border wire transfer transactions. Banks have been advised to consider restricting or even terminating their business relationship with the correspondent banks, if they fail to furnish information on the remitter despite instructions to that effect.

standards and codes. To assist in the process of assessment, the CFSA has constituted four Advisory Panels for the assessment of (i) Financial Stability and Stress Testing; (ii) Financial Regulation and Supervision; (ii) Institutions and Market Structure; and (iv) Transparency Standards. The Advisory Panels will prepare separate reports covering each of the above aspects. To provide the Panels with technical notes and background material, the CFSA had set up Technical Groups consisting of officials representing mainly regulatory agencies and the Government in all the above subject areas which have progressed with technical work in respective areas. The CFSA would publish Advisory Panel reports and also its own report. The CFSA is expected to complete the assessment by March 2008.

Other Financial Institutions

6.40 Apart from scheduled commercial banks, other financial institutions such as regional rural banks, co-operative banks, financial institutions (FIs) and non-banking financial companies (NBFCs) play a crucial role in the development process of the economy. The smooth functioning of these institutions is also important from the point of view of overall financial stability. Besides, in view of the wider outreach of these institutions, particularly RRBs and co-operative institutions, and an important role these institutions can play in furthering the cause of financial inclusion, the Reserve Bank has taken several initiatives to improve the operational efficiency and financial soundness of these institutions.

Regional Rural Banks and Rural Co-operative Banks

6.41 Regional rural banks have played an important role in purveying rural credit. Financially sound network of RRBs could strengthen financial stability conditions while providing a crucial mechanism of mobilising resources required for sustained economic growth. RRB, however, faced several problems which prevented the realisation of full potential benefits of these institutions. The area of operations of RRBs was very limited and they carried high risk due to exposure only to the target group. RRBs suffered from inadequate skills in treasury management for profit orientation and inadequate exposure and skills to innovate products limiting the lending portfolios. The performance of RRBs was affected due to lack of operational autonomy as the RRBs had to look up to sponsor banks, Government, NABARD and the Reserve Bank for most decisions. Financial viability of several RRBs was, thus, undermined by these problems affecting the process of financial intermediation and having implications for financial stability.

6.42 With a view to strengthening RRBs, the Government initiated the State level amalgamation of RRBs sponsor bank-wise in September 2005. This process was carried further during 2006-07 as 37 more banks were amalgamated. In all, 147 RRBs have been amalgamated so far September 2005 to September 2007 to form 46 new RRBs, sponsored by 19 banks in 17 States. As a result, the total number of RRBs declined from 196 to 95 as on September 30, 2007. The structural consolidation of RRBs has resulted in the formation of new RRBs, which are financially stronger and bigger in size in terms of business volume and outreach. This will enable them to take advantages of the economies of scale and reduce their operational costs.

6.43 Following the announcement made in the Union Budget 2007-08 that the RRBs having a negative net worth would be recapitalised in a phased manner, modalities for recapitalisation are being worked out in consultation with select sponsor banks and the National Bank for Agriculture and Rural Development (NABARD).

6.44 With a view to improving the performance of RRBs and giving more powers and flexibility to their boards in decision making, the Reserve Bank had constituted the Task Force on Empowering the RRB Boards for Operational Efficiency (Chairman: Dr. K.G. Karmakar) in September 2006. The Task Force was mandated to suggest areas where more autonomy could be given to the boards, particularly in matters of investments, business development and staffing, *viz*., determination of staff strength, fresh recruitment, and promotions. In its report submitted on January 31, 2007, the Task Force, *inter alia*, recommended that (i) the number of directors on the boards of RRBs be raised up to 15 on a selective basis in the case of large sized RRBs created after amalgamation; (ii) selection of chairmen of RRBs be made on merit from a panel of qualifying officers; and (iii) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002 may be extended to RRBs. While some of the recommendations of the Task Force have been implemented, others are under examination. The Government of India has already issued a notification on May 17, 2007 specifying 'regional rural bank' as 'bank' for the purpose of the SARFAESI Act, 2002.

Urban Co-operative Banks

6.45 Urban co-operative banks form a heterogeneous group in terms of geographical spread, area of operation, size or even in terms of individual performance. Certain infirmities in the sector, however, surfaced that manifested in the form of weakness of some of the entities resulting in erosion of public confidence and causing concern to the regulators as also to the sector at large. One of major problems faced in the case of UCBs was the dual regulatory mechanism under which UCBs are regulated and supervised by both the State Governments, through the Registrars of Co-operative Societies, and by the Reserve Bank. Furthermore, in the case of banks having presence in more than one State, the Central Registrar of Co-operative Societies, on behalf of the Central Government, exercises such powers. The other issues affecting the UCBs were lack of corporate governance, transparency and accountability. Many UCBs were also of sub-optimal size, which affected their efficiency and profitability. As discussed in Chapter IV of this Report, NPA ratio of UCBs was significantly higher than that of scheduled commercial banks.

6.46 Recognising the need to mitigate the risk to which the system was exposed, the Reserve Bank endeavoured to provide a regulatory and supervisory framework that would appropriately address the problems of the sector as also the shortcomings of dual control. The need was also felt to set up a supervisory system that was based on an in-depth analysis of the heterogeneous character of urban co-operative banks and one that was in tandem with the policy of strengthening the sector. Keeping these considerations in view, a draft vision document for UCBs was prepared by the Reserve Bank and placed it in the public domain in March 2005 which was finalised thereafter. In pursuance of the proposals in the vision document, the State Governments having a large number of UCBs were approached for signing the Memorandum of Understanding (MoU). The memorandum, provides the basis for the constitution of the Task Force for Urban Co-operative Banks (TAFCUB) in each State to serve as a forum for the consultative decision making process. Apart from the representatives of the Reserve Bank and the State Government, the TAFCUB has the representatives of the UCBs sector. The TAFCUB identifies the weak but viable (non-scheduled) UCBs in the respective State and frames a time bound programme for revival of such entities. It identifies the nature and extent of funds required to be infused, the changes in management where necessary and suggest periodical milestones to be achieved. Further, UCBs which are not found viable by the TAFCUB, could be required to exit from banking business either through merger with strong banks, if such merger makes economic sense to the acquiring bank, or through voluntary conversion into a co-operative society by paying off the non-member deposits and withdrawing from the payment system. And if there is not other viable option, they could even be taken into liquidation by the Registrar at the behest of the Reserve Bank. As of September 2007, MoUs were signed with 13 States, which cover a total of 83 per cent of UCBs accounting for over 92 per cent of total deposits. The consolidation of the UCBs through the process of merger of weak entities with stronger ones has been set in motion by providing transparent and objective guidelines for granting no-objection to merger proposals. The Reserve Bank, while considering proposals for merger/ amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. As on October 30, 2007, a total of 33 mergers had been effected upon the issue of statutory orders by the Central Registrar of Co-operative Societies/Registrar of Co-operative Societies (CRCS/RCS) concerned.

6.47 The Reserve Bank continued its efforts to ensure that the urban co-operative banks emerge as a sound and healthy network of banking institutions, so that they can provide need-based quality banking services, essentially to the middle and lower middle classes and marginalised sections of society[4]. In order to enable the smaller UCBs to gain strength as visualised in the 'Vision Document', banks were classified as Tier I UCBs (unit banks, *i.e.*, banks having branch/s within a single district, with deposits up to Rs.100 crore) and Tier II banks (*i.e.*, all other UCBs). As per the revised prudential norms for Tier I and Tier II banks, while Tier II banks are under the 90-day delinquency norm which is applicable for commercial banks, the 180-day delinquency norm for Tier I banks has been extended by one more year, *i.e.*, up to March 31, 2008. This is intended to provide a measure of relief to the small UCBs in terms of lower provisioning required, which, in turn, would translate into higher profits that could be used to shore up the capital base of these banks.

6.48 In order to ensure that asset quality is maintained in an environment of high credit growth, it was decided in respect of Tier II banks and all other UCBs operating in more than one district (irrespective of deposit size) to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from 1.0 per cent to 2.0 per cent. Risk weight on exposure to commercial real estate was also increased from 100 per cent to 150 per cent.

Financial Institutions and Non-banking Financial Companies

6.49 Financial institutions, which historically played an important role in meeting the medium to long-term requirements of the economy, have been repositioning themselves in the changed operating environment. Two large FIs have already converted into banks. It has been the endeavour of the Reserve Bank that FIs operating in the system maintain sound financial health. The Reserve Bank, therefore, has been strengthening financial institutions by extending prudential norms applied to banks to financial institutions with suitable modifications.

6.50 In continuation with the policy initiatives undertaken by the Reserve Bank in recent years for progressive upgradation of the regulatory norms for FIs in convergence with the norms across the financial sector, a number of measures were undertaken during 2006-07. Norms for income recognition, asset classification, provisioning and other related matters concerning

[4] These measures have been discussed in detail in Chapter IV of this Report.

Government guaranteed exposures were modified during 2006-07. With effect from March 31, 2007, State Government guaranteed advances and investments in State Government guaranteed securities would attract the asset classification and provisioning norms if the interest and/or principal or any other amount due to the FI remained overdue for more than 90 days.

6.51 Keeping in view the contribution that NBFIs make to the financial sector as financial intermediaries, the Reserve Bank has been continuously emphasising on developing NBFCs into financially strong entities. Streamlining the functioning of non-banking financial companies (NBFCs) and implementing prudential measures in this sector assume priority for ensuring financial stability.

6.52 The focus of supervision by the Reserve Bank in recent years has been to ensure that NBFCs function along sound and healthy lines and avoid excessive risk-taking. The regulatory framework for NBFCs underwent significant changes after the amendments in the RBI Act in 1997, which provided comprehensive powers to the Reserve Bank to regulate NBFCs. The amended Act made it mandatory for NBFCs to obtain certificate of registration (CoR) from the Reserve Bank. The total number of NBFCs registered with the Reserve Bank declined from 13,014 at end-June 2006 to 12,968 at end-June 2007. Besides, the number of public deposit accepting companies also declined due to conversion of some NBFCs into non-public deposit accepting activities. This helped in weeding out the weak and unviable NBFCs from the system.

6.53 The focus of supervision in respect of NBFCs is differentiated depending on the asset size of the NBFC and whether it accepts/holds public deposits. To protect depositors' interests, the regulatory norms are relatively more stringent for those NBFCs that accept public deposits. However, large NBFCs even if they do not accept public deposits are systemically important. In view of this, a reporting system for NBFCs not accepting/holding public deposit and having asset size of Rs.500 crore and above was introduced beginning from the quarter ended September 2004. During 2006-07, a major initiative related to the strengthening of the regulatory framework with regard to systemically important non-banking financial companies was the issuance of prudential guidelines so as to reduce the regulatory gaps. Systemically important non-deposit taking NBFCs were also defined and prudential norms were specified for these entities.

6.54 All non-deposit taking NBFCs (NBFCs–ND) with an asset size of Rs.100 crore and more as per the last audited balance sheet are now considered systemically important NBFCs–ND–SI. These are required to maintain a minimum capital to risk-weighted assets ratio (CRAR) of 10 per cent. Deposit taking NBFCs were further advised that all NBFCs and RNBCs with total assets of Rs.100 crore and above should submit the return on capital market exposure in the prescribed format on a monthly basis within seven days of the close of the month to which it relates. The first such return based on revised criteria was submitted for the month ended April 30, 2007.

Deposit Insurance

6.55 The principal objectives of a deposit insurance system (DIS) are to contribute to the stability of a country's financial system and to protect less financially sophisticated depositors from the loss of their deposits when banks fail. As per the International Association of Deposit Insurers (IADI)'s guidelines on best practices of deposit insurance system, a deposit insurance system needs to be a part of a well-designed financial safety net, supported by strong prudential regulation and supervision, effective laws that are enforced, and sound accounting and disclosure regimes (Box VI.5).

6.56 In India, Deposit Insurance and Credit Guarantee Corporation (DICGC), which came into existence in its present form in 1978, provides insurance protection up to the specified amount of deposits of all commercial banks, including the RRBs and LABs and most of co-operative banks.

6.57 During 2006-07, a Guide on DICGC was published along with a Brochure on DICGC for easy understanding of the deposit insurance system in India. This has facilitated spread of awareness and instilled confidence in the banks' customers. To provide further relief to bank customers, the DICGC, on April 27, 2007, reviewed its policy for settlement of claims of joint account holders in the event of liquidation of a bank. In terms of the revised policy, the deposits held in two separate joint accounts in combination of two or more individuals are treated as two or more separate accounts, and each category of the

Box VI.5: Features of a Successful Deposit Insurance System (DIS) and the Position of DICGC

Explicit and limited deposit insurance is preferable to implicit protection as it clarifies the authorities' obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. Deposit insurers have mandates ranging from narrow, so-called paybox system to those with broader powers and responsibilities such as risk-minimisation, with a variety of combinations in between. Paybox systems largely are confined to paying the claims of depositors after a bank has been closed and normally do not have prudential regulatory or supervisory responsibilities or intervention powers. A risk-minimiser deposit insurer has a relatively broad mandate and accordingly more powers. In recent years, the attention has, however, shifted from the establishment of an explicit deposit insurance scheme to institutional details such as coverage, membership, funding and administration.

In general, membership should be compulsory to avoid adverse selection as in a voluntary system strong banks may opt out if the cost of failures is high and this may affect the financial solvency and the effectiveness of the deposit insurance system. Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence; and this should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims after a bank's failure. Policymakers have a choice between adopting a flat-rate premium system or a premium system that is differentiated on the basis of individual-bank risk profiles. DISs fall into two categories, *viz*., (i) those funded by banks and (ii) those with no permanently maintained funds lent, where members are required to contribute to the fund after a bank failure occurs.

In this context, a few studies demonstrate that the coverage and funding of deposit insurance schemes have significant impact on the probability with which a country suffers a banking crisis, while others show that the coverage and funding are important determinants of the degree of market discipline exercised by depositors *vis-a-vis* banks.

Garcia (1999) argued that the structure of the DIS is more likely to be incentive-compatible if membership is compulsory, if coverage is low to deter moral hazard, and if insurance premiums are risk-adjusted to avoid adverse selection. The idea behind risk-adjustment is to moderate the subsidy provided by strong to weaker institutions by allowing sound institutions to pay lower premiums than their competitors who pose greater risk of loss on DIS resources. In addition, depositors need to have confidence in the system, which requires that the DIS be administratively efficient in paying out insured deposits promptly, and that it be adequately funded so that it can resolve failed institutions firmly without delay.

For a deposit insurance system to be effective, it is essential that the public is informed about its benefits and limitations. The objectives of an effective failure-resolution process are to meet the deposit insurers obligations; ensure depositors are reimbursed promptly and accurately; minimise resolution costs and disruption of markets; maximise recoveries of assets; settle bonafide claims on a timely and equitable basis; and reinforce discipline through legal actions in cases of negligence or other wrongdoings. Policymakers should be aware of the potential effects of existing depositor priority laws or statutes on failure-resolution costs and if depositors and the deposit insurer are accorded some superior rights to share in recoveries, their claims must be paid in full before other unsecured claimants are compensated.

Several features of the deposit insurance scheme in India are comparable to those existing in other economies such as its explicit nature, compulsory membership and joint funding. The major difference, however, pertains to the absence of risk-adjusted premiums. It may be mentioned that most countries with risk-adjusted premiums are those where the deposit insurance schemes were enacted/revised in the 1990s.

Table 1: Characteristics of Deposit Insurance System

Features of the Scheme	India	European Union	US	World Average
Explicit	Yes	Yes	Yes	All 68 Countries
Coverage Limit	Rs. 1,00,000	Euro 20,000	US $ 1,00,000	Three times per capita GDP
Co-insurance	No	10 per cent	No	17 out of 68 countries have co-insurance
Coverage of Foreign Currency Deposit	Yes	Can be excluded	Yes	Covered in 48 out of 68 countries
Coverage of inter-bank Deposit	No	No	Yes	Covered in 18 out of 68 countries
Source of Funding*	Joint (public plus private)	Not regulated	Joint	Private :15; Joint : 51; Public : 1
Administration	Public	Not regulated	Public	Private :11; Joint : 24; Public : 33
Membership	Compulsory	Compulsory	Compulsory	Compulsory in 55 out of 68 countries
Risk-adjusted Premium	No	Not Regulated	Yes	21 out of 68 countries have risk-adjusted premiums
Pay Box / risk Minimiser	Pay Box	..	Risk Minimiser	..
Target Fund Ratio	No	..	1.15 per cent – 1.50 per cent	..

..: Not available for one country.

References:

Beck, T. (2000), 'Deposit Insurance as Private Club: Is Germany a Model?', www.worldbank.org.

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Garcia, G.G.H (2000), Deposit Insurance - Actual and Good Practices, *IMF Occasional Paper* No. 197, Washington DC.

RBI (1999), Report on Reforms in Deposit Insurance in India (Chairman: Shri Jagdish Capoor), Mumbai.

joint account will be eligible for a claim up to Rs.one lakh as against the settlement of only up to Rs. one lakh aggregating the balance in both/ all accounts together earlier. Further, to reduce the time lag between the issue of liquidation order and actual reimbursement to the depositor, the Corporation has framed policy guidelines on expeditious settlement of claims of the depositors of insured banks.

3. Benchmarking of the Indian Banking Sector

6.58 The financial soundness of the banking and financial institutions is a pre-requisite for financial stability. The increasing degree of financial globalisation puts domestic banking and financial institutions on international platform of competition, thereby compelling them to meet international standards in respect of financial soundness. The competition in the Indian banking system has intensified with the entry of private banks and increased presence of foreign banks and the margins have come under pressure. Banks are also required to raise capital both from the domestic and international capital market. India is also gradually moving towards fuller capital account convertibility regime. The Committee on Fuller Capital Account Convertibility in its report submitted on July 31, 2006, observed that under a FCAC regime, the banking system will be exposed to greater market volatility. Hence, it is imperative that the Indian banking system imbibes enhanced risk management capabilities with more effective supervisory and regulatory system. In view of these developments, it is imperative that the Indian banking system meets the international benchmarks of efficiency, profitability and financial soundness.

6.59 In this section, therefore, an attempt is made to benchmark Indian banks against global benchmarks in terms of various financial indicators. Several initiatives undertaken to strengthen the banking system in India over the years have resulted in a significant improvement in the financial performance of the banking sector.

Return on Assets

6.60 The return on total assets (RoA) of banks, defined as the ratio of net profits to total assets, is one of the most widely used indicators of profitability. Higher RoA indicates the commercial soundness of the banking system. From the financial stability point of view, high RoA provides a level of comfort against potential shocks to the system, *i.e.*, banks would be able to operate without jeopardising the process of financial intermediation even in the wake of adverse shocks. RoA of Indian scheduled commercial banks recorded a significant improvement in recent years to reach 0.9 per cent at end-March 2007; globally, the range varied from 0.2 per cent to 4.3 per cent in 2006 (Table VI.3).

6.61 Banks' earnings are affected by several factors, which could be broadly classified as structural and secondary. The earnings are easily sustainable if they are affected more by structural factors than secondary factors (Box VI.6)

Non-performing Loans

6.62 Quality of assets of banks is a crucial indicator of financial health of the banking system

Table VI.3: Return on Assets of Indian Banks *vis-à-vis* Select Countries

(Per cent)

Bank Group/Country	As at end-March	
	2001	2007
1	2	3
India		
Public sector banks	0.4	0.8
Private banks	0.7	0.9
Old private banks	0.6	0.7
New private banks	0.8	0.9
Foreign banks	0.9	1.7
Scheduled Commercial Banks	***0.5***	***0.9***
Emerging Markets		
Argentina	0.0	2.1
Brazil	-0.1	2.1
Mexico	0.8	3.2
Korea	0.7	1.1
South Africa	0.8	1.4
Developed Countries		
US	1.1	1.2
UK	0.5	0.5*
Japan	-0.6	0.4*
Canada	0.7	1.0*
Australia	1.3	1.8#
Global range for 2006 [0.2 (Tunisia) to 4.3 (Saudi Arabia and Ghana]		

* : pertains to 2006. # : pertains to 2005.

Source: 1. Global Financial Stability Report; April and September, 2007; IMF.
2. Balance sheets of banks in India.

Box VI.6: Assessment of Bank Earnings Based on Structural Determinants of Income

The assessment of bank earnings forms an integral part of most models of supervision and supervisory rating systems. Detection of earnings weakness enables the supervisor to take action before the solvency of the bank is seriously threatened, and before it begins to assume increased risks in attempting to achieve profitability. In recent years, amalgamation of a few weak SCBs such as Bharat Overseas Bank, Sangli Bank Ltd., Ganesh Bank of Kurundwad and United Western Bank points to greater relevance of such an analysis in the Indian context.

It is often found that banks may try to conceal their losses for various reasons, such as to maintain depositor confidence, to avoid devaluation of their stock in the market or to avoid supervisory action. Some banks are able to conceal their losses for quite some time. However, they eventually end up being liquidated because of financial weakness without ever reporting a net loss. In the light of above factors, it is important to understand how banks generate their income.

If a bank is able to raise sufficient income from sustainable core business sources so as to meet most of its operating expenses, provisions and taxes, as well as to provide for an adequate return on capital, it reflects on the earning strengths of the bank. Alternatively, if a bank relies more on non-recurring income, it is a sign of earning weaknesses. Furthermore, the relative contribution of the various activities of the bank to its earnings, rather than typical assessment based on volumes alone, may be a better indicator of how risk is distributed across its various activities.

In the analytical framework proposed by Rosa Couto (2002), the income and expense items are classified into two basic categories: structural determinants of profitability and secondary determinants of profitability. The structural determinants of profitability are those items of income and expense that satisfy three conditions: (i) they arise from the operational activities of a bank; (ii) can properly be considered sustainable in the case of income, or recurring in the case of expenses; and (iii) are not particularly subject to misrepresentation. Net interest income, fee income and operating expenses, are the structural determinants of profitability. They are the core income and expense items of a bank, and are determined by essential banking factors such as asset/client base size, profit margins, capitalisation and cost efficiency.

The evaluation of the sensitivity of bank earnings to changes in relevant business conditions have become an important plank of risk assessment. The variables which are identified as structural determinants of earnings are used to anticipate the impact of expected or possible changes in business conditions on bank's profitability. This process is found to be relevant to assess the viability of banks, in order to identify and monitor particularly those in vulnerable positions.

Some very relevant items of operational income and expense, such as provision charges and effects of exposures to interest rate and foreign exchange risk, have been considered as the secondary determinants, either because they are non-recurring or subject to misrepresentation. Secondary items usually have a somewhat unstable behaviour and may have a high impact on the profits of a single period. Non-operating income mainly arises from investments in subsidiaries and property that are unrelated to the banking business. Most countries either prohibit or set very stringent limits for these investments. They constitute an entirely different enterprise sharing the same capital base of a bank and, therefore, their earnings and capital should be detached and analysed independently. Provisions for loan losses and contingent liabilities, deferred expenses, goodwill amortisation, contingent assets and results from trading and market price fluctuation of securities are the main income and expense items that have been found to be particularly subject to misrepresentation.

Table 1: Proposed Structure for the Income Statement

Structural	Net interest income
	Fee income
	Operating expenses
	Gross operating income
Secondary	Provision for loan losses
	Other secondary expenses
	Income after secondary charges
	Treasury results
	Other secondary income
	Profit/(loss) from banking activities
	Results of non-banking subsidiaries
	Profit/(loss) before taxes
	Income taxes
	Net profit/(loss)

Assessing the earnings power of a bank, or of any enterprise, is an extremely difficult task. The conclusions of such an assessment can easily go off target due to a lack of accurate information or analytical skill, and may also lose relevance quickly, because of significant changes in business conditions. No analytical framework produces accurate predictions of results for a certain period in future. Although it is not possible to make accurate predictions of bank results, it is possible, in many relevant situations, to arrive at a well-founded conclusion about the capacity of the bank to generate earnings, and also to produce valuable information for other areas of examination.

References:

Anthony Saunders (1999), Financial Institutions Management, Irwin/McGraw-Hill, 3rd edition.

Rosa Couto, Rodrigo Luís (2002), Framework for the Assessment of Bank Earnings, *FSI Award 2002 Winning Paper,* Financial Stability Institute.

and hence, financial stability. The ratio of non-performing loans (NPLs) to total advances is a common measure to assess the quality of assets of banks. A lower NPL ratio indicates prudent business strategy followed by a bank. The legal framework for recovery of loans also plays an important role in the burden of NPLs on the banking system in a country. In India, several

Table VI.4: Ratio of Gross Non-performing Loans to Gross Advances of Indian Banks *vis-à-vis* Select Countries

(Per cent)

Bank Group/Country	As at end-March	
	2001	2007
1	2	3
India		
Public sector banks	12.4	2.7
Private banks	8.4	2.2
Old private banks	10.9	3.1
New private banks	5.1	1.9
Foreign banks	6.8	1.8
Scheduled Commercial Banks	***11.4***	***2.5***
Emerging Markets		
Argentina	13.1	3.2
Brazil	5.6	4.0
Mexico	5.1	2.2
Korea	3.4	0.8
South Africa	3.1	1.1
Developed Countries		
US	1.3	0.8
UK	2.6	0.9
Japan	8.4	2.5*
Canada	1.5	0.4*
Australia	0.6	0.2
Global range for 2006 [0.2 (Estonia, Luxembourg and Australia) to 24.7 (Egypt)]		

* : pertains to 2006.

Source: 1. Global Financial Stability Report; April and September, 2007; IMF.
2. Balance sheets of banks in India.

Table VI.5: Provisions to Non-performing Loans Ratio- Indian Banks *vis-à-vis* Select Countries

(Per cent)

Bank Group/Country	As at end-March	
	2004	2007
1	2	3
India		
Public sector banks	58.4	56.8
Private banks		
Old private banks	47.0	66.0
New private banks	40.6	49.1
Foreign banks	54.8	51.1
Scheduled Commercial Banks	***55.9***	***56.1***
Emerging Markets		
Argentina	102.9	132.3
Brazil	177.5	153.0
Mexico	201.8	194.7
Korea	104.5	177.7
South Africa	61.3	64.3#
Developed Countries		
US	168.1	129.9
UK	64.5	56.1#
Japan	26.8	30.3 *
Canada	47.7	55.3 *
Australia	182.9	204.5 *
Global range for 2006: [23.1 (Ukraine to 229.1 (Venezuela)]		

* : pertains to 2006. # : pertains to 2005.

Source : 1. Global Financial Stability Report; April and September, 2007; IMF.
2. Balance sheets of banks in India.

measures taken by the Government and the Reserve Bank have enabled SCBs to substantially reduce their level of gross NPLs from 15.7 per cent of total advances at end-March 1997 to about 11 per cent at end-March 2001 and further to 2.5 per cent at end-March 2007. The global range for gross NPLs varied between 0.2 per cent and 24.7 per cent in 2006 (Table VI.4).

Provisions for NPLs

6.63 The ratio of provisioning to NPLs reflects the ability of a bank to withstand losses in asset value. The vulnerability of a bank's balance sheet is mitigated to the extent non-performing loans are covered by loan loss provisions. A low ratio of provisioning to NPLs makes the banking system vulnerable to shocks. Indian SCBs maintained provisioning of 56.1 per cent of gross NPLs at the end-March 2007 which was comparable with global standards (Table VI.5).

Capital Adequacy Ratio

6.64 Bank capital is used as an indicator of bank soundness because of its role as the final buffer against losses that a bank may suffer. The minimum amount of capital that a bank should have to meet future losses was specified differently by national regulators until the successful harmonisation of this by the Basel Accord of 1988. Recognising that capital, at a minimum, must be commensurate with the amount of risk that a bank took, a minimum capital to risk-weighted asset ratio (CRAR) of 8 per cent was specified by the Basel Committee on Banking Supervision (BCBS). However, the original framework was based on providing capital cushion against credit risk. Thus, in 1996, the accord was modified to incorporate capital cover against market risks in key portfolios.

6.65 Capital requirements are now almost universally accepted and most countries use the Basel-like risk-weighted approach. This degree of

Table VI.6: Capital Adequacy Ratio- Indian Banks *vis-à-vis* Select Countries

(Per cent)

Bank Group/Country	As at end March	
	2001	2007
1	2	3
India		
Public sector banks	11.2	12.4
Private banks		
Old private banks	11.9	12.1
New private banks	11.5	12.0
Foreign banks	12.6	12.4
Scheduled Commercial Banks	**11.4**	**12.3**
Emerging Markets		
Argentina	–	–
Brazil	14.8	18.5
Mexico	13.9	16.1
Korea	11.7	13.0
South Africa	11.4	12.7
Developed Countries		
US	12.9	13.0
UK	13.2	12.9*
Japan	10.8	13.1*
Canada	12.3	12.4
Australia	10.4	10.4
Global range for 2006 [7.1 Sweden) to 34.9 (Armenia)]		

* : pertains to 2005.

Source: 1. Global Financial Stability Report; April and September, 2007; IMF.
2. Balance sheets of banks in India.

harmonisation has made the CRAR a useful indicator for analysts in making both inter-bank and inter-country comparisons of bank strength. In the Indian context, the overall capital adequacy of the SCBs improved from 11.4 per cent in 2001 to 12.3 per cent in 2007 which was much above the Basel norm of 8 per cent and the stipulated norm of 9 per cent for banks in India. The ratio was comparable with most emerging markets and developed economies. The global range of CRAR in 2006 varied from 7.1 per cent to 34.9 per cent (Table VI.6).

Capital to Asset Ratio

6.66 The simple capital to asset ratio of banks indicates the extent of leveraging enjoyed by banks. A low capital to asset ratio implies higher leverage and greater vulnerability of a bank. Globally, the ratio varied between 3.7 per cent and 22.9 per cent in 2006. Indian banks have lower leverage as compared with many other countries (Table VI.7).

Table VI.7: Capital to Asset Ratio – Indian Banks *vis-à-vis* Select Countries

(Per cent)

Bank Group/Country	As at end March	
	2001	2007
1	2	3
India		
Public sector banks	4.8	5.8
Private banks	5.4	6.8
Old private banks	5.4	6.7
New private banks	5.5	6.8
Foreign banks	8.8	11.9
Scheduled Commercial Banks	**5.2**	**6.3**
Emerging Markets		
Argentina	11.9*	13.7
Brazil	8.9	9.4
Mexico	9.4	13.2#
Korea[1]	7.2@	9.5
South Africa	9.0	7.8#
Developed Countries		
US	9.0	10.6
UK	9.7	8.9#
Japan	3.9	5.3
Canada	4.6	5.6
Australia[2]	5.3	4.9
Global range for 2006 [4.0 (Bangladesh, Netherlands) to 22.0 (Armenia]		

@ : pertains to 2002. * : pertains to 2002.
# : pertains to 2006.

Notes : 1. core capital ratio; 2. Tier I capital to total assets.

Source : 1. Global Financial Stability Report; April and September, 2007; IMF.
2. Balance sheets of banks in India.

4. Developments in Financial Markets

6.67 Well developed financial markets diversify resource mobilisation channels and also scatter the risks across a large number of stakeholders. In the absence of such markets, the economy tends to show a greater dependence on bank sources of finance. There is, however, a growing body of evidence that shows that countries benefit from well diversified financial systems where well regulated banks and well-functioning securities markets cater to the financing requirements of various segments in the economy. An important factor from the financial stability point of view is that banks and securities markets are subject to different risks. Hence, in financial structure, as in other areas, diversification may help an economy attain a superior position on the frontier of feasible risk-return trade-offs. Thus, the development of financial markets facilitates an efficient allocation of resources compatible with both sustainable medium-term economic growth and financial stability. Deep and liquid financial markets help in minimising the type of risk which triggered financial crises in several East Asian economies in the mid-1990s.

6.68 Financial markets perform an important function of channelling surplus funds from savers to those who are short of funds. Financial markets, thus, allow funds to move from people who lack productive investment opportunities to people who have such opportunities, thereby contributing to higher production and efficiency in the overall economy. In the wake of increased degree of globalisation, financial markets facilitate across border movements of funds from the countries lacking profitable avenues for investments to countries providing higher returns. By doing so, financial markets allow the countries to reach their potential level of output. Thus, the financial markets through their linkages with the real economy enhance the level of output and employment.

6.69 The role of financial markets assumes greater importance in the modern economy due to large scale of financial intermediation and asymmetric information with suppliers and final users of funds. From this perspective, the important function of financial markets is an efficient allocation of real economic resources amongst different activities and especially across time. The greater the economies of scale and asymmetric information in finance, the larger would be the intermediation benefit. Another crucial role of financial markets, which has become increasingly important in a globally integrated economy and the financial system, is the pricing and management of economic and financial risks.

6.70 The efficiency of the financial markets in performing the core function of intermediation could be undermined due to wide fluctuations in markets which could adversely affect market sentiments and pose a major threat to financial stability. Excessive volatility in the financial markets generally leads to asset price misalignments and may also trigger counterparty risk. Financial markets can also be vulnerable to contagion. This underscores the need for monitoring developments in financial markets on a continuous basis so that potential risks to financial stability could be identified in advance and required initiatives undertaken to prevent crisis. Financial market data also indicate expectations about future developments, which contain information about potential risks to the financial system. Market indicators, therefore, could be used to complement traditional analysis of fundamentals based on balance sheets of financial entities.

6.71 Financial markets also play a crucial role in the transmission of monetary policy impulses. Effective monetary transmission depends on the price discovery mechanism, particularly in respect of interest rates and exchange rates. The success of monetary policy implementation depends of the assessment of how rapidly the effects of policy actions are transmitted through the financial system. Developed and stable financial markets also enable central banks to use market-based instruments of monetary policy to target monetary variables more effectively.

6.72 Lacklustre macroeconomic performance of command economies in the 1970s and in the following decades resulted in a shift in the thinking on risk, leading to the realisation that it is far more efficient to allow individual economic agents to face, transfer and manage risks through a market mechanism. The collapse of the Bretton Woods System in 1971 ushered in an era of 'generalised floating' of the exchange rates of major currencies. The gradual deregulation, relaxation/ abolition of capital controls and globalisation that followed the collapse of the Soviet system provided the backdrop as also the incentive for the risk management concepts and practices to emerge and evolve. The distinguishing feature of the new paradigm is that it does not mean that all risks should be eliminated by way of insurance-like products that have been known to mankind for a long time. The key is pricing of risks in markets for risk products. Development of deep and liquid markets in risk products – both cash as well derivatives - which were boosted by phenomenal progress in quantitative finance made it possible for risk management as a discipline and profession to come of age. However, this way of looking at risk management does not mean at all that there is no role for the sovereign or for regulators in financial markets[5].

[5] Mohan, Rakesh (2007), Risk Management in an Open Market Economy, Reserve Bank of India Bulletin, July.

6.73 The financial system in India has become more market-oriented in recent years. There has been a significant increase in financial institutions' market activities and exposures, as well as participation by non-financial corporations and households in the markets. Hence, market-based risks are becoming more relevant for financial stability.

6.74 The Reserve Bank closely monitors financial market developments considering their critical role, while simultaneously taking measures to further develop the various segments of the financial market under its purview, *viz*., the money market, the Government securities market and the foreign exchange market[6]. The SEBI regulates the capital market. Various reforms initiated in the financial markets since the early 1990s have focussed on (i) removing the restrictions on pricing of assets; (ii) building of institutional and technological infrastructure; (iii) strengthening the risk management practices; (iv) fine-tuning of the market microstructure; (v) changes in the legal framework to remove structural rigidities; and (vi) widening and deepening of the market with new participants and instruments. The Reserve Bank, in July 2005, set up a separate Financial Market Department (FMD) for exclusively monitoring the developments in the financial markets.

6.75 Financial markets during 2006-07, in general, witnessed orderly movements. There were some episodes of volatility in the latter part of the year arising from developments in international financial markets. There were also some shifts in domestic liquidity conditions on account of capital flows and volatility in cash balances of the Government.

Money Market

6.76 The money market, which is the market for short-term funds with maturity ranging from overnight to one year, provides an avenue for the central bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy. The central bank strives to align money market rates with the key policy rate. Ensuring stability in the money market is critical as excessive volatility could lead the money market to deliver confusing signals about the stance of monetary policy. The stability in the money market has assumed added importance in view of a policy preference for indirect instruments of monetary policy. In the new operating environment, the Reserve Bank has been increasingly relying on a mix of market-based instruments for the conduct of monetary policy. As central banks have limited control over long-term interest rates, the most commonly adopted strategy has been to exert direct influence only on short-term interest rates and permitting market expectations to influence long-term interest rates through financial market inter-linkages.

6.77 Recognising the importance of the money market, the Reserve Bank has been taking pro-active measures to develop this segment. The abolition of *ad hoc* Treasury Bills and introduction of regular auctions of Treasury Bills paved the way for the emergence of a risk free rate, which has become a benchmark for pricing the other money market instruments. Concomitantly, with the increased market orientation of monetary policy along with greater global integration of domestic markets, the Reserve Bank's emphasis has been on setting prudential limits on borrowing and lending in the call money market, encouraging migration towards the collateralised segments and developing derivative instruments for hedging market risks. In line with the objective of widening and deepening the money market and imparting greater liquidity to the market for facilitating efficient price discovery, new instruments, such as collateralised lending and borrowing obligations (CBLO), have been introduced. Money market instruments such as market repo and CBLO have provided avenues for non-banks to manage their short-term liquidity mismatches and facilitated the transformation of the call money market into a pure inter-bank market. This has been complemented by the institutionalisation of the Clearing Corporation of India Limited (CCIL) as a central counterparty. Furthermore, issuance norms have been modified over time to encourage wider participation while strengthening the transmission of policy signals across the various market segments. The upgradation of payment system technologies has also enabled market

[6] For a detailed discussion on developments in financial markets in India, a reference may be made to the Report on Currency and Finance, 2005-06, by the Reserve Bank in May 2007.

participants to improve their asset liability management. All these measures have widened and deepened the money market in terms of instruments and participants, enhanced transparency and improved the signalling mechanism of monetary policy while ensuring financial stability[7].

6.78 Various policy initiatives taken over time have enabled the development of a relatively deeper and more liquid money market in the country in comparison with pre-reform period. Volatility in call rates has declined over the years, especially after the introduction of LAF in June 2000 (Chart VI.1). Under the LAF, the Reserve Bank sets its policy rates, *i.e.*, repo and reverse repo rates and carries out repo/reverse repo operations, thereby providing a corridor for overnight money market rates.

6.79 However, money market conditions during 2006-07 turned somewhat volatile on account of high volatility in Government cash balances/tax inflows, reduction in SLR securities available to tap repo inflows and high credit growth. The overnight rates in the call money segment moved around the reverse repo rate of LAF up to mid-September 2006. Liquidity conditions became relatively tighter in the second half of September 2006, *inter alia*, on account of liquidity pressures emanating from advance tax outflows and festive season currency demand along with higher credit offtake. The call rate eased below the repo rate by early October 2006 partly on account of reduction in Centre's surplus cash balances with the Reserve Bank and remained mostly within repo-reverse repo corridor between end-October and second week of December 2006. Beginning December 13, 2006, the call rate edged up and crossed the repo rate under the impact of advance tax outflows and the announcement of a hike (on December 8, 2006) of 25 basis points each in the cash reserve ratio (CRR) effective the fortnights beginning December 23, 2006 and January 6, 2007. The call rate continued to remain above the repo rate till the first week of February 2007. The call rate eased further to around 6.5 per cent by the second week of February 2007 following the Reserve Bank's foreign exchange operations. The call rate again firmed up to about 8.0 per cent by mid-February 2007 but quickly eased to around 6.0 per cent by end-February 2007. The call rate after easing below the reverse repo rate between March 5-15, 2007 hardened as liquidity conditions tightened again due to advance tax outflows, year-end considerations and sustained credit demand (Chart VI.2). The call rate reached

Chart VI.1: Behaviour of Call Rates (Monthly Average)

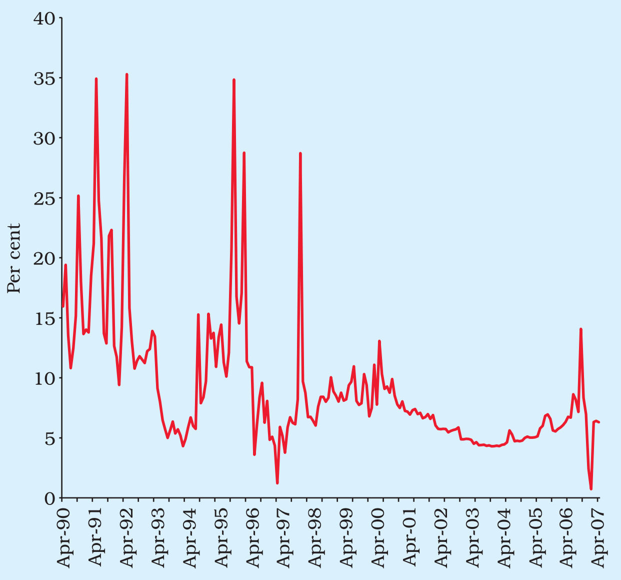
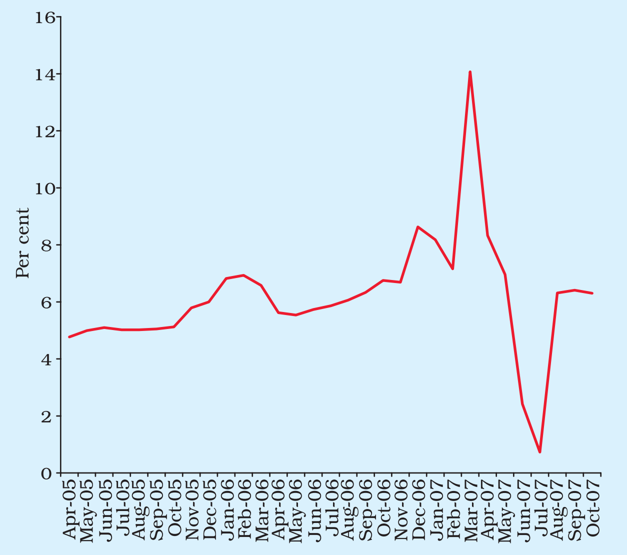


Chart VI.2: Behaviour of Call Rates 2005-07 (Monthly Average)



[7] Mohan, Rakesh. (2007), 'Development of Financial Markets in India', Reserve Bank of India Bulletin, June.

an intra-year high of 54.3 per cent on March 30, 2007; it averaged 19.84 per cent during March 16-30, 2007.

6.80 During 2006-07 liquidity management assumed priority in the policy hierarchy and the Reserve Bank continued with its policy of active management of market liquidity through LAF, MSS and CRR, using all the policy instruments at its disposal flexibly. On a review of the liquidity conditions, the Reserve Bank in March 2007 announced modifications in liquidity management operations. In view of the assessment of volatility and durability of capital flows, an enhanced MSS programme with a mix of Treasury Bills and dated securities was put in place in order to restore LAF as a facility for equilibrating very short-term mismatches and modulating the liquidity it absorbs through the daily reverse repo auctions. Concomitantly, beginning March 5, 2007, daily reverse repo absorptions were restricted to a maximum of Rs.3,000 crore. However, despite the cap on the reverse repo, banks continued to bid heavily in the reverse repo window for a sizeable span of time following the easing of the temporary year-end liquidity pressures in March 2007 and against the backdrop of continued capital inflows.

6.81 During the first quarter of 2007-08, financial markets experienced sizeable fluctuations in liquidity as reflected in the call rate behaviour. The system shifted into a phase of large surplus liquidity from May 28, 2007 necessitating absorption through reverse repo on a daily basis. A ceiling of Rs.3,000 crore on the daily reverse repo under LAF fixed by the Reserve Bank on March 5, 2007 resulted in sharp decline in call rates in the first quarter of 2007-08. In view of the prevailing macroeconomic and overall monetary and liquidity conditions, the First Quarter Review of the Annual Statement on Monetary Policy for 2007-08 announced the withdrawal of the ceiling of Rs.3,000 crore on daily reverse repo under the LAF and the discontinuation of the Second LAF with effect from August 6, 2007. With these modifications, call rates hardened and generally remained within the repo/reverse repo corridor. The average call rate during August-October 2007 was at 6.34 per cent.

6.82 While the primary source of liquidity was the sizeable accretion to the Reserve Bank's net foreign currency assets, liquidity conditions were also influenced by the Central Government recourse to ways and means advances/overdrafts as well as movements in cash balances of the Centre. The Government cash balances with the Reserve Bank have displayed sizeable volatility in recent times. First, owing to operational requirements which are difficult to predict (except for salary payments, coupon/interest payments, redemption of loans and the like), the Government needs to maintain a substantial cash position with the Reserve Bank. Second, there is the need for maintaining or building up cash balances gradually over many weeks ahead of large, known disbursements such as lumpy redemption of bonds contracted for financing high fiscal deficit and, particularly, benchmark bonds, if markets are not to be disrupted. Third, while a major part of outflows from government cash balances is regular, inflows by way of direct tax revenues and other sources are lumpy and irregular in nature. Accumulating Government cash balances with the Reserve Bank act, in effect, as withdrawal of liquidity from the system and have the same effect as that of monetary tightening, *albeit* without any intention to do so by the monetary authority. Similarly, there would be injection of liquidity into the system if Government cash balances maintained with the central bank decline, despite a situation in which, for instance, monetary policy is biased towards tightening liquidity. Thus, volatile Government cash balances could cause unanticipated expansion or contraction of the monetary base, and consequently, money supply and liquidity, which may not necessarily be consistent with the prevailing stance of monetary policy. In the presence of fluctuating Government cash balances, the task of monetary management becomes complicated, often warranting offsetting measures, partly or wholly, so as to retain the intent of monetary policy[8].

6.83 The pro-active liquidity management by banks is another crucial factor in shaping the developments in the money market. The large and unexpected demand for cash which creates mismatches in the cash flow of banks often results in excessive volatility in the money market and banks tend to take recourse to LAF of the Reserve Bank. This increases the burden of maintaining liquidity in the market and also rendering stability in the money market on the Reserve Bank. Pro-

[8] Mohan, Rakesh (2007), 'Monetary Policy Transmission in India', Reserve Bank of India Bulletin, April.

active liquidity management by banks would, therefore, contribute to the Reserve Bank's endeavour to manage liquidity in the market and provide stability to the money market.

6.84 Active liquidity management by the Reserve Bank helped in stabilising the money market conditions in the recent past. Financial markets swung from conditions of easy liquidity during the most part of the first half of 2006-07 to a mix of spells of easy and tight liquidity in the second half. Notwithstanding such swings, the liquidity management operations by the Reserve Bank with the LAF and MSS operations and the issuance of MSS smoothening were successful in restricting the call money rates mostly within the repo-reverse repo corridor (Chart VI.3). The occasional breaches of the corridor during this period were due, *inter alia*, to variability of Government cash balances, advance tax outflows and currency demand on account of festive season.

6.85 As recommended by the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham; 1998), the process of transforming the call/notice money market into a pure inter-bank market was completed in August 2005. Scheduled commercial banks, co-operative banks and primary dealers (PDs) now participate in the uncollateralised call/notice money market in accordance with prudential limits placed on their borrowings and lendings. In the collateralised segment of the overnight market, eligible non-bank entities also participate. With the imposition of prudential limits on the borrowings and lending of banks and PDs in the uncollateralised segment, the risks in the money market have been mitigated to a large extent.

6.86 A noteworthy development in the money market since 2004-05 from the financial stability perspective has been the substantial migration of money market activity from the uncollateralised call money segment to the collateralised market repo and CBLO (Chart VI.4). This migration of activity has been largely the result of the policy of phasing out non-bank participants from the call money market. The increase in volumes in the collateralised segment is important from the point of view of financial stability as it reduces the risk exposure of market participants.

Foreign Exchange Market

6.87 The foreign exchange market in India prior to the 1990s was characterised by strict regulations, restrictions on external transactions, barriers to entry, low liquidity and high transaction costs. Foreign exchange transactions were strictly regulated and controlled under the Foreign Exchange Regulations Act (FERA), 1973. With the rupee becoming fully convertible on all current account transactions in August 1994, the risk-bearing capacity of banks increased and foreign exchange trading volumes started rising. This was supplemented by wide-ranging reforms

Chart VI.3: Call Rate, Repo Rate and Reverse Repo Rates

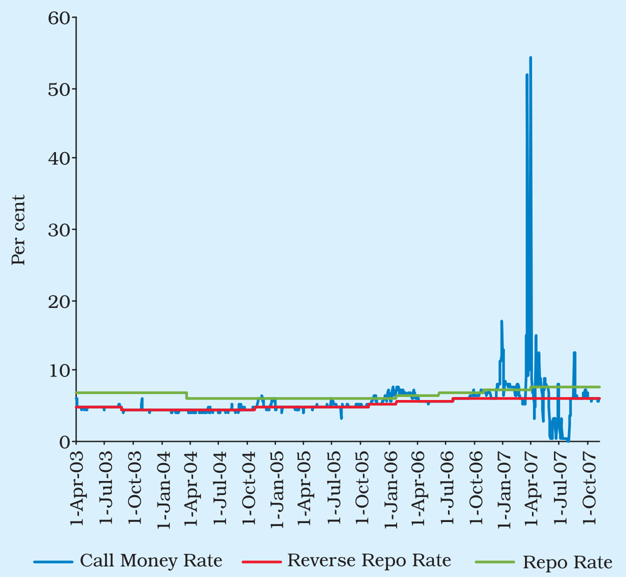
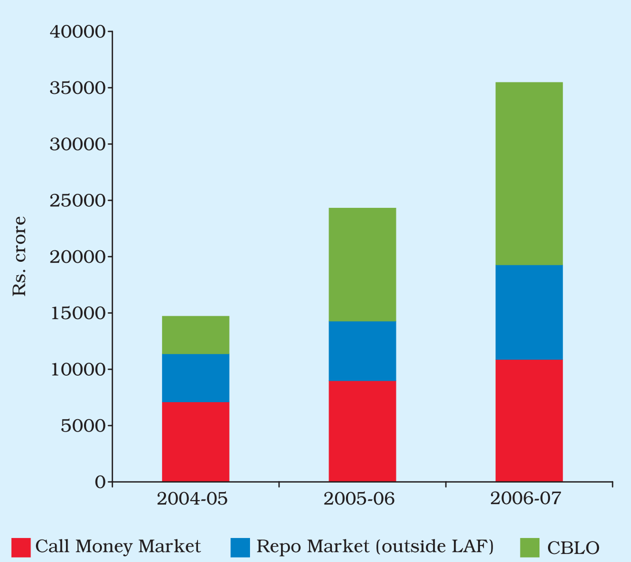


Chart VI.4: Activity in the Money Market
(Daily average volume)



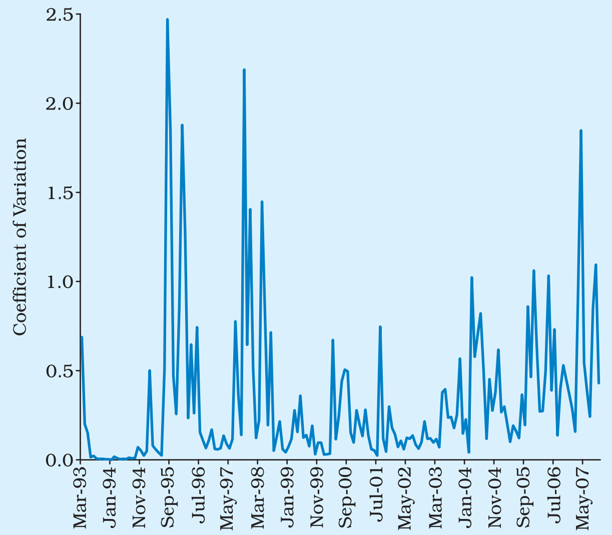
undertaken by the Reserve Bank in conjunction with the reforms by the Government to remove market distortions and deepen the foreign exchange market. The reform phase began with the Sodhani Committee (1994) which, in its report submitted in 1995, made several recommendations to relax the regulations with a view to vitalising the foreign exchange market. With the replacement of the Foreign Exchange Regulation Act (FERA) by the market friendly Foreign Exchange Management Act (FEMA), 1999, the Reserve Bank delegated powers to authorised dealers to release foreign exchange for a variety of purposes. Capital account transactions were also liberalised in a calibrated manner.

6.88 Several initiatives were undertaken during 2006-07 to simplify foreign exchange transactions and also to provide greater flexibility to individuals and corporates in undertaking foreign exchange transactions as detailed in Chapter 2 (Section 7). Over the years, capital flows have assumed increased importance in determining exchange rate dynamics. Capital flows have witnessed intermittent fluctuations over the period with periodic peaks and troughs. However, since 2004-05, net capital inflows have witnessed a substantial increase and have remained well above the current account deficit.

6.89 Given the adverse international experience with unfettered capital account liberalisation, Indian policy on liberalising the capital account has been one of gradual opening. The compositional shifts in the capital account have been consistent with the policy framework, imparting stability to the balance of payments. The sustainability of the current account is increasingly viewed as consistent with the volume of normal capital flows[9]. The large increase in foreign capital inflows, however, has complicated the task of monetary management in recent years requiring the Reserve Bank to undertake offsetting sterilisation transactions in defence of monetary stability.

6.90 The foreign exchange market remained fairly stable during the 1990s, especially late 1998 onwards. There were some episodes of volatility. Effective policy responses, however, were successful in quickly restoring orderly conditions in the market. The coefficient of variation of the Indian Rupee against the US dollar moved in a narrow range, except on a few occasions

Chart VI.5: Volatility in the Foreign Exchange Market - Exchange Rate of Rupee *vis-à-vis* US Dollar



(Chart VI.5). Reflecting the somewhat increased volatility, the standard deviation of rupee-dollar exchange rate increased marginally from 0.79 during 2005-06 to 0.89 during 2006-07.

6.91 The Indian rupee exhibited a two-way movement *vis-à-vis* the US dollar in a range of Rs.43.14 and Rs.46.97 per US dollar during 2006-07 (Chart VI.6). The rupee, depreciated in

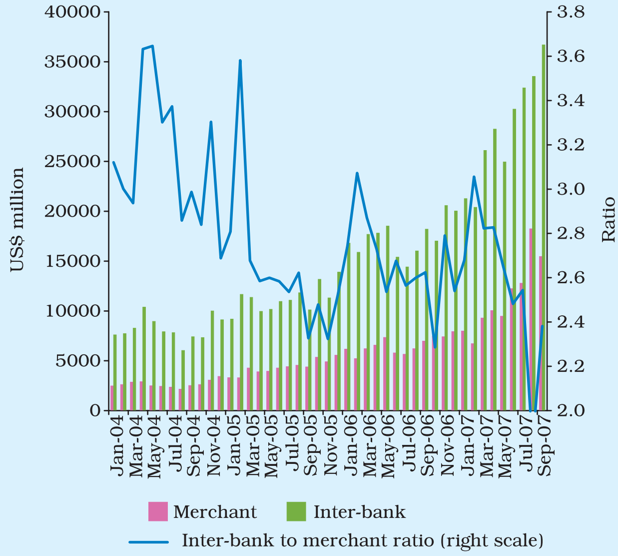
Chart VI.6: Exchange Rate-Rupee *vis-a-vis* US Dollar

[9] Mohan, Rakesh (2005), Indian Economy in the Global Setting; Reserve Bank of India Bulletin, October.

the first quarter of 2006-07 to reach Rs.46.97 on July 19, 2006, on account of higher crude oil prices, FII outflows following sharp correction in equities and geo-political risks in the Middle East region. The rupee strengthened thereafter gradually on the back of renewed FII inflows, easing of crude oil prices and weakness of US dollar in the international market and reached around Rs.46 per US dollar level in mid-September and around Rs.45 per US dollar level in the first week of November 2006. The up-gradation of India's sovereign rating to investment grade by international rating agency S&P on January 30, 2007 spurred fresh capital inflows and the exchange rate moved to around Rs.44 per US dollar by mid-March 2007 and closed at Rs.43.60 per US dollar on March 30, 2007. Burgeoning investment demands of an expanding economy and an increase in capital inflows by way of external commercial borrowings, FDI and portfolio investments resulted in sharp appreciation of the rupee. On an annual average basis, the rupee appreciated by 2.22 per cent against the US dollar. Reflecting cross-currency movements, the rupee depreciated by 9.1 per cent against the Pound Sterling and by 6.8 per cent against the Euro but appreciated by 2.7 per cent against the Japanese Yen between end-March 2006 and end-March 2007. During the current year, rupee appreciated till end-May 2007 but depreciated thereafter up to the last week of June 2007. It, however, appreciated again to reach Rs.39.31 per US dollar on November 1, 2007. The Reserve Bank's exchange rate policy continues to be guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene, if and when necessary to contain excessive volatility and speculation.

6.92 The spot turnover in the inter-bank as well as merchant segments of the foreign exchange market increased during 2006-07, reflecting strong growth in underlying transactions relating to current and capital account of balance of payments. While inter-bank turnover increased from daily average of US $ 17.7 billion during April 2006 to US $ 26 billion in March 2007, the daily average merchant turnover increased from US $ 6.5 billion to US $ 9.2 billion. The ratio of inter-bank to merchant turnover (daily average) ranged between 2.28 and 3.05 during 2006-07 (Chart VI.7).

Chart VI.7: Turnover in the Foreign Exchange Market
(daily average)



Government Securities Market

6.93 The government securities market constitutes a key segment of the financial market, offering virtually credit risk-free highly liquid financial instruments, which market participants are more willing to transact and take positions. By offering a risk free benchmark, the government securities market also facilitates the development of other financial markets and serves as a channel of integration of various segments of the financial market. The government securities market, which is often the predominant segment of the overall debt market in many economies, also plays a crucial role in the monetary policy transmission mechanism[10]. Thus, the government securities market facilitates efficiency in the price discovery mechanism across other segments of the financial market, which is an important condition for financial stability.

6.94 For the central bank, a developed government securities market allows greater application of indirect or market-based instruments of monetary policy such as open market (including repo) operations. A greater recourse to the market by the Government for

[10] The Reserve Bank of India (2007), 'Report on Currency and Finance', 2005-06; www.rbi.org.in.

meeting its funding requirements expands the eligible set of collaterals, thereby enabling the central bank to conduct monetary policy through indirect instruments. The expanding quantum of eligible collaterals has provided flexibility to central banks in many developing economies in their conduct of monetary policy, especially in sterilising capital flows.

6.95 Since the government securities market plays a crucial role in the conduct of monetary policy operations, central banks take a keen interest in developing a deep, liquid and vibrant Government securities market. In India, the Reserve Bank has taken several initiatives towards widening the investor base; enhancing transparency in primary issuances; expanding choice of instruments; benchmarking and consolidation of securities across key maturities; and putting in place appropriate safeguards and sound trading and settlement infrastructure.

6.96 The switchover to auction based system of issuance of government securities in the early 1990s was a major step towards the development of the Government securities market. The investor base has become more voluntary and diversified with the participation by non-banking entities such as insurance companies, mutual funds, co-operative banks and other non-banking financial companies. The development of primary dealer system is an important step in the evolution of the government securities market. Taking into account market preferences, new instruments with innovative features have been introduced, which include zero coupon bonds and floating rate bonds. Technological developments have enabled the introduction of screen-based anonymous trading and reporting platform – NDS-OM. Furthermore, the operationalisation of the CCIL has ensured guaranteed settlement of trades and has, therefore, imparted considerable stability to the government securities market. The strategy of consolidation of government securities mainly through re-issuances has resulted in critical mass in key maturities, facilitating the emergence of market benchmarks.

6.97 The Reserve Bank was prohibited from subscribing to primary issuances of Government securities from April 1, 2006. The major issue was, thus, to facilitate debt management in the post-FRBM environment. The Reserve Bank, therefore, initiated some specific measures to develop the Government securities market. The Reserve Bank introduced 'when issued' trading in August 2006 in order to facilitate efficient distribution of auctioned stock by stretching the distribution period for each issue and allowing the market more time to absorb large issues without disruption. The 'short selling' in Government securities was permitted among eligible participants in February 2006 which is expected to elicit symmetric response from participants over the interest rate cycle. Extension of 'short selling' to five working days, effective January 31, 2007, is expected to smoothen out the trading in Government securities. The Reserve Bank also suitably modified the PD system for smoothly conducting the market borrowing programme of the Government in the post–FRBM Act phase.

6.98 The trading platform NDS-OM, which initially accommodated trading only in Central and State Government dated securities, was upgraded in July 2006 to handle trading of Treasury Bills. Access to NDS-OM was extended on May 25, 2007 to qualified entities maintaining gilt accounts with NDS members such as deposit taking NBFCs, provident funds, pension funds, mutual funds, insurance companies, co-operative banks, RRBs and trusts. In the mid-term review of Annual Policy Statement, 2007, it was also proposed to extend the facility of access to NDS-OM to systemically important non-deposit taking NBFCs (NBFC-ND-SI). With a view to consolidating Central Government Securities, a scheme of active consolidation was finalised and approved by the Central Government. The actual exercise of the buying back of securities under the scheme is expected to be conducted during 2007-08.

6.99 During 2006-07, in view of sustained heavy capital inflows, liquidity management required recourse to large issuance of Government securities under the market stabilisation scheme (MSS) whereby balances under MSS increased to Rs.62,974 crore by end-March 2007 from Rs.24,276 at end-April 2006. The introduction of the MSS in 2004 has provided the Reserve Bank greater flexibility in its monetary and liquidity operations. While issuance of securities under the MSS has contributed to increase in the stock of Government securities and liquidity in Government securities market apart from facilitating liquidity management, it has increased the burden on the Government in terms of interest expenditure on MSS securities, but these are partly offset by earnings in foreign currency assets. This becomes more important in view of the targeted reduction in gross fiscal deficit and revenue deficit under the FRBM Act.

6.100 The turnover in the secondary market for government securities manifested asymmetric response to the interest rate cycle, *i.e.* the market turned liquid and active during downward movement in interest rates but turned lacklustre when interest rates rise. As a result, the turnover as percentage of GDP which had increased sharply between 2001-02 and 2004-05, when interest rates softened, declined sharply thereafter when interest rates hardened (Table VI.8).

6.101 The investor preference for short-term securities and prevailing macroeconomic conditions and consequent issuance of relatively short-term securities prevented the emergence of yield curve over a longer horizon during the 1990s. With the moderation in inflationary conditions, the Government increased the maturity pattern of primary issuances. As a result, the yield curve for government securities has emerged for a horizon of 30 years since 2002-03. The response of short-term rates to changes in the policy rates has been quicker and more pronounced than long-term rates, reflecting the ripple impact of policy changes (Chart VI.8).

Table VI.8 :Secondary Market Transactions in Central Government Securities

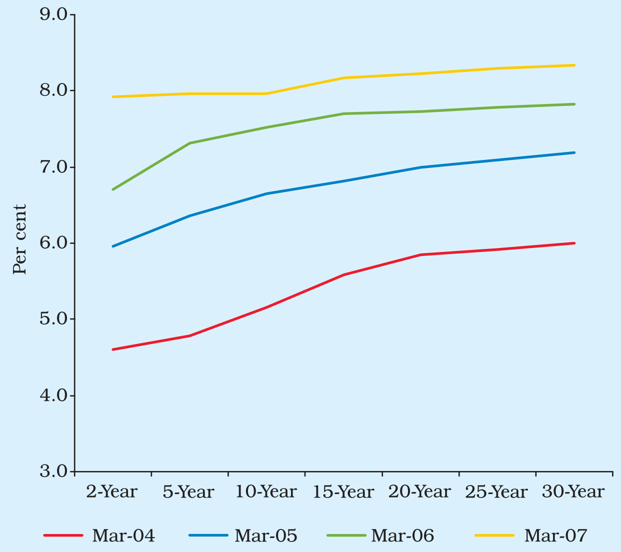
(Amount in Rs.crore)

Year	Outright	Repo	Total	Col. 4 as per cent of GDP	Yield * (in per cent)
1	2	3	4	5	6
1999-2000	4,56,493	82,739	5,39,232	27.6	11.70
2000-01	5,72,145	1,25,976	6,98,121	33.2	10.95
2001-02	12,11,941	3,61,932	15,73,873	69.0	9.44
2002-03	13,78,160	5,63,515	19,41,675	79.0	7.34
2003-04	16,83,711	9,55,533	26,39,244	95.4	5.71
2004-05	11,60,632	15,62,990	27,23,622	87.3	6.11
2005-06	8,81,632	16,98,770	25,80,401	72.3	7.34
2006-07	3,34,901	11,31,461	14,66,362	35.5	7.89
2007-08 (Apr-Oct)	7,23,717	19,38,492	26,62,209	57.5	8.19

* : Weighted average yield on central government primary securities.

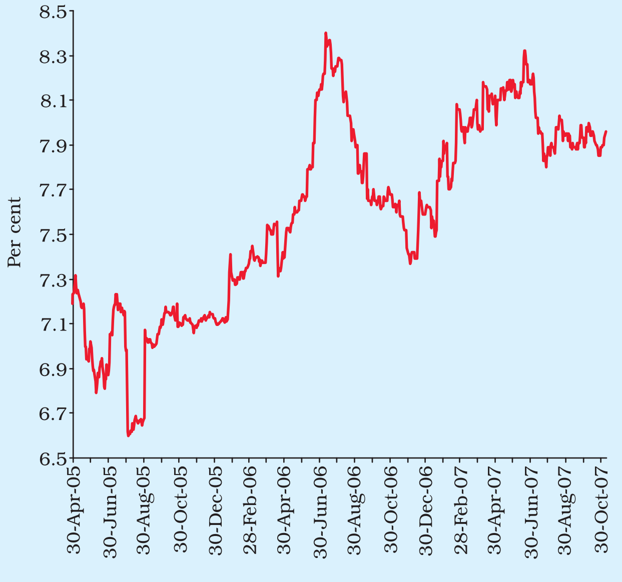
Note : The figures relate to Central Government securities, excluding T-Bills.

Chart VI.8: Yield Curves for Government Securities



6.102 Movements in yields in the government securities market during 2006-07 reflected domestic developments as well as global events. Yields in the secondary market edged up during 2006-07 on the back of sustained domestic credit demand and also inflationary pressure emanating from rising crude oil prices in the international market. Tightening of monetary policy globally also contributed to the rise in yields reflecting the integration of the Indian financial market with global markets. The hardening of yields on 10-year Government securities after December 2006 reflected tightness in domestic liquidity on account of advance tax payments, higher inflation and CRR hikes. The yields further hardened sharply by 17 basis points to 8.08 per cent on February 14, 2007 on account of CRR hikes, and peaked to 8.10 per cent on March 21, 2007. The 10-year yield was 7.97 per cent as on March 31, 2007, 45 basis points higher than the level as on March 31, 2006. During 2007-08, yields remained range-bound between 7.97 per cent and 8.19 per cent till end-May 2007 and peaked to 8.30 per cent in mid-June 2007 due to announcements of unscheduled auctions and hardening of interest rates globally. Yields softened thereafter and moved between 7.85 per cent and 8.01 per cent till the first week of November 2007, reflecting the continued prevalence of easy liquidity conditions. The 10-year yield closed at 7.96 per cent on November 8, 2007 which was 37 basis points higher than the level as on November 8, 2006 (Chart VI.9).

Chart VI.9: 10-year Government Security Yield



Capital Market

6.103 Capital markets play a vital role in providing liquidity and investment instruments. A liquid corporate bond market can play a critical role in supporting economic development as it supplements the banking system to meet the requirements of the corporate sector for long-term capital investment and asset creation.The domestic capital market can help financial stability by reducing currency mismatches and lengthening the duration of debt[11]. The private corporate debt market, which is an important segment of the capital market, plays a crucial role in promoting financial stability by providing an alternative means of long-term resources. Such markets also improve economic efficiency by generating market-determined interest rates that reflect the opportunity costs of funds at different maturities. In economies lacking well-developed capital debt markets, long-term interest rates may not be competitively determined and thus may not reflect the true cost of funds. This, in turn, will make it difficult for banks to price long-term lending, and borrowers will lack a market reference with which to judge borrowing costs. In cases where the market for long-term debt contracts in the local currency is not developed, borrowers are likely to take risky financing decisions that create balance sheet vulnerabilities, increasing the risk of default.

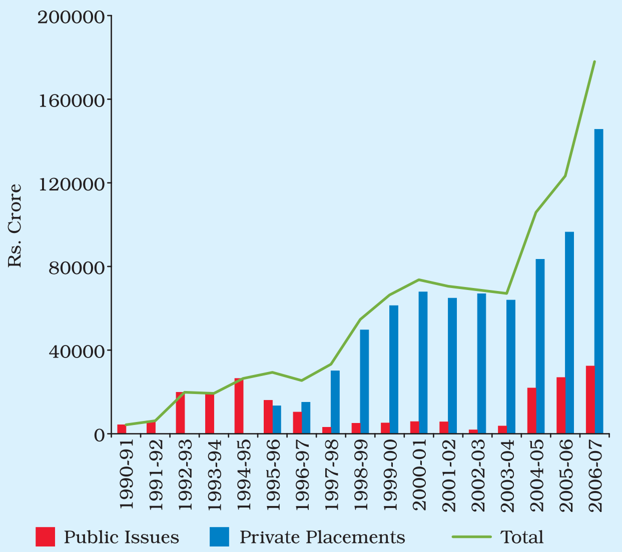
6.104 A private corporate bond market is important for nurturing a credit culture and market discipline. The existence of a well-functioning bond market can lead to the efficient pricing of credit risk as expectations of all bond market participants are incorporated into bond prices. The absence of a developed domestic capital market may necessitate issuance of foreign currency debt to fund investments that yield local currency earnings which result into currency mismatches. The balance sheet and the debt payments of the borrower become vulnerable to exchange rate changes.

6.105 Though the capital markets in India have evolved over a long period, they gathered considerable momentum only after various initiatives undertaken by the Government/SEBI beginning the early 1990s. The activity in the market, which remained subdued between 1997-98 and 2003-04, has picked up significantly reflecting effectiveness of the measures initiated to develop the market and restore investor confidence. The strong macroeconomic fundamentals and higher growth rate trajectory embarked upon by the Indian economy have also contributed to the strong upturn in resource mobilisation from the primary capital market (Chart VI.10).

6.106 Beginning the second half of the 1990s, the pattern of financing of investments by the Indian corporate sector has undergone a significant change. Corporates now rely heavily on internal source of funds, which constituted 60.7 per cent of total funds during 2000-01 to 2004-05 as against 29.9 per cent during 1990-91 to 1994-95. As a result, the debt-equity ratio declined sharply during the same period. Owing to increased investment activity and corporates reliance on external sources, both debt and equity, increased during 2005-06. As a result, the debt-equity ratio increased somewhat (Table VI.9). Despite this, however, the deleveraging of the balance sheets since the mid-1990s has enabled the corporate sector to significantly improve their profitability, which in turn, has improved their resilience.

[11] BIS (2007), 'Financial stability and local currency bond markets', Committee on the Global Financial System (CGFS); Papers No. 28; www.bis.org.

Chart VI.10: Resource Mobilisation from the Primary Capital Market



6.107 Mutual funds have played an important role in the development of the capital market. Growing investor interest in the equity market over the years could also be gauged from the resource mobilisation by mutual funds. Net funds mobilised by mutual funds (net of redemptions) increased sharply to Rs.93,985 crore during 2006-07 as compared with Rs.52,780 crore during 2005-06 mainly due to resources mobilised under debt oriented schemes which almost quadrupled during the year. Such schemes are preferred for parking surplus funds for short periods with minimum risks. The net mobilisation of resources by mutual funds under equity oriented schemes during 2006-07 declined, reflecting the risk aversion tendency among investors particularly in view of the stock market touching record peaks (Table VI.10).

6.108 The yield spread between the 5-year AAA-rated corporate paper and risk-free government paper remained broadly unchanged during 2006-07. The yield spread widened between end-March 2007 and end-June 2007, as the softening of the 5-year yield did not permeate to the corporate bonds. More or less similar trend was observed between the 10-year AAA-rated corporate bonds and government paper (Chart VI.11).

Table VI.9: Pattern of Sources of Funds for Indian Corporates

(Per cent to total)

Item	1985-86 to 1989-90	1990-91 to 1994-95	1995-96 to 1999-2000	2000-01 to 2004-05	2005-06
1	2	3	4	5	6
1. Internal Sources	31.9	29.9	37.1	60.7	43.6
2. External Sources	68.1	70.1	62.9	39.3	56.4
of which:					
a) Equity capital	7.2	18.8	13.0	9.9	17.0
b) Borrowings	37.9	32.7	35.9	11.5	24.4
of which:					
(i) Debentures	11.0	7.1	5.6	-1.3	-2.7
(ii) From Banks	13.6	8.2	12.3	18.4	23.8
(iii) From FIs	8.7	10.3	9.0	-1.8	-2.4
c) Trade dues & other current liabilities	22.8	18.4	13.7	17.3	14.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memoranda:					
(i) Share of Capital Market Related Instruments (Debentures and Equity Capital)	18.2	26.0	18.6	8.6	14.3
(ii) Share of Financial Intermediaries (Borrowings from Banks and FIs)	22.2	18.3	21.3	16.6	21.4
(iii) Debt-Equity Ratio	88.4	85.5	65.2	61.6	43.0

Note : Data pertain to a sample of non-government non-financial public limited companies.
Source: Article on “Finances of Public Limited Companies”, RBI Bulletin (various issues).

Table VI.10: Funds Mobilised by Mutual Funds- Type of Schemes

(Rs. crore)

Scheme	2005-06				2006-07			
	No. of Schemes	Gross Mobilisation	Net Mobilisation	Net Assets*	No. of Schemes	Gross Mobilisation	Net Mobilisation	Net Assets*
1	2	3	4	5	6	7	8	9
A. Income/Debt Oriented Schemes	**325**	**10,08,129**	**16,621**	**1,24,913**	**450**	**18,39,668**	**64,068**	**2,27,618**
(i) Liquid/ Money Market	45	8,36,859	4,205	61,500	55	16,26,790	4,985	1,00,911
(ii) Gilt	29	2,479	-1,560	3,135	28	1,853	-964	1,999
(iii) Debt (other than assured return)	251	1,68,791	13,977	60,278	367	2,11,026	60,046	1,24,708
B. Growth/Equity Oriented Schemes	**231**	**86,014**	**35,231**	**99,456**	**267**	**94,351**	**28,206**	**1,22,379**
(i) ELSS	37	3,935	3,592	6,589	40	4,669	4,453	9,600
(ii) Others	194	82,079	31,639	92,867	227	89,683	23,753	1,12,279
C. Balanced Schemes	**36**	**4,006**	**927**	**7,493**	**38**	**4,473**	**1,710**	**9,004**
D. Fund of Funds Scheme	**13**	**845**	**-241**	**1,012**	**33**	**2,854**	**1,164**	**2,253**
TOTAL	**592**	**10,98,149**	**52,780**	**2,31,862**	**755**	**19,38,493**	**93,985**	**3,26,292**

* : As at the end of March. ELSS: Equity Linked Savings Scheme.
Source : Securities Exchange Board of India.

6.109 The domestic secondary markets witnessed continued buoyancy during 2006-07 interspersed with corrections during the first and fourth quarters (Chart VI.12). The markets began the financial year 2006-07 on a bullish note, but could not sustain the momentum as the markets declined sharply during May 11-June 14, 2006 on global cues due to increased risk aversion over concerns regarding slowdown in global growth, increase in global inflation, higher international interest rates, rise in crude oil prices, meltdown in base metal prices and heavy sales by FIIs. On May 22, 2006, the domestic stock markets witnessed another historic drop when the circuit

Chart VI.11: Government Security and Corporate Bond Yields

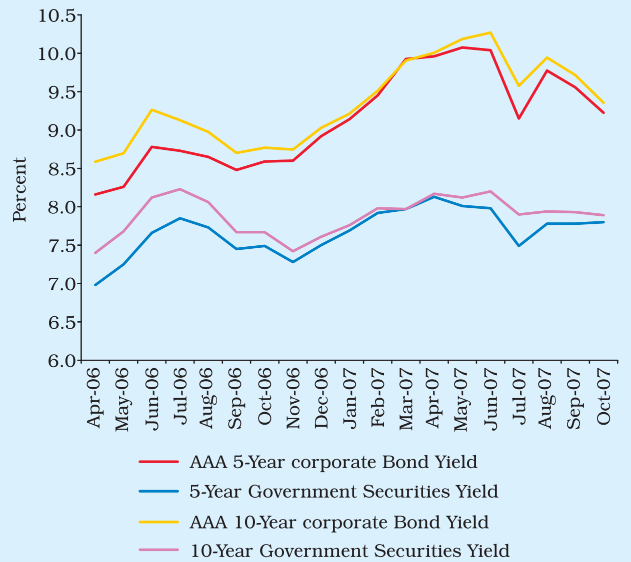
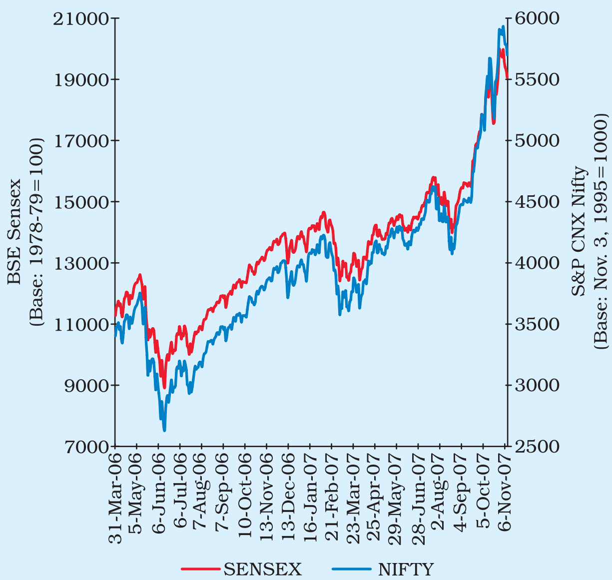


Chart VI.12: Movements in Stock Markets Indices



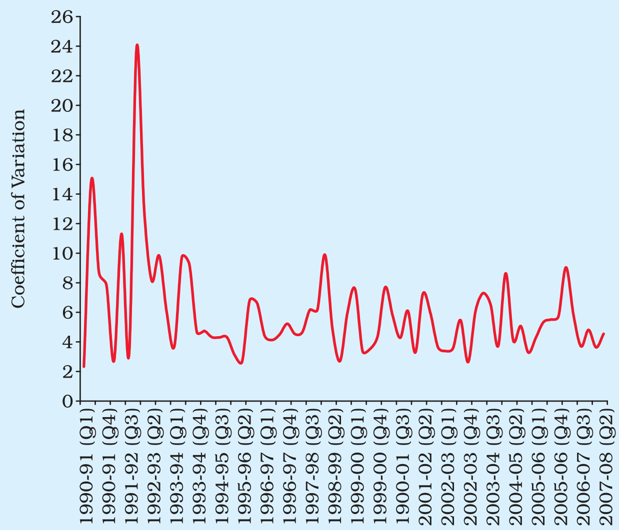
breakers were applied for the second time. The BSE Sensex fell to a low of 8,929 on June 14, 2006, registering a decline of 29.2 per cent over the then all-time high of 12,612 reached on May 10, 2006. However, the stock markets pared these losses in the following months, reflecting fresh buying by FIIs, recovery in base metal prices and easing of international crude oil prices amidst continuing robust macroeconomic fundamentals and corporate earnings. The BSE Sensex reached an all-time high of 14,652 on February 8, 2007. The markets, however, witnessed correction thereafter due to concerns over rising domestic inflation and nervousness across international equity markets following problems in the US sub-prime mortgage industry. As a consequence of these developments, the BSE Sensex closed at 13,072 at end-March 2007. However, it was still 15.9 per cent higher than its end-March 2006 level of 11,280.

6.110 Continuing the upward trend during 2007-08, the BSE Sensex closed at an all-time high level of 19976 on November 2, 2007, an increase of 52.82 per cent over end-March 2007. The S&P CNX Nifty also reached a record high of 5932 on November 2, 2007. Liquidity support from foreign institutional investors (FIIs), strong GDP growth, robust corporate profitability, decline in annual domestic inflation rate, upward trend in major international equity markets and rise in metal prices enthused the market sentiment. However, after November 2, 2007, the domestic stock markets witnessed some corrections mainly due to downward trend in major international equity markets on account of renewed concerns over sub-prime losses and credit crunch in the US and Europe and depreciation of US dollar against major currencies. Increase in global crude oil prices to record high levels, net sales by FIIs in the Indian equity market, appreciation of rupee against the US dollar, decline in global metal prices and other sector and stock specific news also dampened the market sentiment.

6.111 The volatility in the stock markets, remained at moderate level, barring some episodes of erratic movements (Chart VI.13).

6.112 The corporate debt market in India is still in the process of development. In order to develop the domestic corporate bond market, the Committee (Chairman: R.H Patil), which submitted its report in December 2005, made several recommendations. The Government, SEBI

Chart VI.13: Quarterly Co-efficient of Variation of BSE Sensex



and the Reserve Bank are working on the recommendations. As part of this, reporting platforms for corporate bonds have been set up by national level exchanges for improving transparency and information dissemination. For OTC trades, entities are required to report to the Fixed Income Money Markets Derivatives Association (FIMMDA). Subsequently the two national level exchanges (BSE and NSE) have set up electronic trading platforms for corporate bonds which will eventually be converted into order matching systems. The SEBI is also working on liberalising and smoothening primary issuance procedures for corporate bonds. SEBI has made it mandatory for market participants to report all corporate bond deals aggregating Rs.1 lakh or above to BSE/NSE within 30 minutes of closing the deal.

5. Payment and Settlement Systems

6.113 The smooth functioning of the payment and settlement systems is critical for the smooth functioning of the financial system in an economy. The high velocity in current payment systems, brought about by technological developments over the years, indicates that any risk associated with their functioning in any one country is capable of being transmitted to the rest of the world, given the interconnection of the systems.

6.114 The central banks the world over assume responsibility of putting in place sound and efficient payment and settlement systems. In India, the Reserve Bank has been taking several initiatives to ensure safety and soundness of the payment and settlement systems in the country. The Board for regulation and supervision of Payment and Settlement Systems (BPSS), constituted in March 2005, as a Committee of the Central Board of the Reserve Bank, is responsible for smooth functioning and development of the payment and settlement systems in the country. It gives directions, sets standards for operations of the payment systems and reviews the membership criteria for each of the systems.

6.115 The sound legal framework is the basis for the smooth functioning of the payment and settlement systems. At present, there is no explicit legal mandate empowering the Reserve Bank to oversee the payment and settlement systems in the country. Such power is derived from the existing statutes, *viz.*, the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949. On the enactment of the Payment and Settlement Systems Bill, 2006 as a law, the Reserve Bank would be empowered to regulate and supervise all the payment and settlement systems.

6.116 The Reserve Bank initiated several measures during 2006-07 for improving efficiency of the payment and settlement systems, both large value and retail payments. The expansion of NEFT and RTGS to cover more number of centres/ branches for retail and large value, respectively, has been a step in this direction. In the retail payment systems, the paper-based mode of payment is still the predominant mode of payment. In view of large volume of cheques, currently handled manually, the need was felt to computerise the settlement operations at the clearing houses where setting up of a Magnetic Ink Character Recognition Cheque Processing Centre (MICR CPC) would not be a viable option. A plan was drawn for computerisation of the clearing operations at centres where there are more than 30 banks (apart from the 59 centres where MICR CPCs have been set up) using Magnetic Media Based Clearing System (MMBCS) in the first phase. On achieving this, centres with more than 15 banks were identified for computerisation. The cheque truncation system (CTS) has also been taken up to improve efficiency of the payment system as detailed in Chapter 2 (Section 9).

6.117 As a result of continuous efforts towards electronification of the banking transactions, the share of electronic transactions in the total transactions increased sharply in recent years. The increase was more pronounced in terms of value than volume, reflecting mainly the impact of shifting of high value transactions on the electronic mode (Table VI.11).

6.118 A major step towards strengthening the financial stability conditions was the establishment of Clearing Corporation of India Limited (CCIL) in 2002 which also acts as a Central Counter Party (CCP) for Government securities and forex clearing. The settlement of all secondary market outright sales and repo transactions in Government securities are carried out through the CCIL. All OTC trades in this segment, which are reported on the Reserve Bank's negotiated dealing system (NDS) platform and trades which are contracted on the online anonymous, trading platform NDS-OM, are accepted by CCIL for settlement, after the necessary validations. These trades are settled on a delivery *versus* settlement (DvP) III basis, *i.e.*, the funds leg as well as the securities leg is

Table VI.11: Paper based *versus* Electronic Transactions

(Volume in thousand and Value in Rs. crores)

Year	Volume				Value			
	Paper-based	Electronic	Total	Share of Electronic (%)	Paper-based	Electronic	Total	Share of Electronic (%)
1	2	3	4	5	6	7	8	9
2003-04	10,22,800	1,67,554	11,90,354	14.1	1,15,95,960	49,67,811	1,65,63,771	30.0
2004-05	11,66,848	2,30,045	13,96,893	16.5	1,04,58,895	1,18,86,254	2,23,45,149	53.2
2005-06	12,86,758	2,87,489	15,74,247	18.3	1,13,29,134	2,24,39,287	3,37,68,420	66.5
2006-07	13,67,280	3,83,443	17,50,723	21.9	1,20,42,426	3,50,50,234	4,70,92,660	74.4

Table VI.12: Government Securities and Forex Clearing by CCIL

(No. of trades in 000's; value in Rs. crore)

Year	Government Securities Settlement				Forex Settlement	
	Outright		Repo			
	No. of Trades	Value	No. of Trades	Value	No. of Trades	Value
1	2	3	4	5	6	7
2004-05	161	11,34,222	24	15,57,907	466	40,42,435
2005-06	125	8,64,751	25	16,94,509	490	52,39,674
2006-07	137	10,21,536	30	25,56,502	606	80,23,078

settled on a net basis. The CCIL acts as the CCP for all the transactions and guarantees both the securities and the funds legs of the transaction. The volume and nature of transactions settled through CCIL has increased in recent years (Table VI.12).

6.119 Payment systems provide the first alerts of stress faced by the participants in the financial systems. Hence, it is necessary to ensure a consolidated flow of information from various payment systems to a centralised system. A mechanism has been put in place to receive the information on a monthly basis on the volume and value of cheques cleared, transactions put through ECS (credit and debit), EFT/NEFT, cards (credit and debit), RTGS, Government securities and forex. The information is regularly disseminated through the Monthly Bulletin of the Reserve Bank.

6. Risks to Financial Stability

6.120 The analysis of financial institutions, financial markets and financial infrastructure in the previous chapters/sections suggests that the financial institutions in India, especially commercial banks which are the most important from the systemic point of view, are on a strong footing. The depth and width of financial markets have also improved over the years, thereby imparting resilience to the financial system. Robust payment and settlement infrastructure that has been put in place in recent years has aided in the smooth functioning of the financial system.

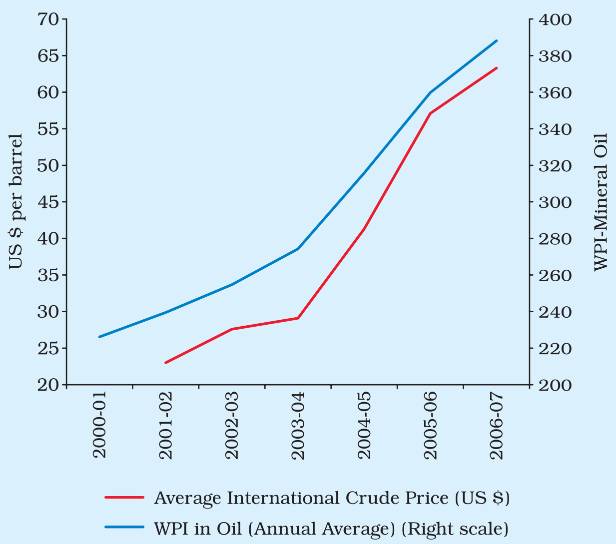
6.121 Strong domestic macroeconomic fundamentals in recent years have provided a favourable environment for financial stability. The real GDP growth in the past four years averaged 8.6 per cent and the current trends indicate that the momentum in economic activity would be sustained. Inflation rate has also moderated after witnessing some spikes during the last quarter of 2006-07. The continued process of fiscal consolidation under a ruled-based framework in recent years has enabled the resources to be utilised in productive sectors. The external sector has been characterised by a number of positive features, including robust growth in merchandise trade, buoyant growth in invisible receipts and strong capital inflows.

6.122 Although the financial system is on a sound footing, there are some risks to financial stability. At the present juncture, risks to financial stability in India emanate mainly from the external sources. The risks outlined in this section are potential threats to financial stability, although the chances of their materialising may be remote.

High and Volatile Oil Prices

6.123 Monetary instability by distorting allocative efficiency of resources can be a major threat to financial stability. High and volatile crude oil prices in the international markets pose a major risk to domestic price stability. As India is a major oil-importing country (imports being about 70 per cent of its crude oil requirements), oil prices are a critical element in the sustainability of the growth process and maintenance of price and financial stability. Spot crude oil prices softened from the July 2006 peak of US $ 78 per barrel to around US $ 53 per barrel in January 2007. However, they have rebounded since then on expectations of strong demand, low US crude stocks, tight supply-demand balance and a potentially harsh hurricane season. In the first week of November 2007, international crude oil prices (WTI) prices crossed a historical level of US $ 95 a barrel (Chart VI.14).

Chart VI.14: International Oil Price and Movement in Domestic Oil Price (WPI-Mineral Oil)



6.124 Since India imports most of its crude oil requirements, a rise in prices of oil in the international market has significant implication for output and inflation conditions in the country (Box VI.7). Price of crude oil (average) in the international market has gone up by about 53 per cent (up to November 2007) from February 2007 when administered prices of domestic petroleum products were reduced. Given that pass-through from international oil prices to domestic petroleum products remains incomplete, it is a source of upside risk to inflation. However, if domestic prices are not raised, the rise in international crude prices would adversely affect the financial performance of domestic oil companies. This also leads to increase in fiscal costs, which assumes significance in view of the rule-based fiscal consolidation process. Rise in oil prices in international market has also implications for the current account deficit and exchange rate. During 2006-07, volume of oil imports increased by 19.3 per cent, whereas, in value terms, the growth rate was 29.8 per cent, widening the merchandise trade account deficit, which was moderated to a large extent by a sharp growth of invisible receipts. Thus, any further increase in oil prices in the international market would have implications for domestic inflation, especially because the pass-through has remained incomplete. However, the present low level of inflation is a comforting factor.

Recent Developments in the Global Financial Markets

6.125 The increased degree of financial market integration across various segments of the market as well as countries has made it is easier for contagion of crisis to travel from one part of the world to the other in a quick manner. This has enhanced the vulnerability of financial systems globally and calls for additional vigilance by financial sector regulators and supervisors in the movement of international finance. A major development engaging attention all over the globe in the recent period has been the turmoil in financial markets in the United States and Europe and the sudden plunge in credit market confidence triggered by the US sub-prime mortgage crisis.

6.126 Global financial markets beginning mid-July 2007 became highly volatile and increasingly risk averse which was reflected in the widening of spreads and option based implied volatilities on a range of assets. The genesis of the crisis was the U.S. sub-prime mortgage market which has experienced significant stress on account of rising delinquencies on principal and interest payments. By mid-2007, the ratings agencies triggered a wave of downgrades in asset-backed securities (ABS) collateralised by sub-prime mortgages, resulting in subsequent downgrades in collateralised debt obligations (CDOs) that use lower-rated ABS tranches as collateral. Increase in credit risk in U.S. mortgage-related instruments resulted from a loosening of credit standards across a range of markets and risks of spillovers to other credit markets. Uncertainty regarding overall losses and exposure has raised market and liquidity risks, with potentially broader implications for financial institutions. Mark-to-market losses and uncertainty about future cash flow losses have started to impact various segments of the mortgage supply chain. Losses extend beyond US borders to European and Asian markets. The Japanese equity market was worst affected as the Japanese currency went through sharp appreciation. The “flight to safety” led to a sharp fall in developed bond market yields. The two-year US Treasury yield dropped almost 30 basis points between end-July and mid-August 2007. Currency markets also experienced increased volatility.

6.127 The key elements of the current crisis have been the complex nature of the derivatives used;

Box VI.7: International Oil Prices – Impact

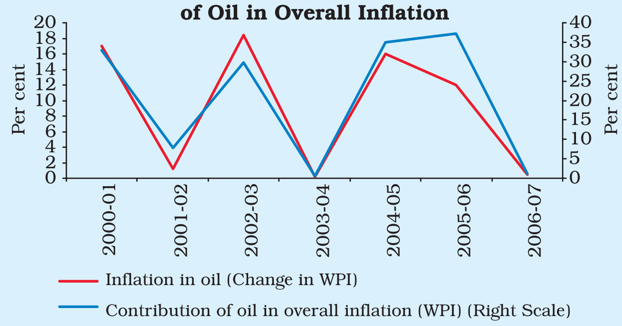
The impact of oil prices can be assessed both in the short and the long run. In the short run, internationally, the literature mentions three sources of oil price inflation. These are (i) gap in supply and demand of oil and speculation induced disturbances as evidenced from strong reaction to news; (ii) large positions by traders and significant increase in inventories. In contrast, the long term factors include (i) increasing demand from rapidly growing economies like India and China; (ii) improvements in energy efficiency; (iii) uncertainty associated with exploration and production of oil; and (iv) geopolitical factors.

The consequences of oil price inflation have largely been adverse particularly to the oil importing countries. In general, output loss, inflationary spirals and adverse balance of payments outcomes have been much more severe on low-income oil importing countries than the oil importing industrial countries. Moreover, the expansionary effect of oil price shocks in oil exporting countries has generally been much less than the contractionary impact in oil importing countries, resulting in a slowdown in global growth. The increasing cost of production resulting in adverse terms of trade consequent to the oil shock in the oil importing countries also erodes international competitiveness of countries with significant degree of openness and dependence on imported oil as a critical input. Oil price shock also tends to deteriorate the fiscal balance if the Government absorbs the rise in international oil prices and pass-through to domestic consumers is staggered and incomplete. The end result in most of the episodes of oil shock has been significant loss of output in the short run and general level of welfare in the long run. A recent analysis estimates that a supply-induced doubling of prices would raise inflation rate in emerging Asia by as much as 1.4 percentage points above the baseline (BIS, 2007). The inflation effect would be larger if oil importers had difficulty in financing the resulting current account deficit, and also if subsidies that had hitherto limited energy price increases were assumed to be further reduced or eliminated.

Central banks face the dilemma of growth-inflation trade-off more acutely during episodes of oil price increase. It is important to properly assess the sources of inflation and state of inflation expectations in order to find the appropriate policy response (Bernanke, 2004). However, recent economic history suggests greater success for central banks in stemming inflationary pressures arising out of oil shocks. This is in contrast to the 1970s and the early 1980s which witnessed wage-price spiral and consequent detrimental impact on growth on account of monetary tightening due to oil prices.

In the Indian context, the oil import bill as a percentage of GDP increased from 3.4 per cent in 2003-04 to 6.3 per cent in 2006-07. A strong correlation seems to exist between international oil price and domestic oil price. Spikes in oil prices accounted for a major source of overall inflation in 2004-05 and 2005-06 (Chart A).

Chart A : Inflation in Oil and Contribution of Oil in Overall Inflation



Several studies have attempted to empirically measure the impact of rise in crude oil prices in the international markets on domestic inflation and output. In the international perspective, a study by the IMF (2000) found that a sustained US $5 per barrel increase in the price of oil leads to 1.3 percentage points increase in inflation after a year and reduces annual GDP growth by 0.1 percentage points. In the Indian context, Bhattacharya and Bhattacharyya (2001) concluded that a 20 percentage points shock in oil price leads to a 1.3 percentage points increase in inflation in other commodities at its peak while growth in output decelerates by about 2.1 percentage points and recovery starts to take place approximately after a year. The Mid-term Review of Annual Policy Statement for the year 2004-05 of the Reserve Bank, released in October 2004, indicated that in the absence of policy intervention, every US dollar increase in crude oil prices could potentially add 15 basis points to WPI inflation as a direct effect and another 15 basis points as indirect effect.

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the high degree of leveraging; the underestimation of risk pervading financial markets; the surprisingly sizeable exposures of large financial institutions to some of the debt instruments and derivatives in question; and the speed of contagion (Box VI.8).

Box VI.8: Sub-prime Mortgage Market in the US: Recent Developments

Sub-prime mortgages are residential loans that do not conform to the criteria for 'prime' mortgages, and so have a lower expected probability of full repayment. Apart from the borrower's credit record, the assessment regarding sub-prime lending also takes into account debt service-to-income (DTI) ratio (more than 55 per cent) of the borrower and the mortgage loan-to-value (LTV) ratio (more than 85 per cent). The recent problem of sub-prime lending in the US is mainly associated with housing market. The first sign of trouble was the high volume of 'early payment defaults' (EPDs) in which the borrower misses one or two of the first three monthly payments, which has been followed by rising delinquency rates. Apart from the slowdown in the residential property, the adjustable rates loans offered by the lenders was also the factor responsible for defaults and delinquencies. As interest rates increased and house prices flattened and then turned negative in a number of regions, many borrowers were left with no option but to default as prepayment and refinancing options were not feasible with little or no housing equity. Under the adjustable interest rates, lenders offer a repayment schedule involving lower amounts in the beginning and higher amounts afterwards. The decline in housing prices made it less profitable for the house owners to repay the entire loan, thereby inducing delinquency and default.

Because of their higher risk of default, sub-prime borrowers are charged higher interest rates than prime borrowers. The sub-prime loans are securitised. They have formed the basis for asset backed securities such as collateralised debt obligations (CDOs). Institutional investors such as hedge funds, pension funds and banks have been investing in such securities. The exact quantum of sub-prime mortgages and the amount of delinquencies in not known. However, according to the Mortgage Bankers' Association, the total size of the mortgage market is estimated to be about US$ 10 trillion, of which prime mortgages make up about 80 per cent of the US mortgage market, while sub-prime mortgages account for about 15 per cent, *i.e.,* US$ 1.5 trillion. The sub-prime market constitutes from 10 to 15 per cent, depending on the exact definition of the mortgage market in the US. The Mortgage Bankers' Association reported recently that the percentage of sub-prime loans that were 30 or more days past due climbed to 15.8 per cent in the first three months of 2007, a record high and up from 14.4 per cent in the final three months of the last year.

The crisis in sub-prime lending sent shock waves through other parts of the financial system. The meltdown of sub-prime borrowings has led to risk aversion and increased volatility in financial markets. Following the steep rise in the rate of sub-prime mortgage foreclosures, more than two dozen prime mortgage lending firms have reported to have failed or filed bankruptcy suits. The failure of these companies resulted in a collapse of the prices in the US$ 6.5 trillion mortgage bundled securities market.

Immediately after the problem in the sub-prime market surfaced, many of the structured credit and mortgage market products could not trade at all. So, investors struggled to price their positions accurately. As a result, many investors facing margin calls from worried counterparties were unable to sell holdings to raise cash because there were no buyers. That forced them to seek cash *via* the money market instead. Hedge funds, who are investors in structured products also reportedly faced withdrawals and margin calls. Several banks were also reported to have been hit by losses from risky property loans. The cost of buying protection against default for risky bonds also increased. It was also reported that some fund managers have cut exposure to carry trade. Structured Investment Vehicles (SIV), which borrow short-term money mostly by way of commercial paper and invest in credit with longer maturities appeared to have played a key role in the liquidity crunch.

The ensuing risk aversion triggered a sell-off in the equity market in the US. To counter the losses, institutional investors should pulled out from the equity markets in EMEs. As a result, the equity markets in major advanced and emerging market economies declined sharply in mid-August 2007.

It was reported that several banks in the US and the Euro area preferred to hold cash rather than lend. This led to the tightening of credit conditions and led to scrambling for cash. As a result, the US and the ECB had to intervene in the market. On August 9, 2007, the ECB injected liquidity of Euro 94.8 billion (US $ 129.8 billion) and Federal Reserve of US $ 24 billion. The ECB described its operations as 'fine-tuning'.

The recent crisis in financial markets reflects the secular lowering of nominal and real interest rates across the world which has enhanced the appetite for risk even as pricing of risk has become increasingly difficult. The accommodative monetary policy followed by the major economies – the US, Euro area and Japan – has resulted in higher growth in monetary aggregates than the rates of growth that would have been expected hitherto in relation to real economic growth. Yet inflation has been contained at low levels. This also resulted in abundant excess liquidity in financial markets, which is also reflected in the macro imbalances between the US and Asia. The combination of sustained low inflation accompanied by accommodative monetary policy worldwide could have generated excessive confidence in the ability of central banks and monetary policy to keep inflation rates and interest rates low indefinitely, leading to under pricing of risk and hence excessive risk taking. Thus, it can be argued that it is the combination of low real and nominal interest rates brought about by the lowering of inflation, accompanied by the abundance of liquidity induced by accommodative monetary policy which lies at the roots of the current crisis. In this sense, the sub-prime is a symptom rather than a cause. Another important factor is supervision of financial system whereby the links between banks and non bank financial intermediaries, and other off-balance sheet exposures were not adequately recognised or recorded by banking supervisors (Mohan, 2007).

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Kiff, J and Mills, P.(2007), Money for Nothing and Checks for Free: Recent Developments in U.S. Subprime Mortgage Markets; *IMF Working Paper*, WP/07/188.

Mohan, Rakesh (2007), Valedictory Address at IIF's inaugural Asia Regional Economic Forum; www.rbi.org.in

6.128 The recent turbulence in the international financial markets was accentuated by the leverage enjoyed by banks and some other investment vehicles, especially hedge funds (Box VI.9).

Box VI.9: Hedge Funds

Hedge funds are assorted investment pools which use an array of hedging techniques to reduce portfolio volatility. Stulz (2007) defines hedge funds as 'unregulated pools of money managed by an investment advisor, the hedge fund manager, who has a great deal of flexibility'. Managers of hedge funds follow complex investment strategies to leverage portfolio size through sophisticated derivative contracts. The economic function of a hedge fund is the same as the function of a mutual fund. In both the cases, fund managers are entrusted with money from investors with a hope of receiving back initial investment and a healthy return. The hedge funds, however, often make use of complex investment strategy involving 'long' and 'short' positions for hedging their investment against adverse market movements. These funds are typically organised as private partnerships and often located offshore for tax and regulatory reasons. Hedge funds are largely restricted to large-scale investors. Such a restricted access facilitates these funds to bypass the registration and other regulations. Historically, they have attracted high net worth individuals and institutional investors. An array of institutional investors investing in hedge funds has widened significantly in recent years to include pension funds, charities, universities, endowments, and foundations (Ubide, A., 2006).

The general *modus operandi* of hedge funds is to identify an asset that is mispriced and devise hedges for their position so that they benefit from the correction of the mispricing but are unaffected by anything else. There is, however, a possibility that not all the positions taken by hedge funds are hedged because of high costs or intrinsic difficulties in hedging against some risks. As the hedge funds basically seek inefficiencies in the market and try to correct them, they can play an important role in financial markets in terms of bringing security prices closer to fundamental values. The efficiency of hedge funds is ensured through payment to fund managers, which is often linked to increase in investors' wealth. In addition, managers typically invest significant amounts of their own capital in the fund, which aligns their interests with that of the investors and discourages reckless risk taking.

In 1949, the first hedge fund is considered to have been established by A.W. Jones in the United States by combining two investment tools, *viz*., short-selling and leveraging. Though the hedge fund industry is smaller compared with mutual funds, it has increased in a significant manner. The assets managed by hedge funds which were less than 4 per cent of the assets managed by mutual funds at the end of 1993, increased to 10 per cent by 2005. It is estimated that in 2006 more than US $ 1 trillion was invested in hedge funds (Stulz, 2007).

Though hedge funds, on an average, have low return volatility as compared to an investment in stock market, they can loose their money/capital very rapidly. Around 10 per cent of hedge funds die every year (Stulz, 2007). Thus, the hedge funds are a source of concerns for regulators in terms of investor protection, risks to financial institutions, liquidity risks, and excess volatility risks. A hedge find may die because of withdrawal of funds by investor due to significant losses or it may disappear where fraud or misreporting becomes apparent. Hedge funds pose a risk to financial institutions through their credit exposures in the form of borrowings, security transactions and counterparty in derivative trades. Because of leverage, a hedge fund might get in trouble if its assets experience a sharp drop and the market for these assets lacks liquidity so that fund cannot exit its positions. The collapse of large hedge funds, in particular, may have serious implications for financial institutions having exposure to these funds. The liquidity risk arises from the ability of hedge funds to move out of trades quickly when prices turn against them. The problem could be serious if too many funds have set up the same trade. Hedge funds may also create excess volatility risks by making trades leading to overreaction of prices to diverge from fundamental values.

The risks discussed above are crucial from the financial stability point of view. According to Eichengreen and Mathieson (1999), from the perspective of international markets, a vital question about hedge funds is whether they destabilise foreign exchange markets through steering herd behaviour and by joining a generalised move against a weakening currency. Empirical evidence is inconclusive regarding the role of hedge funds in creating destabilising conditions. Hedge funds have been charged to have played a pivotal role in the 1997-98 crisis in emerging markets. Eichengreen and Mathieson (1999), however, conclude that the positions taken by hedge funds were too small to create turmoil in the region. Moreover, the *baht* was the only Asian currency for which the hedge funds collectively took significant short positions. The spread of currency instability to other Asian countries appears to have caught the hedge funds off guard. According to market participants, the main short sellers in Indonesia, Malaysia, and the Philippines were money centre, commercial and investment banks and domestic investors, who were better able to short due to their superior access to inter-broker markets and domestic credit. The huge losses of Long Term Capital Management (LTCM), a large hedge fund in the US, were, however, recognised by a consortium of banks as a potential disruption to financial markets which raises legitimate concerns about the activities of hedge funds in general, as well as the proper role that regulators should play with respect to those activities (SEBI, 2004).

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Government of India (2005), Report of the Expert Group on Encouraging FII Flows and Checking the Vulnerability of Capital Markets to Speculative Flows; www.finmin.nic.in

6.129 The large scale withdrawal by the so-called 'carry trade' in which investors borrowed at low rates in Japan and lent at higher rates in the US and some other countries also resulted in sharp increase in volatility in foreign exchange markets (Box VI.10).

6.130 The recent financial developments could have an adverse impact on the outlook of the US economy. The housing demand could slow down due to decline in house prices, availability of credit and tightening of lending standards. Therefore, slowdown in the housing sector could have direct impact on consumption expenditure and the GDP growth. If the decline in housing prices occurs in the background of rising unemployment, the risk could be significant. Since the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally, the FOMC cut its target for the federal funds rate by 50 basis points to 4.75 per cent on September 18, 2007 and further by 25 basis points on October 31, 2007. The discount rate was also cut by 50 basis points each on August 17, 2007 and September 18, 2007 to 5.25 per cent to improve market liquidity. The recent cut in fed fund rate has given a significant impetus to financial markets the world over.

6.131 Insofar as India is concerned, the recent developments in the international financial market have not had any significant impact on the Indian financial markets. Conditions in the money and the Government securities markets in India remained orderly. The credit market also continued to function normally. Although pressure on the rupee in the foreign exchange market was felt in the mid-August 2007, the bid-ask spreads remained narrow suggesting that there was no uncertainty or panic. Some, impact, however, was felt on the equity market. FIIs, which were investing heavily before the onset of crisis in the US sub-prime mortgage market in July 2007, turned net sellers thereafter. Between July 27, 2007 and August 14, 2007, FIIs pulled out US $ 966.8 million (Rs.3920.9 crore). This led to some decline in the equity markets in India. The decline in the equity market in India, however, was lower than several advanced and other emerging market economies. The equity markets in India, however, have since recovered to reach new highs on the back of support by FIIs, which made large investments after mid-August 2007. The rupee has also appreciated to some extent due to large capital inflows.

6.132 Insofar as banks are concerned, a distinction needs to be made between banks having only domestic operations and banks with overseas operations. Banks with domestic operations do not have much foreign exchange exposure as there are prudential limits for banks for investing overseas. Banks are allowed to lend only for overseas joint ventures. However, insofar as the banks with overseas operations are concerned, some Indian banks do have exposure to credit derivatives and there could be losses due to mark to market impact. However, such exposure is very limited and no Indian bank has direct exposure to the US sub-prime market. The Reserve Bank has been sensitising banks and other market participants about uncertainty in the financial markets.

6.133 At this stage, it is difficult to make any definite observation as to how the present problem would evolve in future. However, should the current sub-prime mortgage crisis in the US aggravate, its impact on the Indian markets may not be significant. In particular, FIIs manifest a

Box VI.10: Carry Trade

A currency carry trade is leveraged cross-currency position designed to take advantage of interest rate differential and low volatility of exchange rates. The trade involves borrowing funds at a low interest rate in one currency and buying a higher-yielding asset in another currency. The use of leverage makes these positions particularly sensitive to changes in exchange rates or interest differential. In recent years, the interest rate differential in Japan and New Zealand has been noticeable providing an opportunity of earning profits by borrowing in yen (low interest rate currency) and buy assets denominated higher interest rates currency (particularly Australia and New Zealand). There are, however, worries that a sharp reversal of carry trades could precipitate liquidity stress and affect near-term prospects of emerging market economies, should there occur a generalised search for safe haven. Some initial signs of discomfort in financial markets in February 2006 were attributed to the unwinding of carry trades. In the February 2007, downturn in markets starting from China was exacerbated by the strengthening of the yen, following the Japanese policy rate increase on February 21, 2007 which led to some unwinding of carry trade on anticipation of decline in profitability. The risks to financial stability from these developments related abrupt unwinding of carry trades which may trigger sharp assets prices and exchange rate movements.

tendency to slow down and withdraw investments creating a situation of systemic sudden stop. In the event of FIIs pulling out money to cover the losses elsewhere, this could put pressure on the equity market in the country and the exchange rate. Besides, the tightening of liquidity conditions in the international capital market may also have implications. It may not have any direct impact on the Government and the households as they do not borrow from the international capital market. It, however, may have some impact on the corporates as some of them raise resources from the international capital market. The tightening of credit conditions, therefore, could raise the cost of such borrowings in the international capital market. In the recent past, Indian corporates have also made large acquisitions overseas through leveraged buyouts. In the short run, it may not have significant impact as such acquisitions have already been tied up. However, the growing risk aversion and the tightening of liquidity condition may have some impact on future acquisitions by Indian corporates. Thus, there will be some impact. However, it may not be significant.

6.134 Withdrawal by FIIs on a large scale may also have implications for the domestic liquidity conditions and interest rates with attendant implications for the cost of borrowing by all the market participants, including Government. However, it would be the endeavour of the Reserve Bank to use all instruments available at its command flexibly to maintain orderly conditions in the financial markets. The Reserve Bank has put in place a mechanism to closely monitor the current volatility in the global financial markets and its impact on the Indian financial markets. The monitoring is being carried out real time of the various segments of the financial market. Its current focus is on appropriate response, if and when necessary, to evolving developments in the various segments of the financial market. It has processes and tools in place to deal with developments and to address any systemic concerns, including payment and settlement issues. Its Financial Markets Committee (FMC) headed by Deputy Governor meets at least once daily (usually in morning) to review the market developments soon after the financial markets open. In the case of large market volatility, special FMC meetings are convened where the FMC in its expanded form acts as a Crisis Management Group (CMG) and maintains contacts with other regulators and exchanges.

Global Financial Imbalances

6.135 Global imbalances also pose risks to financial stability in view of concerns over sustaining the financing flows needed to support such imbalances. The current account deficit of the US widened further between 2004 and 2006 from US $ 640 billion (5.5 per cent of GDP) to US $ 812 billion in 2006 (6.2 per cent of GDP). Although the US current account deficit moderated somewhat in the first quarter of 2007 at US $ 770 billion (at an annual rate), it continues to be a cause of concern.

6.136 The current account deficit of the US, which is more than 6.0 per cent of GDP, is currently financed by fixed-income inflows including US Treasury bonds, agency bonds, and corporate bonds. One of the major factors supporting the financing pattern of US current deficit is the accumulations of official exchange reserves by several countries. The estimates by the IMF indicate that narrowing the ratio of current account deficit to GDP of the US by one per cent would require a real depreciation of US dollar in the range of 10 to 20 per cent[12]. For the sustainability of the growth process in the surplus countries would require rebalancing of aggregate demand with pick up in domestic demand. The large US current account deficit cannot persist indefinitely because its ability to make debt service payments and the willingness of foreigners to hold US assets in their portfolios are both limited[13].

6.137 Should there be disorderly adjustments of global financial imbalances, it would have serious implications for the global economy and financial markets. Such an event could be caused by large portfolio adjustments resulting in sharp adjustment in exchange rates, liquidity shifts, interest rates and adjustment in assets prices. The changes in asset prices will influence capital flows which, in turn, would have impact on liquidity conditions and financial stability.

[12] IMF (2007), 'World Economic Outlook Update', July; www.imf.org.

[13] Bernanke, B.S. (2007), 'Global Imbalances; Recent Developments and Prospects', September, www.federalreserve.gov.

6.138 India, like many other emerging market economies, could be adversely affected by the sudden unwinding of global financial imbalances. However, the impact could be different on different sectors such as the Government, the corporate sector and the banking system.

6.139 First, the Government of India does not raise resources from the international capital market to finance its fiscal deficit. There could, however, be the spill-over impact of external developments on domestic interest rates. To the extent there is a rise in domestic interest rates, there could be an increase in the cost of borrowings raised by the Government. However, most of the outstanding debt is at fixed rates and not on floating rates. Therefore, the rise in the borrowing cost of the Government will be incremental.

6.140 Second, spreads on corporate debt might widen suddenly due to a shift in investor confidence in the global financial markets. Indian corporates raise resources from the international capital market, as alluded to earlier. The cost of borrowings for corporate may also go up due to hardening of interest rates in the domestic market. Thus, corporates may be affected to the extent interest rates firm up in the domestic market, depending on their exposure to debt relative to other liabilities.

6.141 Third, banks in India hold substantial investments in Government and other fixed income securities. However, most of such investments are in 'held to maturity' category. Thus, increase in domestic interest rates, would entail marked-to-market losses only on the small part of investments. Also, the banking sector, on the whole, is comfortably placed with CRAR of around 12 per cent. At individual banks level, 79 out of 82 banks have CRAR above 10 per cent. Thus, banks in India, in general, have the resilience to withstand some rise in interest rates.

6.142 Fourth, banks in India have also been extending credit for investment in the asset market. Like many other economies, asset prices in India have also risen sharply in recent years. Should there be a sharp decline in asset prices, banks' balance sheets would be exposed to credit risk. Increase in interest rates in general could impact housing prices and expose the balance sheet of the households to interest rate risk, leading to some loan losses for banks. Having said that, the banking sector's exposure to housing loans, at present, is not very large in relation to their overall portfolio and banks, in general, have maintained healthy margins while lending to the housing sector. Therefore, the impact on banks' balance sheets might be muted.

6.143 Finally, disorderly readjustment of currencies could also have implications for the real sector. Significant readjustment of currencies and rise in interest rates could adversely impact the spending in advanced economies, which, in turn, could slow down global growth. This would entail a reduction in export opportunities and reduction in investment demand for India. While readjustment of currencies may have some impact, the Indian economy is largely domestic demand driven. Also, India's export basket is fairly well diversified. As such, the overall impact on the Indian economy may not be significant.

Risks of Asset Price Adjustments

6.144 Assets price movements in the global financial markets have assumed greater importance in recent years, particularly from the financial stability point of view. The large institutional investors are acquiring cross-border assets denominated in foreign currencies in increasing volumes. Though the assets denominated in foreign currencies are subject to additional risk of exchange rate variation, international investors buy these assets because of higher returns. The returns could vary across countries due to differential interest rates or faster appreciation of assets in some countries. The differential interest or appreciation rate sometimes outweighs the exchange rate risk or in some cases exchange rates may move favourably for international investors in respect of some currencies. In such cases, the flow of capital in higher return countries could increase in an unsustainable manner and lead to further rise in assets prices in these countries to the levels inconsistent with demand-supply conditions. Assets prices in such situations become vulnerable to shocks creating an unsettled environment in the financial markets. Depending upon the extent of increase in prices beyond demand-supply conditions and nature of shock, the adjustments in asset prices could be detrimental to financial stability. In particular, a

Box VI.11: Systemic Sudden Stop

A large, unexpected and widespread collapse in capital flows that is often unrelated to the economic fundamentals of a country and is usually highly damaging for the economic activity in the affected country is often described as sudden stop. The concept of 'sudden stop' was popularised by Guillermo A. Calvo who argued that the many countries witness large capital inflows mainly because of external factors such as benign global environment and low interest rates. If these external factors were to change, investment in emerging market countries - whether moderate or profligate - could suddenly reverse direction of flow. Subsequently, several crises were dubbed as 'sudden stop' (James, 2007). Sometimes, the phenomenon is abbreviated as '3S', for systemic sudden stop, to emphasise the widespread nature of the problem during crises.

Although decline in capital inflows invariably impacts the real economy, the incidence of crisis and the extent of decline in output vary across countries depending upon economic structure, exposure to shocks, institutions and policies. Historically, the economies characterised by 'original sin', *i.e.*, gold or foreign currency denominated external and internal debt, were found to be more vulnerable to 3S (Bordo, 2007).

Calvo, Izquierdo and Talvi (2007) concluded that problem of sudden stop of capital inflows and financial crisis could be on account of *domestic liability dollarisation (DLD)* and large current account deficit (CAD) as a share of output. DLD is defined as domestic banks' foreign exchange-denominated loans as a share of GDP, and it is a risk factor because 3S are associated with large real devaluations, increasing the chances that foreign exchanges denominated loans will be defaulted. On the other hand, the CAD (as a share of the domestic production of tradables) is also a risk factor because a 3S typically leads to a sharp current account adjustment which is likely to bring about large changes in relative prices when output of tradables is small. This will affect real exchange rate and financial markets. The crises which could be characterised as sudden stop problem include Tequila crisis (Argentina, 1995; Mexico, 1995; and Turkey, 1995), East Asian crisis (Indonesia, 1998; Malaysia, 1998; and Thailand 1998), the Russian crises of the late 1990s and the Latin American debt crises of the 1980s (Argentina, 1982; Brazil, 1983; Chile, 1983; Mexico, 1983; Peru, 1983; Venezuela, 1983; and Uruguay, 1984).

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sharp adjustment in assets prices could lead to reversal of capital flows, liquidity crisis and sharp exchange rate adjustments (Box VI.11). This may also affect balance sheets of banks and financial institutions depending upon their exposure to these assets. In the recent period, in several countries the increased demand has far exceeded the availability of domestic financial assets leading to a sharp increase in asset prices, rapid credit growth and currency appreciation[14].

6.145 The equity market in India has also risen sharply in the last few years. In the current year, the benchmark BSE sensex increased by 48.4 per cent over end-March 2007 and 74.6 per cent over end-March 2006. The rally has been fuelled, among others, by FIIs investments. Net investments by FIIs during 2007-08 so far (up to October 19, 2007) have been of the order of US $ 15.1 billion, about 163 per cent higher than that during the whole of 2005-06. Although the macroeconomic fundamentals are strong as also corporate earnings, large demand by FIIs, given the limited supply of domestic assets, is putting pressure on the equity valuations. The P/E ratio, which was 18.6 in February 2006, rose to 22.6 by end-September 2007.

6.146 Recent developments in the international financial markets have raised several issues. In particular, it has brought to fore the way banks assess and monitor the risks. Banks are inherently exposed to liquidity risk. However, the severity of liquidity risk faced by banks in the recent crisis has underlined the need to manage the liquidity risk more carefully and integrate the liquidity risk with the overall risk assessment. This has also exposed the deficiencies of the Basel II framework, which captures credit risk, market risk and operational risk but ignores liquidity risk. This apart, there are several other issues that would need to be addressed to ensure the smooth functioning of the financial system (Box VI.12).

[14] IMF (2007), 'Global Financial Stability Report', April 2007.

Box VI.12: Recent Global Financial Market Developments: Lessons

Credit and market risks have increased and financial markets have become more volatile in the recent period as a fall out of the sub-prime market episode. Excessive leveraging has enhanced the vulnerability of the global financial system. Large changes in liquidity conditions are obscuring assessment of risks with attendant uncertainty.

In order to strengthen the financial system against future strains, several lessons for both the private sector and the regulators and supervisors could be drawn. Although the full impact of the recent episode is not yet known and it is early to make definitive conclusions, several areas will require increased attention. The major lessons, which can be drawn, are as follows:

(i) The smooth running of banks, financial institutions and financial markets depends crucially on trust and credibility along with the availability of transparent information. The transparency of the distribution of risks across the financial system has tended to decrease, thus, presenting the official agencies with the question of how it might be possible to increase this transparency again. Much of the recent discussion on hedge funds has revolved around this point. Accurate and timely information about underlying risks is a critical component in the market's ability to differentiate and properly price risk. This would include both qualitative and quantitative information about how risks are managed, valued, and accounted for, especially in areas of risk transfer. Greater transparency is also needed on links between systemically important financial institutions and some of their off-balance sheet vehicles. However, given the volume and complexity of the information and the cost of providing it, it will be important to carefully consider the appropriate amount and type of disclosure needed to ward off such episodes in future.

(ii) While securitisation and financial innovations have, through enhanced risk distribution, made markets more efficient, their role in the current situation may have to be better understood. The relationship between checks and balances throughout the supply chain of structured products may require some rethinking. Thus, while evaluating the stability situation in future, it will be even more important than in the past to combine a proper examination and assessment of new instruments, with an analysis of the behaviour of new market participants. This would appear to be the best way to deal with the fact that the financial system is not only expanding but also becoming increasingly complex.

(iii) There is a need also for examinining risk analysis of credit derivatives and structured products and the role of rating agencies. Notwithstanding the important role of ratings and ratings agencies in the functioning of financial markets, there is some concern about the rating methodology of complex products, particularly when securities, with very different structures, assumptions, and liquidity characteristics receive the same ratings.

(iv) The issue of valuation of complex products in the context of a market where liquidity is insufficient to provide reliable market prices also needs to be examined. Investors may have to consider the associated liquidity aspects and include an appropriate liquidity risk "premia" as part of the price, when purchasing complex products. Financial institutions holding such securities as collateral will also have to assign a 'haircut' to factors in liquidity characteristics.

(v) The relevant perimeter of risk consolidation for banks has proved to be larger than the usual accounting or legal perimeters. For instance, (a) reputational risk may force banks to internalise losses of legally independent entities; and (b) new instruments or structures may mask off-balance sheet or contingent liabilities. The result is that risks that appear to have been distributed may yet return in various forms to the banks that distributed them. The relevant perimeter is not only an issue for supervisors, but also for the financial institutions themselves-their risk managements systems, audit processes and internal oversight and governance structures.

(vi) Policymakers also face a delicate balancing act as they must establish frameworks that encourage investors to maintain high credit standards and strengthen risk management systems in better times as well as bad times. There is also a need for maintaining enhanced vigilance to be able to respond appropriately to the prevailing heightened uncertainties in global financial and monetary conditions.

(vii) There is a need to generate more objective information on the market value of collaterals, especially in situations where collaterals are not fully marked to market since such information may not be available on an ongoing basis. The crisis also raised the issue as to whether there are limits to marking to market certain kinds of assets whose values are not available on a high frequency basis.

(viii) Various market segments have become highly integrated as the problem which originated in the credit markets spread quickly to money markets and debt markets. This underlined the need for strengthening the oversight of financial markets in advanced countries. Also, while financial markets are becoming increasingly global, regulation of financial markets continues to be national. This deficiency needs to be addressed.

The Reserve Bank has put in place appropriate safeguards to ensure financial stability taking account of the prevailing governance standards, risk management systems and incentive frameworks in banks. These progressive policies have contributed to both efficiency and stability of the financial system.

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7. Overall Assessment

6.147 The Reserve Bank has been initiating several measures to strengthen the financial sector in line with the international best practices, adapted appropriately to suit the domestic conditions. These efforts have resulted in a strong, dynamic and resilient banking sector in India. The Indian banking system now compares well with the global standards in terms of operational efficiency and soundness indicators. Various initiatives undertaken have also improved the depth and liquidity of the various segments of the financial market. The institutional measures and the use of state-of-art technology have improved the efficiency of the payment and settlement systems. The introduction of RTGS has reduced a major source of systemic risk.

6.148 The profitability of the banking sector has shown remarkable resilience in the last few years. Banks have remained profitable, despite upturn in interest rate cycle. An analysis of various components of income and expenditure shows that banks in India earn most of their income from sustainable core business sources, which reflect the strength of their earnings.

6.149 Unlike in the last few years, fresh slippages during the year were more than the recovery of NPAs. However, the NPAs ratio (gross NPAs and net NPAs as percentage of gross/net loans and advances) declined and banks are comfortably placed with regard to their asset quality. The capital position of the banking sector continues to be strong as their capital funds are able to keep pace with the increase in risk-weighted assets. Banks continue to maintain significantly higher CRAR than the stipulated norm of 9 per cent. At end-March 2007, 79 banks (of 82 commercial banks) maintained CRAR at 10 per cent and above and two banks had CRAR in the range of 9-10 per cent. Only one bank had CRAR less than the stipulated norm. Thus, banks in India, in general, are well positioned to meet the Basel II capital requirements which will come into force for all banks from the year ending March 2009. This will improve the risk management in the banking sector.

6.150 There are, however, some short to medium term risks to which banks are exposed. Of the two major sources of risks faced by banks, *viz*., credit risk and market risk, banks will continue to face benign credit risk environment in the near future. Banks, however, face some degree of market risk, although they have reduced their exposure to market risk over the years.

6.151 Benign credit risk environment in the near term stems from the robust macroeconomic indicators of the economy. The growth rate of real GDP averaged 8.6 per cent during the last four years and the growth is expected to remain robust during 2007-08; the growth in Q1 of 2007-08 was strong at 9.4 per cent. The industrial sector continues to maintain its growth momentum, notwithstanding some slowdown in July and September 2007. Various leading indicators of the services sector suggest that it would continue to register strong performance. Inflation rate has declined to 3.1 per cent from the peak of 6.7 per cent in January 2007 and 5.9 per cent at end-March 2007. However, the present low rate of inflation may come under pressure due to renewed rise in crude oil prices. The consumer price inflation has moderated in September (y-o-y), although it continues to be at elevated level. International crude oil prices have gone up by about 53 per cent since last February 2007 when the administered domestic oil prices were reduced. Should international crude oil prices rise further, domestic oil prices might have to be raised, which could have implications for domestic inflation. Nonetheless, inflation is expected to be within tolerable limits in the near future. The Indian external sector continues to be a source of major strength. Although trade deficit widened considerably in 2006-07 and first quarter of 2007-08, invisibles continued to offset a large part of the trade deficit. Besides, India continues to receive large capital inflows resulting in sharp accretion to foreign exchange reserves. Indian financial markets in the recent times have shown remarkable degree of resilience to several adverse recent international developments. Interest rates in India have hardened and the spread between AAA rated corporate bonds and the risk free Government bonds has widened. However, financial conditions, on the whole, continue to remain comfortable. The domestic capital market is witnessing buoyant conditions and the corporates also have the flexibility to raise resources from the international capital market. The corporate sector has experienced long stretch of high profitability. Given the robust macroeconomic situation, it is expected that the corporates would continue to experience high profitability in the near future. The credit expansion continues to be robust, although there has been some moderation. Credit growth to the real commercial estate sector has decelerated, but still remains very high. Owing to rapid credit expansion of the last few years, it is possible that banks experience high delinquency rate in the near future. This combined with the slowdown of credit might lead to rise in the NPA ratios of banks in the coming years. However, such rise is not expected to be significant and on the whole, credit risk environment would continue to be benign.

6.152 Banks, however, are exposed to some degree of market risk in the near term. The major source of such risk is the financial markets. Recent developments in the US sub-prime mortgage market have caused volatility and uncertainty in financial markets. Although global financial imbalances have eased, they continue to be a cause of concern. Should there be any disorderly adjustments in the financial markets, it may have implications for the banking sector through changes in interest rates and liquidity shifts. Sharp rise in interest rates may result in marked to market losses on the investment portfolio of banks. It is, however, significant to note that investment portfolio of banks as percentage of total assets declined sharply to 27.5 per cent at end-March 2007 from 31.1 per cent at end-March 2006 and 36.9 per cent at end-March 2005. Sharp rise in interest rates would also have some impact on housing prices and may expose the balance sheet of households to interest rate risk. This may have adverse impact on the balance sheet of banks through increase in loan losses.

6.153 Banks in India have only modest direct and indirect exposure to the equity market. In the event of decline in the equity market, some of the advances extended by banks for investment in the equity market might be impaired. Although decline in the equity market can cause both loan losses and capital losses, banks may not be seriously impacted by any adverse development in the equity market due to their limited exposure. However, sharp adjustments in the real estate prices might have some implications for the balance sheet of the banking sector.

6.154 To sum up, macroeconomic outlook in the near future remains favourable and this would continue to have positive impact on the credit risk environment. However, rapid credit growth of the past three years might lead to higher slippages of NPAs in the loan portfolio of banks. Banks are exposed to market risk, although the extent of exposure to such risks has declined significantly in recent years. In some cases, market risk faced by market participants might also crystallise as credit risk in the books of banks. Banks, however, have resilience to withstand any adverse development in financial markets. Banks' profitability has improved and their capital position continues to remain strong. The banking system, thus, has the wherewithal to cope with the situation arising out of any adverse development. Strong domestic growth would continue to have a positive impact on the balance sheet of the banking sector.

Chapter VII

Perspectives

7.1 Financial sector reforms introduced in India since the early 1990s have had a profound impact on the functioning of commercial banks, which are systemically the most important segment of the Indian banking system. As a result of various reform measures initiated by the Government and the Reserve Bank, the banking system in India has become strong, healthy, dynamic and resilient – a necessary condition for sustained economic growth and financial stability. After having transformed the commercial banking sector, the focus in recent years has shifted to other institutions in the financial system such as regional rural banks (RRBs), urban co-operative banks (UCBs) and rural co-operative banks. As these institutions play a crucial role in broadening the access of financial services to various sections of society, they have assumed added significance in the context of recent policy thrust on financial inclusion.

7.2 The major challenge for banks in India is to raise enough resources for meeting the demands of a growing economy. Most of business of banks in India is still concentrated in a few urban centres. To mitigate this problem, since 2006, opening of new branches for any bank is approved by the Reserve Bank only on condition that at least half of such new branches are opened in under-banked areas as notified by the Reserve Bank. Many banks now find that the branches in semi-urban and rural areas are also commercially viable. The Reserve Bank, in recent years, has also focussed on democratisation of the financial sector with the aim of ensuring hundred per cent financial inclusion. The Reserve Bank has also made a beginning to enhance financial literacy and impart financial education to enable vast numbers of new entrants into employment and higher incomes to better manage their finances in a rapidly marketising financial sector. There are also some States where the credit-deposit ratio is observed to be low. Already some area-specific action plans for accelerated financial deepening have been drawn up with full participation of the State Governments, banks and other local development agencies. The Reserve Bank would continue to play a catalyst as well as a co-ordinating role, in these initiatives of growing co-operation between the States and the banking system. There remains huge potential for growth in small centres and States with low credit-deposit ratios. The challenge going forward is to increase banking penetration further. Banks, therefore, need to expand their outreach to hitherto under-banked areas/States by re-focussing their strategies and using appropriate technology and delivery channels. Information technology is critical to minimising transaction costs.

7.3 There is also a need for the banking sector to increase the flow of credit to agriculture and small scale industries. In order to address inadequate flow of credit to agriculture and small scale industries, the Reserve Bank has already modified the definition of the priority sector. The revised guidelines on priority sector were issued in April 2007. Priority sector is now restricted to advances to highly employment intensive sectors such as agriculture, small industry, educational loans for students and low cost housing.

7.4 Another challenge for banks is to raise capital from the market continuously to sustain their operations in a fast growing economy. Banks also need to be vigilant about maintaining their profitability in future. Banks' net interest margins have come under pressure in recent years. This is the outcome of increased competition and reflects an improvement in the efficiency of the banking sector. However, the impact of reduced margins on the profitability of banks has been disguised by strong volume growth in the last few years. In order to maintain their profitability in future, banks would have to contain operating costs, apart from searching for non-interest sources of income.

7.5 The financial services industry is becoming increasingly global and competition is intensifying. Globalisation, increased competition and advances in information technology are leading to product innovations. Some of the new products being introduced are complex, and it is becoming increasingly difficult to determine as to where the risk lies in such products. The challenge for banks is to institute appropriate risk management systems to manage such risks and for the Reserve Bank to understand the changing forms of risk and adapt its regulatory and supervisory responsibilities appropriately while maintaining financial stability.

Credit Delivery and Pricing

7.6 The high credit growth witnessed during 2003-04 to 2005-06, continued during 2006-07, *albeit* with some moderation. Rapid credit growth in 2006-07 was facilitated by robust deposit growth, unlike the previous year when banks had to liquidate Government securities to fund credit growth. Although banks made incremental investments in Government and other approved securities during 2006-07, such investments did not keep pace with the expansion in net demand time liabilities (NDTL). As a result, SLR holdings as percentage of NDTL declined to 28.0 per cent at end-March 2007 from 31.3 per cent at end-March 2006 and peak of 42.7 per cent as on April 16, 2004. Thus, the excess holdings of SLR portfolio built up in the mid-1990s have been considerably offloaded to a large extent during the last three years.

7.7 The Reserve Bank in the last few years had used prudential tools such as increasing the risk weights and provisioning requirements to moderate the credit flow to certain sectors and protect the asset quality of banks. This strategy has worked as credit to commercial real estate and personal loans has moderated, even as the credit growth of commercial real estate was still high. The slowdown in credit during 2006-07 was spread across sectors, *i.e.*, agriculture, industry, personal loans and other services. However, credit to the SSI sector accelerated, which is a positive development. Although credit to agriculture slowed down, it still grew faster than the overall credit.

7.8 Latest information on sectoral deployment of bank credit during 2007-08 (up to August 17, 2007) suggests that while there is moderation in credit growth across all the major sectors, there is some re-balancing in the sectoral allocation of credit in favour of agriculture and industry. In response to prudential and other measures taken by the Reserve Bank during 2006-07 in respect of sectors which registered rapid credit growth such as real estate, housing, personal loans including credit cards, growth of bank credit to these sectors has decelerated further significantly. Bank credit to other fast growing sectors such as computer software, trade and transport operators also moderated. Within the industrial sector, credit expansion to the infrastructure, metals and textiles sectors, in particular, has been strong. Banks have a role to play in meeting the medium and long-term funding requirements of the economy. However, at the same time, banks need to ensure that such lending operations do not result in asset-liability mismatches.

7.9 The Reserve Bank continued to take measures to increase the flow of credit to the agricultural sector. The procedures and processes for obtaining agricultural loans by scheduled commercial banks (including RRBs) were reviewed. Banks were advised to dispense with the requirement of 'no dues' certificate (NDC) for small loans up to Rs.50,000 for small and marginal farmers, share-croppers and instead, obtain a self-declaration from the borrower. Banks were also advised to accept certificates provided by local administration/*panchayati raj* institutions in the case of landless labourers, share-croppers and oral lessees. In order to assist distressed farmers whose accounts had earlier been rescheduled/converted on account of natural calamities, as also farmers who had defaulted on their loans due to circumstances beyond their control, banks were advised to frame transparent one-time settlement (OTS) policies for such farmers. It is also proposed to consider a credit guarantee scheme for distressed farmers.

7.10 In line with the changing needs of society, the scope and definition of the priority sector have been continuously refined in the last few years. Revised guidelines on lending to the priority sector were released on April 30, 2007 to ensure adequate flow of bank credit to those sectors of society/economy that impact large segments of the population, the weaker sections and the sectors which are employment-intensive such as agriculture and tiny and small enterprises.

7.11 The small and medium enterprises (SME) sector constitutes an important segment of the Indian economy. However, bank credit to this important segment had stagnated. The Reserve Bank, therefore, initiated several measures in the recent past to increase the flow of credit to this important sector. These efforts have yielded some results as credit to the SME sector has increased noticeably in recent years. Even during 2006-07, when there was a moderation in credit to all other sectors, credit to the SSI sector accelerated.

7.12 It is increasingly felt in some quarters that individuals are not in a position to take full advantage of the guidelines issued regularly to the banks by the Reserve Bank for a variety of reasons. These may include inadequacies in managing their finances, especially delinquent accounts. Individuals may also not be able to articulate their financial situation adequately to the banks. Furthermore, some of the products being developed are complex and difficult for consumers to understand. Some consumers may also take loans that are inappropriate and expensive. Credit counselling centres can mitigate such problems to a large extent. It is encouraging that some banks have already initiated efforts in this direction.

7.13 In recognition of the fact that financial and livelihood counselling are important for increasing the viability of credit, the Reserve Bank in the Annual Policy Statement for the year 2007-08 advised State Level Bankers' Committee convenor banks to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district. Based on the experience gained, the concerned lead banks may set up such centres in other districts.

7.14 Considering that high indebtedness to money lenders could be an important reason for distress of farmers, a Technical Group as announced in the Annual Policy Statement for the year 2006-07, was set up to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States and make recommendations to the State Governments for improving the legal and enforcement framework in the interest of rural households. The Group submitted its report on July 24, 2007, which has been placed in the public domain for comments from the stakeholders, and forwarded to the State Governments for appropriate action as may be considered necessary.

7.15 The continued high credit demand during the year (2006-07) exerted some upward pressure on lending rates as well as deposit rates of banks. Accordingly, interest rates hardened across various maturity spectrum on both the liability and the asset sides of banks. Reflecting these trends, during 2006-07, the range of BPLRs of PSBs, private sector banks and foreign banks hardened in the range of 100-250 basis points. Though the Reserve Bank has been advising banks to evolve their own BPLR by taking into account the cost of funds, transaction cost and reasonable cover for the risk, the fixation of the BPLR continues to be more arbitrary than rule-based. This was reflected in the sub-PLR lending, the share of which in total lending of commercial banks increased to 79.0 per cent of total outstanding advances above Rs.2 lakh at end-March 2007 from 69.0 per cent at end-March 2006. Lending below the BPLR has several implications. First, it lacks transparency and, hence, affects both lenders and borrowers. Second, to compensate for sub-BPLR lending, other segments are charged higher rate of interest, thus, leading to cross subsidisation of the economically well-off borrowers by the economically poor borrowers.

Financial Inclusion

7.16 Financial markets are characterised by asymmetric information which may not only impinge the price but also the market clearing process. Such market failure in the context of financial exclusion may arise from both the banks and customers. While banks may not accurately assess potential profitability among the financially excluded, potential customers may be dissuaded from approaching the banks fearing refusal of access to mainstream financial services. Hence, Governments in many countries have taken specific regulatory and supervisory measures to promote financial inclusion. To avoid any adverse impact on the profitability of banks, these measures centred around providing 'no-frills' or 'basic bank' accounts to every individual approaching them. These accounts provide minimum or basic banking facilities to the account holders at low or minimum costs to banks. The other major initiative taken in this context is the formulation of general banking code, a voluntary arrangement amongst banks without any formal charters, which commits banks to inform people about basic bank accounts.

7.17 The focus of the Reserve Bank's recent policy initiatives has been to promote financial inclusion by providing basic banking services to the common person. The Reserve Bank's broad approach to financial inclusion aims at 'connecting people' with the banking system and not just credit dispensation; giving people access to the payment system; and articulating financial inclusion as a viable business model and opportunity.

7.18 Micro-finance has been recognised as a tool for extending banking services to the poor and the needy and for poverty alleviation. The Reserve Bank has been making efforts since 1992 to create an environment for orderly development of micro-finance recognising its potential to positively influence the upliftment of the poor. A joint fact-finding study conducted by the Reserve Bank in May 2006 with a few major banks revealed that some of the micro-finance institutions (MFIs) financed by banks or acting as their intermediaries/ partners appeared to be (i) focussing on relatively better banked areas; (ii) trying to reach out to the same set of poor resulting in multiple lending; (iii) not engaging themselves in capacity building and empowerment of the groups to the desired extent, and improving their systems, practices and lending policies. An advisory was, therefore, issued to banks in November 2006 communicating these findings and advising them to take corrective action at their end.

7.19 Banks need to make concerted efforts to join the initiatives of the Government and the Reserve Bank for extending banking services to a wider section of the population. Apart from fulfilling the social objectives of the Government, expansion of banking services is critical in supporting the growth of banking business. Increased competition in the banking sector requires banks to mobilise resources from the untapped sources. In order to achieve this, banks need to place a greater focus on the use of technology, new products and business models. While regulators have provided the emphasis and acted as facilitators in this direction, banks need to reengineer their business processes by leveraging technology to innovate suitable products for market outreach. The use of information technology also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow-up.

Customer Services

7.20 The development of a customer centric banking practice is the corner-stone of any successful banking system. Such a system benefits all the stakeholders, *viz*., the banks, customers and the regulators alike. For the banks, customer service is an important tool of product differentiation, customer retention and product innovation. Customer saves the costs of poor services in the form of costs of litigation, transaction cost, search cost for alternatives and cost of uncertainties. The regulator can focus on a more optimal distribution of limited regulatory and supervisory resources. Critical elements of an effective customer service delivery system would encompass easy availability of information, simplified and quick procedures, leveraging technology for product innovation and faster delivery of services, while at the same time reducing transaction costs, and an easy and speedy dispute resolution mechanism at the banks' end.

7.21 It has been the constant endeavour of the Reserve Bank to improve the quality of customer service by banks. The Reserve Bank initiated several measures during 2006-07 to protect customer's rights, enhance the quality of customer service and strengthen the grievance redressal mechanism in the Reserve Bank as well as in banks. The 'Code of Bank's Commitment to Customers' was released on July 1, 2006. The Banking Ombudsman Scheme was amended on May 24, 2007 to enable the bank customers to appeal to the Reserve Bank against not only the Awards passed by the Banking Ombudsman offices but also other decisions given by them in respect of the complaints falling within the grounds of complaints specified in the scheme. In order to facilitate easy comparison of service charges of various banks by their customers, banks were advised on July 20, 2006 to place service charges and fees on the homepage of their website at a prominent place under the title of 'service charges and fees'. The Reserve Bank had set up a Working Group to formulate a scheme for ensuring a reasonableness of bank charges. The Group in its Report submitted in August 2006 examined various issues such as basic banking/ financial services to be rendered to individual customers, the methodology adopted by banks for fixing the charges and the reasonableness of such charges. The Report has identified twenty-seven basic banking services relating to deposit accounts, loan accounts, remittance facilities and cheque collection and defined low value transactions for cheque collection and remittance up to Rs.10,000 in each case and up to US $500 for foreign exchange transactions. The Working Group also recommended that the individual customers be provided upfront and in a timely manner, the complete information on the charges as well as the proposed changes in charges applicable to all basic services. As recommended by the Working Group, banks were advised on February 2, 2007 to lay down general principles and broad parameters to be followed by them while offering 'doorstep' services to their customers and to ensure transparency in respect of rights and obligations of customers, uniformity in approach and clearly delineate the risks involved. Banks were also advised to take suitable steps to educate their 'agents' to enable them to detect forged and mutilated notes so as to avoid frauds and disputes with the customers.

7.22 It had come to the notice of the Reserve Bank that some banks, while lending for housing, were not fully transparent in indicating the circumstances and factors governing the benchmark in respect of floating rates as well as with regard to reset clauses. Banks were, therefore, urged to review all practices which are less than fair or transparent. They were also urged to afford an opportunity to borrowers to obtain fair and transparent terms consistent with the legal requirements and fair practices.

Implementation of Basel II and Risk Management

7.23 With a view to facilitating gradual convergence of prudential norms for the banking sector with the international best practices, commercial banks in India were initially advised to implement Basel II with effect from March 31, 2007. Taking into account the state of preparedness of the banking system, however, it was decided subsequently to provide banks some more time to put in place appropriate systems so as to ensure full compliance with Basel II. In terms of the new timeframe, foreign banks operating in India and Indian banks having presence outside India are required to migrate to the standardised approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009. After two extensive rounds of consultations with all the stakeholders, the final guidelines on implementation of Basel II were issued in April 2007.

7.24 In conformity with the commitment to ensure a smooth transition to Basel II, several measures were initiated by the Reserve Bank during 2006-07. Taking into account the size, complexity of operations, relevance to the financial sector, need to ensure greater financial inclusion and the need for having an efficient delivery mechanism, the capital adequacy norms applicable to various categories of financial institutions have been maintained at varying levels of stringency.

7.25 A parallel run of the Revised Framework is being conducted by the banks, which will allow them to streamline their systems and strategies so as to ensure a smooth transition to Basel II. In order to provide additional options for raising capital funds, banks were allowed in January 2006 to augment their capital funds by issuing innovative perpetual debt instruments (IPDI) eligible for inclusion as Tier I capital and debt capital instruments eligible for inclusion as Upper Tier II capital (Upper Tier II instruments). The guidelines were reviewed and several relaxations were given in July 2006. Further, with a view to providing wider choice of instruments to Indian banks for raising Tier I and Upper Tier II capital, banks have been allowed to issue various types of preference shares, subject to extant legal provisions.

7.26 Market discipline can complement regulation in ensuring a safe and sound banking system. The purpose of market discipline as detailed in Pillar 3 in the Revised Framework on capital adequacy is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2. The aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. Disclosures that are based on a common framework are an effective means of informing the market about a bank's exposure to the risks, besides providing a consistent and comprehensive framework for comparability. Recognising the importance of transparency of financial statements as an important tool for supervision and encouraging market discipline, the Reserve Bank has taken a number of steps from time to time to bring the disclosure standards of Indian banks closer to the international best practices.

7.27 The central message of the Basel II framework is the progressive refinement and sophistication of the risk management configuration of the banking system. The banks with better risk management skills would not only have competitive advantage in the marketplace but would also be better positioned to capitalise on the opportunities for organic and inorganic growth. While the Basel II framework creates an enabling environment for enhancing the risk management capability in the banks by providing the right incentives, the adoption of Basel II framework also raises some issues and challenges, particularly in the Indian context.

7.28 It is often argued that the risk sensitive approach of the Basel II framework is likely to give rise to pro-cyclicality in the capital requirements of the banks since in an economic downturn, the capital requirements would rise but will decline during an economic boom. Such an impact on the banks could accentuate the effects of the cycle and could increase the volatility in the banking system inviting appropriate prudential measures.

7.29 In implementing the new framework, which requires specialised skill sets, the challenge of human resource management for the Indian banking sector would be a constraint to reckon with. The banks would, therefore, need to evolve innovative human resource management practices to be able to attract and retain the right mix of people to ensure effective operationalisation and maintenance of sophisticated risk management infrastructure.

7.30 Risk management is critically important for banks and in the emerging economic scenario, there is a greater need for banks to implement risk-based practices. In view of the growing need for banks to be able to identify, measure, monitor and control risks, appropriate risk management guidelines have been issued from time to time by the Reserve Bank, including guidelines on asset-liability management (ALM). These guidelines are intended to serve as a benchmark for banks to establish an integrated risk management system. However, banks can also develop their own systems compatible with type and size of their operations as well as risk perception and put in place a proper system for covering the existing deficiencies and the requisite upgrading. Detailed guidelines on the management of credit risk, market risk and operational risk, among others, have also been issued to banks by the Reserve Bank in the light of Basel II framework. The progress made by banks is being monitored on a monthly basis.

7.31 Globally, banks are increasingly relying on statistical models to measure and manage the financial risks to which they are exposed. These models are gaining credibility because they provide a framework for identifying, analysing, measuring, communicating and managing these risks. Since models cannot incorporate all possible risk outcomes and are generally not capable of capturing sudden and dramatic changes, banks supplement models with ‘stress tests’. In tandem with developments at international level, banks in India have also initiated the use of statistical models to measure and manage risks. In terms of guidelines issued in June 2007, banks were required to put in place appropriate stress test policies and the relevant stress test framework for the various risk factors by September 30, 2007. Banks are required to ensure that their formal stress testing frameworks, which are in accordance with the guidelines, are operational from March 31, 2008.

7.32 The Reserve Bank had issued guidelines on the ALM system in 1999, which covered interest rate risk and liquidity risk measurement/ reporting framework and prudential limits. As a measure of liquidity management, banks were required to monitor their mismatches across various time buckets. Limit on mismatches in each of the first two buckets, i.e., 1-14 days and 15-28 days was prescribed at 20 per cent of the outflows. Keeping in view the international practices, the level of sophistication of banks in India and the need for a sharper assessment of liquidity management, banks were advised to adopt a more granular approach to the measurement of liquidity risk.

7.33 Credit risk is one of the material risks to which banks are exposed. Effective management of credit risk is, therefore, a critical factor in banks’ risk management processes and is essential for the long-term financial health of banks. Credit risk management encompasses identification, measurement, monitoring and control of the credit risk exposures. While banks in India have developed systems and skills for identifying, measuring and monitoring their credit risk exposures, the options available to them for controlling or transferring their credit risks were limited to the traditional means, *viz.*, restricting fresh exposures, outright sale of an existing fund based exposure, obtaining credit guarantee cover, obtaining credit insurance, and securitisation. Also, while banks have been provided with the options of managing their interest rate risk and foreign currency risks through the use of derivatives, similar option was not available for managing their credit risks. Therefore, with a view to enabling banks to control risk in a more efficient manner, it is considered appropriate to introduce credit derivatives in a calibrated manner. Accordingly, the Reserve Bank has issued draft guidelines for introducing, to begin with, single entity credit default swaps (CDS).

NPA Management

7.34 There has been significant improvement in the asset quality of the banking sector in India in recent years. Gross NPAs as percentage of gross advances steadily declined to 2.5 per cent at end-March 2007 from 15.7 per cent at end-March 1997. Net NPAs of the banking sector are now at one per cent. The gap between the gross and net NPAs has also narrowed over the years. NPAs of the Indian banking system are now comparable with several advanced economies and significantly lower than several economies in the Asian region. The decline in NPAs is particularly significant as income recognition, asset classification and provisioning norms were tightened over the years.

7.35 In spite of best efforts and intentions, borrowers at times find themselves in financial difficulty because of factors beyond their control. In order to help the borrowers in such situations as well as to ensure the safety of the money lent by the banks, timely support through restructuring of debts in genuine cases becomes necessary. However, the prudential treatment accorded to such restructuring and delay in the implementation of the restructuring package may often come in the way of such endeavours. In order to provide a transparent mechanism for timely restructuring of debts of viable entities facing problems outside the purview of BIFR, DRT and other legal proceedings for the benefit of all concerned, guidelines applicable to restructuring/ rescheduling of amounts due from borrowers, other than those (i) eligible for restructuring under the CDR mechanism; (ii) eligible for restructuring under the debt restructuring mechanism for SMEs; and (iii) restructured on account of natural calamities, are under preparation. The borrowers under the categories (i), (ii) and (iii) above are already covered by the separate existing set of guidelines.

Corporate Governance

7.36 In order to protect the overall integrity of the financial system, it is imperative that owners and managers of banks are persons of sound integrity. The two major concerns that arose in the Indian context regarding corporate governance in banks were concentration of ownership and the quality of management that controls the bank. In view of these considerations, the Reserve Bank initiated several measures to strengthen the corporate governance practices in the financial sector in India. The guidelines on ‘fit and proper’ criteria prescribed by the Reserve Bank in June 2004 require private sector banks to undertake a process of due diligence to determine the suitability of the person for appointment/re-appointment as a director on the board based on qualification, expertise, track record, integrity and other ‘fit and proper’ criteria. Keeping in view the importance of corporate governance even in public sector banks, the Government of India at the Reserve Bank’s initiative, carried out amendments to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and the State Bank of India (Subsidiary Banks) Act, 1959 to include new sections providing for applicability of ‘fit and proper’ criteria for elected directors on the boards of public sector banks. Necessary guidelines were issued in respect of nationalised banks in November 2007.

Competition and Consolidation

7.37 As part of economic reforms, the policy framework for the banking sector was liberalised to allow entry by domestic banks. The entry by foreign banks was also relaxed. Taking advantage of this, several new domestic and foreign banks have started operations, which have transformed the landscape of the Indian banking sector. In particular, the entry of new private sector banks and increased presence of foreign banks has intensified competition. The combined share of private and foreign banks in total assets of the banking sector increased to 29.5 per cent at end-March 2007 from 27.7 per cent at end-March 2006; their share was less than 10 per cent at the beginning of the 1990s.

7.38 In India, the process of consolidation in the first stage involved development finance institutions (DFIs). With regard to SCBs, weaker banks have merged with stronger ones. As at end-March 2007, 81 SCBs out of 82 exceeded the minimum capital adequacy prescribed; one bank which did not meet the minimum CRAR norm has since been amalgamated with another bank. Further progress in consolidation will significantly depend on developments in public sector banks.

7.39 In recent years, the process of consolidation of regional rural banks has also been initiated. With a view to strengthening them, banks were encouraged to amalgamate State-wise RRBs sponsored by them. Consequent upon the amalgamation of 147 RRBs into 46 new RRBs, sponsored by 19 banks in 17 States, effected by the Government of India since September 12, 2005, the total number of RRBs declined from 196 to 95 as on September 30, 2007. The structural consolidation of RRBs has resulted in the formation of new RRBs, which are financially stronger and bigger in size in terms of business volume and outreach. This will enable them to take advantage of the economies of scale and reduce their operational costs.

7.40 The consolidation of the UCBs through the process of merger of weak entities with stronger ones has also been set in motion by providing transparent and objective guidelines for granting no-objection to merger proposals. As on October 30, 2007, a total of 33 mergers were effected upon the issue of statutory orders by the concerned Central Registrar of Co-operative Societies/ Registrar of Co-operative Societies (CRCS/RCS).

Regulatory and Supervisory Challenges

7.41 Rapid pace of technological developments and intense competition have resulted in innovation of new products as well as new model of organisational structure. The emergence of financial conglomerates (FCs) offers new challenges to the supervisors and regulators. Aligning the operations of large financial conglomerates with local public policy priorities remains a challenge for domestic financial regulators in many emerging market economies. FCs, being exposed to two or more sector-based regulatory regimes, also lead to overlaps or gaps in the overall supervisory process. Keeping in view the emergence of a few financial conglomerates in India, the Reserve Bank has taken several initiatives in consultation with the other regulators to strengthen the FC monitoring framework for their effective supervision. Financial conglomerates are likely to assume even greater importance in the time to come, particularly in view of the enhanced tendency towards mergers and acquisitions. This would require a comprehensive framework for monitoring the operations of such institutions so that the stability of the financial system is maintained. In view of the emergence of financial conglomerates in India and that some of the players are experimenting with structures hitherto unfamiliar in India, the Reserve Bank issued a discussion paper on 'Holding Companies in Bank Groups' in September 2007 to take a review of some of the conglomerate structures and assess their sustainability for the country given the prevailing legal, regulatory and accounting framework and highlight the regulatory and supervisory concerns for the Reserve Bank emanating from such structures.

7.42 Another regulatory issue which has received greater attention in recent years pertains to dual control over UCBs. Keeping in view the role of UCBs in bridging an important gap in the credit delivery mechanism, The Reserve Bank has sought to address the problem of dual control by putting in place a consultative mechanism, *viz.*, Taskforce for Co-operative Urban Banks (TAFCUBs) based on Memorandum of Understanding (MoU) signed with the State Governments (Central Government in respect of multi-State UCBs). As of September 2007, MoU were signed with 13 State Governments and the Central Government. Accordingly, TAFCUBs comprising representatives from respective State Government, the Reserve Bank and the UCB sector have already been constituted based on these MoUs. About 83 per cent of the UCBs accounting for about 92 per cent of the total deposits are covered under the MoU arrangements.

7.43 Increase in product and process innovations in the financial services sector has generated newer and more complex risks for the banks and the financial system. The Reserve Bank, as a supervisor of the banking system, needs to constantly review the supervisory processes and upgrade its human resources and skills to address the issues arising from organisational structures, business processes and risk positions of banks. Implementation of Basel

II norms also requires the Pillar 2 process to be designed on the basis of policy shifts and changes in the supervisory reorientation. The supervisory efforts in the coming years will have to include the capacity building within the Reserve Bank and in the banks so that the risk based supervisory process seamlessly assimilates with the Pillar 2 consultative approach.

Banking and Technology

7.44 Information technology (IT) has emerged as a key business facilitator for developing new products and services. Banks in India have started to reap the benefits of IT, which commenced in a small way more than a decade ago. IT has helped in handling large transactional volumes and adapting according to the changing customer expectations, apart from providing almost real time information processing for both the banks and the customers.

7.45 While the use of IT has enabled banks to expand their businesses, it has also posed some challenges. Security, which is at the base of all IT based initiatives especially for the banking sector, has assumed high importance. The possibility of making online transactions through internet has made the financial systems the world over susceptible to misuse. Banks need to put in place additional safeguards and mechanisms to establish the identity of customers. In this regard, the common minimum requirements have been indicated by the Reserve Bank for banks to follow, which are applicable for all new IT-based systems and delivery channels.

7.46 Another major challenge in the operations based on modern technology is to ensure uninterrupted functioning of such systems. Therefore, business continuity and disaster recovery management are given due importance by the Reserve Bank. Apart from the regular and periodical disaster recovery (DR) drills of critical systems performed by the Reserve Bank for the comfort of all member banks, individual banks also conduct their own DR exercises to ensure that their systems stand the test of any unforeseen contingency.

7.47 Proper functioning of payment systems is essential to promote the efficient use of financial resources, improve financial market liquidity and facilitate the smooth conduct of monetary policy. Recognising the importance of payment systems, the Reserve Bank has already taken a number of initiatives for bringing about efficiency in the payment and settlement systems and has also been reviewing its actions on a continuous basis. The cheque truncation system is an initiative for bringing in efficiency in paper based clearing. This would facilitate the faster realisation of the cheque, *i.e.*, on T+1 or T+0 basis and reduction in frauds. This platform could also be used for speeding up the clearance of inter-city cheques. Steps are also underway to provide a separate clearing facility for the cheques drawn on core banking branches of banks so that their clearing and ultimate receipt of proceeds by the beneficiaries becomes faster. In the electronic payment systems, the implementation of RTGS and NEFT has enabled receipt of funds on a real time/near to real time basis. Though a minimum threshold amount (*i.e.* Rs. one lakh) has been prescribed for RTGS, there is no minimum or maximum threshold for NEFT and the customers have a choice based on the criticality of the payment, and the service to be used. Like in other developed countries, a national electronic clearing service for bulk payments using the retail electronic payments infrastructure created is being conceived. This would remove the geographical limitations which exist in the present electronic clearing service (ECS). It is also envisaged to bring about more efficiency in the existing electronic clearing service, by compressing the existing settlement cycle. Further, banks are being persuaded to put in place straight through processing capabilities, which would also bring about more efficiency to this system. The banks, which provide the payment services to the public at large, are making use of the infrastructure created and developing products for facilitating customers with more and more on-line payment services. Banks need to integrate the various systems as also tap the potential of the cards/ATM network for providing various services to the customers. The clearing and settlement data are being pooled at a centralised system, which would collect, collate and disseminate the relevant information for better decision making.

7.48 Sound legal framework is the base for smooth operations of the payment systems. The Reserve Bank is pursuing enactment of a separate legislation for the payment and settlement systems. The Payment and Settlement Systems Bill has been placed before the Parliament. On enactment of the Bill, no service provider will be able to operate any payment system unless either specifically approved by the Reserve Bank, or exempted from such approval. The Bill, once enacted, would also provide legal recognition to multilateral netting that is in vogue. The Bill also provides for penal provisions for bouncing of electronic transactions on par with cheques as covered in the Negotiable Instruments Act, 1881.

Primary Dealers

7.49 The role of primary dealers has assumed added significance in the post-FRBM Act, 2003 phase, as the Reserve Bank is prohibited from subscribing to the primary securities of the Central Government from April 1, 2006. Prior to this, the Reserve Bank used to subscribe to the securities of the Central Government in primary auctions, particularly in tight liquidity conditions, so that the market borrowings programme of the Government was completed without causing any disruption in the market. In the post-FRBM phase, PDs are expected to shoulder a greater responsibility of ensuring the completion of the market borrowings programme of the Government. In view of this, the PD system was revamped by of specifying minimum underwriting commitment and additional competitive bidding of minimum 3 per cent each for all PDs so as to ensure full subscription to the notified amount.

7.50 With increased underwriting obligations, PDs are required to assess the market conditions in a more efficient manner to minimise the market risk. In order to diversify the risks inherent in the PD business, PDs were allowed to diversify their investments into corporate debt, money market, equity and securitisation instruments, subject to certain prudential limits while retaining the requirement of predominance in Government securities business. The revamped PD system is working smoothly.

Non-Banking Financial Companies

7.51 A well developed and efficiently regulated non-banking financial companies segment is an important component of a broad, balanced and efficient financial system as such institutions redistribute risks and enhance the resilience of the financial system to economic shocks. Until recently, the regulation of the NBFC sector was more oriented towards deposit-taking companies. With the increasing business size and market integration, it was felt necessary to monitor not only the deposit-taking companies but also NBFCs which are systemically important. The presence of the banks' arm in the NBFC sector provided an opportunity for regulatory arbitrage. It was, therefore, felt necessary to address this issue. In consonance with these two aspects, regulations have been fine tuned. Steps were initiated to classify the large non-deposit taking NBFCs (NBFC-ND) with asset size of Rs. 100 crore and above as systemically important NBFCs (NBFC-ND-SI) and bring them within the ambit of the rigours of regulation. NBFC-ND-SI are now required to maintain minimum CRAR and credit/ investment concentration norms. Further, in an endeavour to achieve greater transparency in the working and instil greater confidence in customers, measures have been introduced which include a 'fair practices code' for NBFCs. To avoid financial system being used as a conduit for illegal money, 'know your customer' norms and 'anti-money laundering' standards in line with the banks have been prescribed for NBFCs. The regulatory thrust has been on ensuring a more vibrant, healthy and smooth growth of the NBFC sector. The Reserve Bank issued guidelines on corporate governance for non-banking financial companies on May 8, 2007 which are expected to increase investors' confidence as also that of other stakeholders.

Annex II.1
Review of Initiatives by the Board for Financial Supervision – 2006-07

With a view to strengthening the supervisory framework within the Reserve Bank, the Board for Financial Supervision (BFS) was set up in November 1994, with diverse professional expertise to provide 'undivided attention to supervision' and ensure an integrated approach to supervision of commercial banks and financial institutions. The BFS met 12 times during 2006-07 (July-June). The major initiatives taken by the BFS during the year were as follows:

(i) Since the introduction of the Basel I framework, the requirement of the capital funds by banks has increased manifold. The continued expansion of the Indian banks' balance sheets, proposed transition to the New Capital Adequacy Framework, which is more risk sensitive in nature, and additional capital requirements for operational risk are prompting banks to further shore up their capital funds. Taking note of the need for enhanced capital funds, banks' capital raising options were considered by the BFS during the year and detailed guidelines on introduction of additional instruments for raising capital, *i.e.*, Innovative Tier I instruments and Upper Tier II instruments were issued to banks.

(ii) Apart from the funds raised from outside, internal accrual forms an important part of the banks' capital funds. The increased profitability of Indian banks has substantially enhanced their capital funds. However, the BFS felt that some of the banks were following inappropriate practices/methods with regard to utilisation of floating provisions and appropriation of reserves. It observed that floating provision was being used by banks for smoothening of profit and its manner of utilisation lacked transparency. Accordingly, detailed guidelines were issued to banks, which *inter-alia* stipulated that the floating provisions can be used only for contingencies under extraordinary circumstances for making specific provision in the impaired assets after obtaining the board's approval and with prior permission of the Reserve Bank. Further, the banks' boards should lay down an approved policy defining extraordinary circumstances and the level to which floating provisions should be created. As regards appropriation of reserves, it was decided that in order to ensure that recourse to drawing down of the statutory reserves is done prudently and not in violation of any of the regulatory prescription, banks, in their own interest, should take prior approval from the Reserve Bank before any appropriation is made from the statutory reserves.

(iii) Under the Basel II framework, the adequacy of capital and the probability of losses incidental to a bank's operations are related to the risk level of its assets. The weighted assets approach did not give adequate attention to the concentration of risk on the liability side of banks. In the context of increasing importance and awareness of the concentration risk on the liability side of banks, the BFS had examined the matter in detail. In order to reduce the extent of concentration on the liability side of the banks, more particularly inter-bank liabilities (IBL), it was prescribed that IBL of a bank should not exceed 200 per cent of its net worth as on 31st March of the previous year. However, individual banks, with the approval of their boards of directors, could fix a lower limit for their IBL, keeping in view their business model. The banks whose CRAR is at least 25 per cent more than the minimum CRAR (9 per cent), *i.e.*, 11.25 per cent as on March 31, of the previous year, were allowed to have a higher limit up to 300 per cent of the net worth for IBL. The limit prescribed includes only fund based IBL within India (including inter-bank liabilities in foreign currency to banks operating within India). In other words, the inter-bank liabilities outside India were excluded. The existing limit on the call money borrowings prescribed by the Reserve Bank operates as a sub-limit within the above limits.

(iv) It was recognised that several banks had large and increasing exposures to sensitive sectors, especially the real estate sector which, given the inherent volatility in the prices, are considered to be risky. Accordingly, as per the directions of the BFS, a second round of supervisory review process (SRP) with regard to banks' exposure to sensitive sectors was initiated on individual banks selected based on off-site data. The process covered on-site focused examination to assess the risk exposures of individual banks with reference to their actual control environment, procedures and compliance with internal and regulatory norms. Accordingly, on-site scrutinies were conducted in select banks, which revealed that in view of the increase in the banks' exposure to the real estate sector, they had put in place certain policies to mitigate the associated risks. However, enhanced systems were not put in place by the banks in all cases to ensure that those policies were actually implemented while extending such loans to this sensitive sector.

(v) The BFS also took note of the risks arising on account of intra-group transactions of financial conglomerates in which bank is one of the counterparties. A monitoring mechanism for entities identified as financial conglomerates was put in place and as part of operationalisation of the same, the Reserve Bank has been obtaining data/information from the designated entities (DEs) for the 12 FCs under its purview. The analysis of FC returns had raised certain issues such as commonality of auditors, commonality of directors, certain directors being employees in other group companies, intra-group movement of executives having implications of 'arm's length' relationship/confidentiality of customer data, commonality of back-office arrangements/service arrangements between group companies, significant investments in the units of group mutual fund company and mortgage backed securities issued by group company, non-reporting of certain intra-group transactions, including large letter of comfort transaction. The half-yearly discussions held with the Chief Executive Officer (CEO) of the DEs in association with other principal regulators to address outstanding issues/ supervisory concerns and for strengthening of the FC monitoring mechanism had revealed several issues, *viz*., absence of group-wide oversight mechanism, absence of enterprise-wide risk management, lack of group compliance policy, absence of a policy on intra-group transactions and exposures, lack of group-wide capital assessment, applicability of 'fit and proper' criteria for the directors, CEO and shareholders, issues relating to group-wide liquidity management policy, identification and management of concentration risk, implementation of the Reserve Bank's guidelines on outsourcing/ capital market exposure and frauds in the group entities.

(vi) The role and importance of urban co-operative banks (UCBs) in the Indian banking system has been duly recognised. However, several of the UCBs do not have adequate capital funds. The issue of augmenting the capital funds of UCBs was considered by the BFS. It was felt that UCBs should be allowed to issue four new instruments, *viz*., non-convertible debentures/bonds, special shares, redeemable cumulative preference shares and long-term deposits to enable UCBs to raise capital at a premium. Special shares, which are non-voting in nature and perpetual, were suggested to keep them different from ordinary shares. It was further felt that the Reserve Bank may make an exception with regard to rating requirement to enable the commercial banks to invest in special shares and Tier II bonds issued by UCBs within the ceiling prescribed for investment in unlisted securities and that funds raised through new instruments should be exempted from the CRR/SLR.

Appendix: Chronology of Major Policy Developments

Announcement Date		Measures
		A) Scheduled Commercial Banks
2006		
April	4	• Banks were advised that principal and interest due on working capital loans in poultry industry as also installments and interest on term loans therein which have fallen due for payment on/after the onset of bird flu, *i.e.*, February 1, 2006 and remaining unpaid may be converted into term loans. The converted loans may be recovered in installments based on projected future inflows over a period up to three years with an initial moratorium of up to one year. Other measures include a proposal from Union Government for grant of a one time interest subvention of 4 per cent per annum on the outstanding principal amount as on March 31, 2006 (not including any part of the principal amount that has become overdue) to all poultry units availing loans from banks.
	5	• Banks were advised to instruct designated branches to strictly adhere to the direction that only one Bond Ledger Account (BLA) shall be opened in the name of each investor for operations in relief/ savings Bonds. The existing multiple BLAs, if any, in the name of the same investor should be reviewed and merged into one BLA.
	12	• Banks (excluding RRBs) were advised to furnish annual return in the revised format within one month in respect of non-SSI (sick/weak) industrial units beginning from March 31, 2006. As a one time measure, the banks are required to furnish data in the revised format for the period ending March 31, 2004 and March 31, 2005 by May 2006. • Banks were advised to charge specific transfer fee in case of transfer of account from one deposit office to another, in terms of Senior Citizens Savings Scheme (Amendment) Rules, 2006, where the deposit is rupees one lakh or above, a transfer fee of rupees five per lakh of deposit for the first transfer and rupees ten per lakh of deposit for the second and subsequent transfers shall be payable.
	13	• Banks were advised that the Government of India have allocated a target of 3,84,340 persons to States/UTs under PMRY for the year 2006-07.
	20	• Banks were advised that the term 'loan or advance' in clause (a) of the Explanation under sub-section 4 of Section 20 of the Banking Regulation Act, 1949 (10 of 1949), shall not include a credit limit granted under credit card facility provided by the bank to its Directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.
May	2	• Credit mobilisation target for the year 2006-07 under SGSY was fixed at Rs.2,814 crore by the Government of India. State Level Bankers' Committees (SLBCs) should finalise the targets of individual banks on the basis of acceptable parameters like resources and number of rural/semi urban branches, so that each bank will be in a position to arrive at its corporate target. Banks were advised to make efforts to achieve the credit targets, minimum subsidy credit ratio as fixed by the Government and maintain per family investment of Rs.25,000.
	8	• The rates of agency commission payable to banks for conduct of government business has been revised. For 'other payments' excluding 'receipts' and 'pension payments' rates applicable from July 1, 2006 would stand at nine paisa per Rs.100 turnover in place of Rs.50 per transaction applicable currently. Banks were advised to take corrective action to rectify deficiencies in Annual Information Returns filed under Section 285 BA of Income Tax Act, 1961 for the Financial Year 2004-05 and submit a "Supplementary Information Report", if need be, to the Income Tax Department. The necessary information for 2005-06 is to be furnished before May 31, 2006.
	16	• Banks (including RRBs) were advised to display and update, on their website, the details of various service charges in the prescribed format. SCBs are also to display the charges relating to certain services as prescribed in their offices/branches. This may also be displayed in the local language.
	17	• RRBs, were advised that with approval of their Board of Directors, they may enter into agreements with mutual funds for marketing their units subject to certain conditions, including i) the bank should act as an agent of the customers, ii) the purchase of MF units should be at the customers' risk and without the bank guaranteeing any assured return, iii) the bank should not acquire such units of mutual fund from the secondary market, iv) the bank should not buy back units of mutual funds from the customers, and v) compliance with extant KYC/AML guidelines.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
May	23	• It was clarified to banks that the interest subvention related to relief measures to specific categories of poultry industry will be calculated at four percentage points on the term loans and working capital loans outstanding as on March 31, 2006.
	25	• The risk weight on exposure of banks to commercial real estate increased to 150 per cent from 125 per cent. Further, total exposure of banks to venture capital funds will form a part of its capital market exposure and, henceforth, a higher risk weight of 150 per cent will be assigned to these exposures.
	29	• The general provisioning requirement for banks on standard advances in specific sectors, i.e., personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans increased to 1.0 per cent from the present level of 0.40 per cent. • Banks (excluding RRBs) were advised to disclose in the 'Notes on Account' the information providing details of break-up of provisions and contingencies shown under the head 'Expenditure' in Profit and Loss Account as follows: i) provisions for depreciation on investment, ii) provision towards NPA, iii) provision towards standard asset, iv) provision made towards income tax, and v) other provision and contingencies (with details).
June	5	• In pursuance with the announcement in the Union Budget, 2006-07, the Government will provide interest subvention of 2 per cent per annum to public sector banks (PSBs) and RRBs in respect of short-term production credit up to Rs.3 lakh provided to farmers. The amount of subvention will be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan becomes overdue i.e., March 31, 2007 for Kharif and June 30, 2007 for Rabi, respectively, whichever is earlier. This subvention will be available to PSBs and RRBs on the condition that they make available short-term credit at ground level at seven per cent per annum. In case of RRBs, this will be applicable only to short term production credit disbursed out of their own funds and will exclude such credit supported by NABARD refinance. Banks were advised to immediately, provide their estimates of short-term production credit to farmers up to Rs.3 lakh for Kharif and Rabi 2006-07, separately.
	8	• Banks (excluding RRBs) were advised not to enter into swap transactions involving conversion of fixed rate rupee liabilities in respect of innovative Tier I/Tier II bonds into floating rate foreign currency liabilities. Further, with regard to swaps already entered into, banks are to follow certain procedure for accounting gains / losses arising out of such swap transactions.
	12	• Bureau of Indian Standards (BIS) has formulated a comprehensive National Building Code (NBC) of India 2005, providing guidelines for regulating the building construction activities across the country. The Code contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements; fire safety requirements; stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. The boards of banks were advised to consider this aspect for incorporation in their loan policies. Similar guidelines were issued to RRBs on June 22, 2006.
	13	• The Empowered Committees (EC) for RRBs, constituted by the Reserve Bank at its Regional Offices, would deliberate and make recommendation on the applications for opening, shifting or merger of branches of RRBs. The Reserve Bank would take into account the EC's recommendation and dispose of such applications expeditiously. Similarly, requests from RRBs for conduct of foreign exchange business, as limited authorised dealers for current account transactions, would be considered by the Reserve Bank after clearance by the EC.
	22	• Revised norms issued to banks (excluding RRBs) on utilisation, creation, accounting and disclosures of floating provisions, *i.e.*, provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirement for provisions for standard assets.
	27	• In order to start a robust state-of-the-art nationwide ECS covering more branches and locations with centralised data submission system, banks were advised to furnish certain information indicating their level of preparedness for the project.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
July	4	• Banks were advised to initiate steps for incorporating an appropriate mandate management routine for handling ECS (Debit) transactions.
	12	• Banks were permitted to phase out the additional general provisioning on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans. Additional provisioning requirement over the financial year 2006-07 would stand at: (a) 0.55 per cent for the quarter ended June 2006; (b) 0.70 per cent for the half-year ending September 2006; (c) 0.85 per cent for the quarter ending December 2006; and (d) 1.00 per cent for the year ending March 2007.
	14	• Banks were advised not to associate themselves with internet based electronic purse schemes which are in the nature of acceptance of deposits that can be withdrawn on demand.
	17	• Banks were advised to ensure that all the farmers' loan-accounts in the notified districts, which are overdue as on July 1, 2006, are rescheduled on the lines of the package of "Relief Measures to the Vidarbha Region in Maharashtra" announced by the Prime Minister and the interest thereon (as on July 01, 2006) is fully waived. Fresh finance may be ensured to such farmers. The total amount of credit of Rs.1,275 crore envisaged to be released by banks will be allocated by Bank of Maharashtra (as SLBC Convenor) among the banks functioning in the districts.
	20	• Banks were advised to place service charges and fees on the homepage of their website at a prominent place under the title 'Service Charges and Fees' so as to facilitate easy access by the bank customers. A complaint form, along with the name of the nodal officer for complaint redressal, may be provided in the homepage itself to facilitate complaint submission by the customers. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month.
August	1	• Accounting and related aspects for 'When Issued' transactions in Central Government securities issued.
	3	• A new district, *viz*., Tarn Taran covering three tehsils, viz., Tarn Taran (200 villages), Khadoor Sahib (96 Villages) and Patti (197 Villages) has been carved out of the existing district of Amritsar with effect from June 16, 2006. Lead Bank responsibility of the new district has been assigned to Punjab National Bank.
	9	• Additional guidelines issued on relief measures to be extended by banks in areas affected by natural calamities. • Banks were advised that they need not maintain a separate SGL account for PD business. Banks undertaking PD business departmentally may maintain a single SGL account. They would, however, need to keep separate books of accounts internally for monitoring on an ongoing basis, maintenance of the minimum stipulated balance of Rs.100 crore of Government securities and for recording the transactions undertaken by the PD business.
	10	• Guidelines were issued on penal rate of interest in case of default in maintaining stipulated balances under CRR. With effect from the fortnight beginning June 24, 2006 penal interest would be charged as follows: i) in cases of default in maintenance of CRR requirement on a daily basis, which is presently 70 per cent of the total CRR requirement, penal interest would be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day; and if the shortfall continues on the next succeeding day/s, penal interest would be recovered at a rate of five per cent per annum above the Bank Rate; (ii) in cases of default in maintenance of CRR on average basis during a fortnight, penal interest would be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934. Similar guidelines were issued to RRBs on August 11, 2006.
	22	• Banks permitted to offer internet based foreign exchange services, for certain transactions, in addition to the local currency products already allowed to be offered on internet based platforms, subject to certain conditions.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
August	24	• All banks were advised to recognise interest subsidy eligibility certificate issued by Khadi and Village Industries Commission (KVIC) for extending credit to khadi institutions and entrepreneurs, provided KVIC's assessment for working capital requirement does not exceed the assessment made by banks by more than 10 per cent. • To further improve customer service for outstation investors, half-yearly interest/ principal of relief/ savings bonds to investors may be made at a place of their choice, either by issue of a demand draft, free of cost, or an 'at par' cheque payable at all branches of the bank.
September	1	• Within the overall target for priority sector lending and the sub-target of 10 per cent for the weaker sections, sufficient care should be taken to ensure that the minority communities also receive an equitable portion of the credit. The above requirement should be considered by lead banks while preparing district credit plans. • In order to improve the quality of service available to customers in branches, banks were advised to ensure that full address/telephone number of the branch is invariably mentioned in the pass books/statement of accounts issued to account holders. Similar guidelines were issued to RRBs on September 15, 2006.
	4	• It was clarified to the banks that instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance will be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture. Asset classification of the restructured accounts as on the date of natural calamity will continue if the restructuring is completed within a period of three months from the date of natural calamity.
	14	• Banks were advised to delegate adequate powers to the bank managers for sanctioning loans without referring to higher authorities and following of the procedure for calculating interest on loans, excluding subsidy amount under SGSY Scheme.
	18	• The name of "Chohung Bank" has been changed to "Shinhan Bank" in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from August 12, 2006.
	20	• Banks were advised that the exposure of banks to entities for setting up Special Economic Zones (SEZs) or for acquisition of units in SEZs which includes real estate would be treated as exposure to commercial real estate sector with immediate effect and banks would have to make provisions as also assign appropriate risk weights for such exposures as per the existing guidelines. • Detailed instructions issued to Banks under Section 17(1) and 17(1)(b)(ii) of BR Act 1949 regarding transfer of profit to their Reserve Fund.
October	4	• Banks were advised to invariably offer pass book facilities to all their account holders (individuals).
	5	• Operational guidelines were issued for banks undertaking/proposing to undertake primary dealer business.
	11	• Banks were advised that it would not be mandatory to put a clause in the guarantee issued by them, regarding an obligation on the part of the beneficiary of the guarantee to seek confirmation of the controlling office/head office.
	18	• The banks were advised to ensure that all the loan accounts of the farmers in the specified districts which are overdue as on July 1, 2006 are rescheduled on the lines of package of relief measures for the debt stressed farmers of 25 districts in the states of Andhra Pradesh, Karnataka and Kerala.
	31	• All SCBs (excluding RRBs) advised that in view of the current macroeconomic and overall monetary conditions, the fixed repo rate under the liquidity adjustment facility (LAF) of the Reserve Bank has been increased by 25 basis points with effect from Second LAF of October 31, 2006 to 7.25 per cent from 7.00 per cent. The reverse repo rate under the LAF remains unchanged at 6.00 per cent. All other terms and conditions of the current LAF Scheme will remain unchanged.
November	3	• Guidelines on managing risks and code of conduct in outsourcing of financial services issued to SCBs.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
November	6	• In order to facilitate the expansion of Indian corporates' business abroad, the prudential limit on credit and non-credit facilities extended by banks to Indian Joint Ventures (where the holding by the Indian company is more than 51 per cent)/Wholly Owned Subsidiaries abroad was enhanced from 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and Tier II capital).
	10	• SCBs were advised that the period of fortnight prescribed, for issue of duplicate demand draft would be applicable only in cases where the request for duplicate demand draft was made by the purchaser or the beneficiary and would not be applicable in the case of third party endorsements.
	13	• In order to assist distressed farmers as also farmers defaulting on their loans due to circumstances beyond their control, SCBs may frame transparent one-time settlement (OTS) policies for such farmers, with the approval of their boards.
	28	• All SCBs (excluding RRBs) were advised that loans granted to SHGs, which are engaged in agriculture and allied activities, will be classified as direct finance to agriculture, as long as the respective SCB is able to maintain such disaggregated data on SHGs/micro-credit portfolio.
December	11	• The Reserve Bank increased the CRR of the SCBs and RRBs by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, 5.25 per cent effective fortnight beginning December 23, 2006 and 5.50 per cent fortnight beginning January 6, 2007.
	15	• Revised instructions/norms were issued by the Reserve Bank to all SCBs on prudential capital markets norms such as components of capital market exposure, limits on banks' exposure to the capital markets, etc.
	18	• SCBs were advised that customer should not be compelled to drop the cheques in the drop box. Banks were also advised to display on the cheque drop box, 'Customer can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slips'. No branch should refuse to give an acknowledgement if the customer tenders the cheque at the counter. Similar advises were issued to RRBs, StCBs and DCCBs on December 26, 2006 and to UCBs on December 28, 2006.
	20	• The Liberalised Remittance Scheme was liberalised further by the Reserve Bank by enhancing the limit of US $ 25,000 per calendar year to US $ 50,000 per financial year (April-March) for any current or capital account transactions or a combination of both.
	22	• It was decided in consultation with the Government of India to allow foreign investment in infrastructure companies in securities market, namely stock exchanges, depositories and clearing corporations, in compliance with SEBI Regulations and subject to the following conditions : (i) foreign investment up to 49 per cent will be allowed in these companies with a separate foreign direct investment (FDI) cap of 26 per cent and Foreign Institutional Investment (FII) cap of 23 per cent; (ii) FDI will be allowed with specific prior approval of FIPB; and (iii) FII will be allowed only through purchases in the secondary market.
2007		
January	4	• SCBs were issued guidelines for formulating policy for valuation of properties, revaluation of bank's own properties and for empanelment of independent valuers.
	9	• SCBs were advised by the Reserve Bank that the minimum margin of 50 per cent and minimum cash margin requirement of 25 per cent (within the above margin of 50 per cent) for issue of guarantees by banks on behalf of share and stock brokers, will also be applicable to guarantees issued by banks on behalf of commodity brokers in favour of national level commodity exchanges, in lieu of margin requirements as per the commodity exchange regulations.
	10	• SCBs were advised by the Reserve Bank that State Bank of Patiala has been assigned the Lead Bank responsibility of the new district, viz., Barnala in Punjab.
	18	• The Reserve Bank decided to assign the Lead Bank responsibility of the new districts, viz., Udalguri, Chirang and Baksa in Assam to State Bank of India.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
January	29	• The Reserve Bank advised that the name of 'The Ganesh Bank of Kurundwad Ltd.' was excluded from the Second Schedule to the RBI Act, 1934 with effect from October 21, 2006.
	31	• The Reserve Bank decided to increase the fixed repo rate under the liquidity adjustment facility (LAF) by 25 basis points with effect from January 31, 2007 to 7.50 per cent. The reverse repo rate under the LAF remained unchanged at 6.0 per cent. • The Reserve Bank advised the SCBs that the Standing Liquidity Facilities provided to banks (export credit finance) would be available at the repo rate, *i.e.*, 7.50 per cent with effect from January 31, 2007. • The Reserve Bank advised the SCBs that they may undertake short sale of Central Government dated securities, subject to the short position being covered within a maximum period of five trading days, including the day of trade. • The Reserve Bank advised the SCBs about the increase in the provisioning requirement in respect of standard assets in respect of personal loans (including credit card receivables), loans and advances qualifying as capital market exposure and real estate loans from the present level of one per cent to two per cent with effect from January 31, 2007. • The Reserve Bank advised the SCBs that the interest rates on fresh Non-Resident (External) Rupee (NRE) Term Deposits for one to three years maturity should not exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturities plus 50 basis points (as against LIBOR/ SWAP rates plus 100 basis points effective from close of business on April 18, 2006). The interest rates as determined above for three year deposits will also be applicable in case the maturity period exceeds three years. The changes in interest rates will also apply to NRE deposits renewed after their present maturity period. The Reserve Bank also advised that in respect of FCNR (B) deposits of all maturities contracted effective from the close of business in India as on January 31, 2007, interest shall be paid within the ceiling rate of LIBOR/SWAP rates for the respective currency/corresponding maturities minus 25 basis points (as against LIBOR/ SWAP rates effective from the close of business on March 28, 2006). On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency/maturity minus 25 basis points. For floating rate deposits, the interest reset period shall be six months. • The Reserve Bank advised that the banks should not grant fresh loans or renew existing loans in excess of Rs. 20 lakh against the NR (E) RA and FCNR (B) deposits, either to depositors or to third parties, with immediate effect. Banks were also advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.
February	12	• In pursuance of the Bank's Clean Note Policy, the currency chest holding banks were advised to automate the sorting of notes by installing Note Sorting Machines (NSM) at their currency chests. The tolerance level of reissuable notes in the soiled banknote remittance to the Reserve Bank was changed from the existing 10 per cent to 5 per cent of each remittance, with immediate effect.
	14	• Banks were advised that cash reserve ratio (CRR) will be increased by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, effective from the fortnights as indicated below: Effective date (*i.e.*, the fortnight beginning from) — CRR on net demand and time liabilities (per cent) February 17,2007 — 5.75 March 3, 2007 — 6.00
	21	• Banks were advised to lay down general principles and broad parameters to be followed by them while offering "doorstep" services to their customers and to ensure transparency in respect of the rights and obligations of customers, uniformity in approach and to clearly delineate the risks involved. • Banks were also advised to take suitable steps to educate their "Agents" to enable them to detect forged and mutilated notes so as to avoid frauds and disputes with the customers.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
February	22	• In order to enhance the effectiveness of the grievance redressal mechanism, banks were advised to place a statement of complaints before their Boards / Customer Service Committees alongwith an analysis of the complaints received. The complaints should be analysed: (i) to identify customer service areas in which the complaints are frequently received;(ii) to identify frequent sources of complaint; (iii) to identify systemic deficiencies; and (v) for initiating appropriate action to make the grievance redressal mechanism more effective.
March	1	• All SCBs were advised that they would continue to be exempted from maintaining average CRR with effect from June 22, 2006 on the following liabilities, subject to the maintenance of statutory minimum CRR of 3 per cent on their total demand and time liabilities:(i) liabilities to the banking system in India as computed under clause (d) of the Explanation to Section 42 (1) of the Reserve Bank of India Act, 1934; (ii) credit balances in ACU (US$) Accounts; (iii) transactions in Collateralised Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India. (CCIL); and (iv) demand and time liabilities in respect of their Offshore Banking Units (OBUs) • All SCBs (excluduing RRBs) were advised that the Government of India have notified January 9, 2007 as the date on which all the provisions, except Section 3 of the Reserve Bank of India (Amendment) Act, 2006 shall come into force. 1. Section 3 of Reserve Bank of India (Amendment) Act, 2006 provided for the removal of: (i) the ceiling and floor on the CRR to be prescribed by the Reserve Bank having regard to the need for securing monetary stability in the country; and (ii) the provision for interest payment on eligible CRR balances 2. In terms of the powers conferred on the Reserve Bank under sub-Section 42(5)(c) of the Reserve Bank of India Act, 1934, it was decided to exempt such banks from payment of the penal interest who have breached the statutory minimum CRR level of 3 per cent during June 22, 2006 to March 2, 2007 on account of CRR exemptions reckoned for computation of demand and time liabilities for CRR. 3. The Reserve Bank would also pay interest to all SCBs on the eligible CRR balances at the rate of: (a) 3.50 per cent per annum on eligible cash balances maintained with the Reserve Bank of India under CRR requirement from the fortnight beginning June 24, 2006 to December 8, 2006, (b) 2.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning from December 9, 2006 to February 16, 2007, and (c) 1.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning from February 17, 2007.
	2	• All RRBs were advised that Government of India have notified January 9, 2007 as the date on which all the provisions, except Section 3 of the Reserve Bank of India (Amendment) Act, 2006 shall come into force. 1. Effective CRR maintained by RRBs on total demand and time liabilities shall not be less than 3 per cent. In exercise of the powers conferred on the Reserve Bank of India under sub-section (1) of section 42 of the Reserve Bank of India Act, 1934, all RRBs would continue to maintain a cash reserve ratio of 5.75 per cent effective on fortnight beginning from February 17, 2007 and 6.00 per cent effective from the fortnight beginning from March 3, 2007 of their total demand and time liabilities. 2. In terms of the powers conferred on the Reserve Bank under sub-Section 42(5)(c) of the Reserve Bank of India Act, 1934, banks who have breached the statutory minimum CRR level of 3 per cent during June 22, 2006 to March 2, 2007 on account of CRR exemptions reckoned for computation of demand and time liabilities for CRR would be exempt from payment of the penal interest 3. The Reserve Bank would pay interest to all RRBs on the eligible CRR balances at the rate of: (a) 3.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning June 24, 2006 to December 8, 2006. (b) 2.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
		the fortnight beginning from December 9, 2006 to February 16, 2007 and (c) 1.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning February 17, 2007.
March	2	• All RRBs were advised that they would continue to be exempted from maintaining average CRR with effect from June 22, 2006 on the following liabilities, subject to the maintenance of statutory minimum CRR of 3 per cent on their total demand and time liabilities: (i) liabilities to the banking system in India as computed under clause (d) of the Explanation to Section 42 (1) of the RBI Act, 1934; and (ii) transactions in Collateralised Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India (CCIL). • All SCBS were advised that starting March 5, 2007 (Monday), daily reverse repo absorptions would be limited to a maximum of Rs.3,000 crore each day, comprising Rs.2,000 crore in the First Liquidity Adjustment Facility (LAF) and Rs.1,000 crore in the Second LAF. Allocations would normally be made proportionately on a *pro-rata* basis in case the tenders exceed these amounts. • All SCBS (excluding RRBs) were advised that starting March 5, 2007 (Monday), daily reverse repo absorptions would be limited to a maximum of Rs.3,000 crore each day, comprising Rs.2,000 crore in the First Liquidity Adjustment Facility (LAF) and Rs.1,000 crore in the Second LAF. Allocations would normally be made proportionately on a *pro-rata* basis in case the tenders exceed these amounts.
	6	• All SCBs were advised that loan application forms in respect of priority sector advances in respect of all categories of loans irrespective of the amount of loan sought by the borrower should be comprehensive and should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks could be made and informed decision could be taken by the borrower.
	7	• The name of The United Western Bank Ltd has been excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from November 25, 2006.
	13	• Banks were to use the floating provisions only for contingencies under extra-ordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of the Reserve Bank. These extra-ordinary circumstances could broadly fall under three categories *viz*. General, Market and Credit. Under general category, there can be situations where bank was put to unexpected loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics could also be included in the general category. Market category would include events such as a general melt down in the markets, which affects the entire financial system. Among the credit category, only exceptional credit losses would be considered as an extra-ordinary circumstance.
	14	• Banks were advised to ensure that no loans were sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.
	16	• Banks were advised that only one channel of payment of remuneration for handling transactions under Public Provident Fund Scheme, 1968 (PPF) and Senior Citizen Savings Scheme 2004 (SCSS) would be followed. Accordingly, Reserve Bank of India would pay agency commission on transactions relating to PPF and SCSS at the following rates: a) Receipts - Rs.45/- per transaction, b) Payments - 9 paise per Rs.100/- turnover. With the revision of the rates as above, Government of India would discontinue the payment of remuneration for managing PPF and SCSS. The above rates would be applicable from July 1, 2005 for PPF transactions and from April 1, 2006 for SCSS transactions.
	20	• All commercial banks excluding LABS and RRBs were advised that Revised draft guidelines on implementation of the New Capital Adequacy Framework would be open for a second round of consultation for a period of three weeks for feedback and comments.

Appendix: Chronology of Major Policy Developments *(Continued)*

<table>
<tr><th colspan="2">Announcement Date</th><th>Measures</th></tr>
<tr><td colspan="3">2007</td></tr>
<tr><td>March</td><td>21</td><td>• With a view to bringing in uniformity in time-frame for reporting both Central and State Government Transactions to the Reserve Bank, it was decided with the approval of Comptroller and Auditor General of India that the existing procedure applicable to Central Government transactions, may also be made applicable to State Government transactions. Accordingly, (a) For local transactions the settlement of transaction with Reserve Bank shall be completed within T+3 working days (where T is the day when money is available to the bank branch). (b) For outstation Transactions the settlement of transaction with Reserve Bank shall be completed within T+5 working days. (c) In case of both the local and outstation transactions, the put through date, i.e. the date of settlement with the Reserve Bank shall be kept outside this time limit of T+3 and T+5 working days, respectively; (d) Delayed period interest shall be imposed on the banks for the actual delayed period and not from the date of transaction, The period of delay in respect of transactions of Rs.1 lakh and above shall attract delayed period interest at Bank Rate + 2 per cent and for transactions below Rs.1 lakh each, the delayed period interest shall be levied at the Bank Rate for delays up to 5 calendar days. and at the Bank Rate + 2 per cent in case of delays above 5 calendar days for the full period of delay. The revised procedure will come into effect from April 1, 2007.</td></tr>
<tr><td></td><td>30</td><td>• SCBs were advised that the following modifications in the LAF sub-module of the PDO-NDS would come into effect on April 3, 2007:
i) The PDO-NDS would now enable SCBs and Primary Dealers to offer SDLs as eligible securities to the Reserve Bank under the LAF-Repos. A margin of 10 per cent would be applied in respect of SDLs i.e. a Repo bid for Rs.100 will have to be backed by Rs.110 (face value) of SDLs.
ii) The transfer of securities from the SGL Account to the RC SGL account and vice-versa could now be made by the member through RC Transfer or RC Withdrawal (under Transfer Order Booking functionality) in the LAF module without obtaining the approval of PAD (Securities Section). However, the balance available in the RC SGL account could not be utilized for any transaction other than LAF, as hitherto.
iii) Members having insufficient securities in the RC SGL account for the ready leg of a repo transaction would now receive a message on PDO-NDS alerting them about the shortfall which has to be replenished within 15 minutes of the bid close time, failing which the bids would be liable for rejection.
• SCBs were advised that the fixed repo rate under the LAF was revised to 7.75 per cent with effect from March 31, 2007. Accordingly, the Standing Liquidity Facilities provided to banks (export credit refinance) (collateralised liquidity support) from the Reserve Bank would be available at the repo rate i.e. at 7.75 per cent with effect from March 31, 2007.
• SCBs were advised that the fixed repo rate under the LAF has been increased by 25 basis points to 7.75 per cent from 7.50 per cent, with effect from March 31, 2007. The reverse repo rate under LAF remained unchanged at 6.0 per cent.</td></tr>
<tr><td>April</td><td>3</td><td>• SCBs advised that it was decided to allow the nominated banks themselves to decide the tenor of Gold (Metal) Loans – which they were permitted to extend to domestic jewellery manufactures, who were not exporters of jewellery – provided the tenor did not exceed 180 days and the banks policy with regard to the tenor and monitoring the end use of gold loans was documented in the bank's loan policy and strictly adhered to.</td></tr>
<tr><td></td><td>4</td><td>• SCBs/RRBs advised that it was decided to increase CRR by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, effective from the fortnights as indicated below:
<table><tr><th>Effective date (i.e. the fortnight beginning from)</th><th>CRR on net demand and time liabilities (per cent)</th></tr><tr><td>April 14, 2007</td><td>6.25</td></tr><tr><td>April 28, 2007</td><td>6.50</td></tr></table></td></tr>
</table>

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
		However, the effective CRR maintained by RRBs on total demand and time liabilities should not be less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934. With effect from the fortnight beginning on April 14, 2007, the RRBs would be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under current CRR requirement.
April	4	• The Government of India had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. The definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services was modified and was required to be implemented by the banks alongwith other policy measures with immediate effect. Bank's lending to medium enterprises will not be reckoned for the purpose of the priority sector.
	10	• In view of the unsatisfactory performance of the implementing banks of PMRY for the programme year 2006-07, the Ministry of Agro and Rural Industries, Government of India has decided to extend the validity of sanction and completion of disbursements for the Programme Year 2006-07 to June 30, 2007. Accordingly, banks were requested to strictly adhere to this deadline and complete the disbursements of sanction cases under the programme year 2006-07 by June 30, 2007.
	11	• SCBs were advised to ensure that cheques/ drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them.
	12	• Banks were advised that in case of infrastructure projects financed by them, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production extended beyond a period of one year after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard. The revised instructions came into force with effect from March 31, 2007.
	13	• Guidelines on Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Standards/ Combating of Financing of Terrorism (CFT) – Wire Transfers were issued, whereby banks were instructed to obtain accurate and meaningful originator information.
	17	• Based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) for easy operation of lockers, the Reserve Bank reviewed all the guidelines issued on various issues relating to safe deposit lockers/safe custody articles and fresh guidelines were issued.
	18	• SCBs were advised that guidelines on Accounting Standard 17(Segment Reporting) – Enhancement of disclosures were reviewed in the light of the need for greater transparency As the segment of 'Other Banking Business' was very broad and did not lend sufficient transparency to the balance sheet, it was decided to divide this segment into the following three categories *viz*., corporate/ wholesale banking, retail banking and other banking operations. Accordingly, banks would adopt the following business segments for public reporting purposes, from March 31, 2008: a) Treasury b) corporate/wholesale banking, *(new)* c) retail banking, *(new)* d) other banking business. The geographical segments would remain unchanged as 'domestic' and 'international'.
	20	• As banks were adopting different accounting methods for amortising the premium in respect of their HTM securities, they were advised to refer to the format of the balance sheet and profit and loss account prescribed in the Third Schedule to the Banking Regulation Act, 1949 which indicated the accounting of loss on revaluation of investments. With a view to bringing about uniformity in the accounting of this aspect, banks were advised to adopt the correct accounting methodology while finalising their financial statements, including the statements for the year ended March 31, 2007. i) Government of India in their Extraordinary Gazette notification No.S.O.337(E) dated March 9, 2007 notified April 01, 2007 as the date on which the provisions of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 came into force. Consequent upon this, the amendment carried out to sub-Section (1) of Section 42 of Reserve Bank of India Act, 1934 was brought into force with effect from April 1, 2007. Accordingly, the statutory minimum CRR requirement of 3

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
		per cent of total demand and time liabilities no longer existed with effect from the said notified date. The Reserve Bank having regard to the needs of securing the monetary stability in the country, could from time to time prescribe the CRR for SCBs without any floor and ceiling rate. ii) It was decided to continue the status quo on the rate of CRR to be maintained by SCBs and the extant exemptions which will be operative till further changes were notified. Accordingly, SCBs would continue to maintain CRR on their total demand and time liabilities. Effective date (i.e. the fortnight beginning from) – CRR on net demand and time liabilities (per cent) April 14, 2007 – 6.25 April 28, 2007 – 6.50 iii) In view of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 coming into force, sub-section (1B) of Section 42 of the Reserve Bank of India Act, 1934 stands omitted with effect from April 1, 2007. Consistent with the amendment it was decided that with effect from the fortnight beginning March 31, 2007, the Reserve Bank would not be paying any interest on the CRR balances maintained by SCBs.
April	20	• SCB (excluding RRBs) were advised that they would be exempted from maintaining average CRR with effect from April 1, 2007 on (i) Liabilities to the banking system in India as computed under Clause (d) of the Explanation to Section 42 (1) of the RBI Act, 1934; (ii) Credit balances in ACU (US$) Accounts; (iii) Transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India. (CCIL); and (iv) Demand and Time Liabilities in respect of their Offshore Banking Units (OBUs).
	25	• Banks were advised to ensure that none of their bank branches/staff refuse to accept lower denomination notes and/or coins. Furthers they should ensure that all the staff members are made fully conversant with the instructions in this regard and also comply strictly with the same. Stern action would have to be taken in the event of refusal/non-compliance by any staff member. Similar guidelines were issued to RRBs on May 10, 2007.
	27	• GoI have advised that credit flow should be monitored in 103 minority concentration districts which have at least 25 per cent minority population, excluding those States/UTs where minorities are in majority (Jammu and Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshdweep). The data should be furnished at half yearly intervals w.e.f April 1, 2007. Banks were advised to issue necessary instructions to their controlling offices and branches to specially monitor the credit flow to minorities in 103 districts as against 44 districts which are presently being monitored. • Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of the New Capital Adequacy Framework finalised for implementation.
	30	• SCBs to immediately dispense with the requirement of ‘no due’ certificate for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower. Further banks could accept certificates provided by local administration/panchayati raj institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees. • SCBs advised that revised guidelines on lending to priority sector issued. • GoI, has clarified that in cases where the depositor has expired before the maturity of the deposits and the nominee / legal heir approach the banker for closure of the deposit account, the nominee / legal heir in such cases is entitled to the benefit of Saving Bank rate of interest for the period commencing the date of death of the depositor to the date of closure of the account under Senior Citizens Savings Scheme (SCSS), 2004. • Agency banks expected to provide an enabling environment and facilities to the customers for making government transactions electronically by providing ECS/EFT facilities.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	3	• RRBs could take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to certain conditions: There should be no 'linkage' either direct or indirect between the provisions of the bank need not obtain prior approval of the Reserve Bank for taking up corporate agency business for distribution of insurance products without risk participation. However, a report should be sent to the concerned Regional Office of Reserve Bank (RPCD) within 15 days of commencing the insurance agency business. • Banks were advised that the risk weight in respect of housing loans up to Rs.20 lakh to individuals against the mortgage of residential housing properties was reduced from 75 per cent to 50 per cent. Similarly, the risk weight for banks' investment in mortgage backed securities, which were backed by housing loans and were issued by the housing finance companies regulated by the National Housing Bank was also reduced from 75 per cent to 50 per cent. The reduced risk weights would be reviewed after one year keeping in view the default experience and other relevant factors.
	7	• SCBs were advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, were not levied by them on loans and advances. • Banks were advised to scale up their financial inclusion efforts by utilising appropriate technology. Care should be taken to ensure that the solutions developed are: highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks.
	8	• Exemption granted to RRBs up to the financial year 2006-07 from 'mark to market' norms in respect of their investments in SLR securities has been extended by one more year *i.e.* for the financial year 2007-08. Accordingly, RRBs would have the freedom to classify their entire investment portfolio of SLR securities under 'Held to Maturity' for the financial year 2007-08 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.
	10	• Banks in India were permitted to extend funded and/or non-funded credit facilities to wholly owned step-down subsidiaries of Indian companies (where the holding by the Indian company is more than 51 per cent) abroad within the existing prudential limits and some additional safeguards.
	14	• RRBs advised to ensure that no money transaction of the company/ies, declared as "defaulted companies" by the Hon'ble Patna High Court be allowed in the bank. Accordingly, all branches may be advised in this regard immediately and the compliance of the order be reported.
	15	• RRBs were advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances.
	16	• In partial modification of the earlier guidelines on purchase/sale of NPAs dated July 13, 2005, SCBs AIFIs, NBFCs (including RNBCs) were advised that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years. The revised guidelines came into force with immediate effect. • SCBs were permitted to begin transacting in single-entity credit default swaps.
	17	• The Bharat Overseas Bank excluded from the Second Schedule to the RBI Act 1934 with effect from April 1, 2007.
	18	• Revised guidelines on lending to priority sector-weaker section issued to SCBs.
	21	• RRBs were urged to scale up their financial inclusion efforts by utilising appropriate technology. Care should be taken to ensure that the solutions developed were: highly secure, amenable to audit and followed widely accepted open standards to allow inter-operability among the different systems adopted by different banks. • Guidelines issued to RRBs under Section 35A of the Banking Regulation Act, 1949 on cross border wire transfers and domestic wire transfers.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	21	• Clarifications on Agency Commission - Public Provident Fund Scheme, 1968 (PPF) and Senior Citizens Savings Scheme, 2004 (SCSS) issued.
	24	• The Reserve Bank directed all SCBs and RRBs to comply with the amended Banking Ombudsman Scheme, 2006. • Banks (excluding RRBs) were permitted to (i) deliver cash/draft at the doorstep of the individual customers (in addition to corporate customers/Government Departments/PSUs, etc.) either against cheques received at the counter or requests received through any secure convenient channel such as phone banking/internet banking and (ii) deliver cash/draft at the doorstep of Corporate customers/Government Departments/ PSUs, etc., against cheques received at the counter or requests received through any secure convenient channel such as phone banking/internet banking, subject to the banks adopting technology and security standards and including those specifically relating to authenticating users and taking adequate safeguards/ precautions in undertaking the above transactions.
	25	• It has been decided that the concessions/credit relaxations to borrowers/customers in the State of Jammu and Kashmir would continue to be operative for a further period of one year, i.e., up to March 31, 2008.
	29	• SCBs (excluding RRBs) were advised that Government of India had allocated a target of 3,75,690 to States/UTs under PMRY for the year 2007 – 2008. The targets were worked out on the basis of the final performance report for the year 2005- 06 of States/UTs. The States/UTs where the recovery of loans were less than 35 per cent for the half year ended March, 2006 were requested that appropriate action plans for improving recovery of loans be formulated by each of the implementing banks in these States. The terms and conditions of the Yojana would be governed by the revised guidelines for PMRY.
	31	• Banks were advised that tax was required to be deducted at source on the interest exceeding Rupees ten thousand payable during the financial year on 8 per cent Savings (Taxable) Bonds, 2003 with effect from June 1, 2007.
June	6	• Remuneration payable to the Statutory Central and Branch Auditors of Public Sector Banks from the year 2006-07 were revised.
	8	• GoI has decided to allow regularisation of multiple accounts opened by depositors (under the Senior Citizens Saving Scheme –2004) in the same account office, in the same calendar month due to ignorance, by merging all the accounts into the first account, subject to the condition, that deposits under the merged accounts (or discontinued accounts) will not earn any interest for the intervening period, *i.e.*, for the period from the opening of first account to the date of opening of second / subsequent irregular account which stood merged into the first account. The merger as well as consolidated amount of deposit in the account will also be subject to other terms and conditions of the scheme.
	13	• Banks were advised that the limit of the loan under the Differential Rate of Interest (DRI) scheme was raised from Rs. 6,500 to Rs.15,000 and the limit of the housing loan from Rs.5,000 to Rs.20,000 per beneficiary.
	15	• RRBs were advised that with a view to encouraging them to open branches in hitherto uncovered districts, it was decided that the compliance with conditions prescribed at Sr.Nos. (iii) to (v) under paragraph 1.2 of the circular RPCD.CO.RRB.No.BL.BC/11/03.05.90-A/2006-07 dated July 11, 2006 was left to the discretion of the concerned Empowered Committee for RRBs.
	19	• With a view to providing more business avenues and opportunities to RRBs for lending, They were permitted to participate in consortium lending, within the extant exposure limits, with their sponsor banks as also with other public sector banks and developmental financial institutions (DFIs), subject to the condition that the project to be financed is in the area of operation of the RRB concerned and guidance and appraisal of the project is provided by their sponsor bank.
	21	• Draft guidelines on prudential guidelines on restructuring/ rescheduling of dues by banks issued to SCBs (excluding RRBs and LABs)

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
June	22	• With a view to providing further liberalisation, RRBs were allowed to set up service branches / central processing centres (CPCs) / back offices exclusively to attend to back office functions such as data processing, verification and processing of documents, issuance of cheque books, demand drafts, *etc*., and other functions incidental to their banking business. These offices would have no interface with customers and would not be allowed to be converted into general banking branches. These offices would be treated on par with a branch and the RRBs would be required to obtain necessary licence from the concerned Regional Office of the Reserve Bank.
	28	• RRBs were permited to accept FCNR (B) deposits as announced in the Union Budget 2007-08. The eligibility criteria prescribed for authorisation to open /maintain Non-Resident (Ordinary / External) accounts in rupees were also reviewed. • Banks were advised that "acting as Pension Fund Manager" as a form of business would be lawful for a banking company to engage in. Banks could undertake Pension Funds Management (PFM) through their subsidiaries set up for the purpose subject to their satisfying the eligibility criteria prescribed by PFRDA for Pension Fund Managers.
July	3	• In view the complaints from credit card subscribers and the observations of the High Court, Delhi, the Telecom Regulatory Authority of India (TRAI) has been taking certain national level initiatives to address the various issues relating to Unsolicited Commercial Communications (UCC). TRAI has framed The Telecom Unsolicited Commercial Communications (UCC) Regulations 2007 for curbing UCC. Acordingly banks were advised to implement certain instructions.
	11	• GoI vide notification dated April 20, 2007 had decided to create a buffer stock of 20 lakh tonnes of sugar for a period of one year with effect from May 1, 2007. Under the arrangement, the Government would release subsidy of Rs. 378 crore out of Sugar Development Fund and the banks would have to sanction additional credit limits amounting to Rs.420 crore to release the margin consequent upon creation of the buffer stock from the existing stocks of sugar.
	16	• All SCBs were advised that GoI has added a list of 18 districts to the list of 103 districts making total number of minority concentrated districts to 121. Banks were to specially monitor the credit flow to minorities in these 121 districts as against the 103 districts which were required to be monitored, thereby ensuring that the minority communities received an equitable portion of the credit within the overall target of the priority sector.
	25	• Guidelines regarding remuneration payable to the Statutory Central and Branch Auditors of Public Sector Banks from the year 2006-07 issued.
	31	• All SCBs (except RRBs & LABs)/AIFIs/NBFCs were advised that SEBI had permitted FIMMDA to set up its reporting platform for corporate bonds. It had also been mandated to aggregate the trades reported on its platform as well as those reported on BSE and NSE with appropriate value addition. FIMMDA had proposed to go live with its platform, which at present is under trial run, from September 1, 2007. All SCBs/AIFIs/ NBFCs would be required to report their secondary market transactions in corporate bonds done in OTC market, on FIMMDA's reporting platform with effect from September 1, 2007. NBFCs could approach FIMMDA directly for participating in the mock reporting sessions. • All SCBs advised that the ceiling of Rs. 3,000 crore on daily reverse repo under the LAF was withdrawn with effect from August 6, 2007. The Second LAF (SLAF) introduced on November 28, 2005 and conducted between 3.00-3.45 p.m. on a daily basis was withdrawn w.e.f. August 6, 2007. The Reserve Bank would continue to conduct LAF operations between 9.30 am and 10.30 am as a single LAF window. Until notified, these auctions would be on a fixed rate basis as hitherto. The Reserve Bank had the flexibility to conduct repo/reverse repo auctions at a fixed rate or variable rates as circumstances warranted. Reserve Bank also retained the option to conduct overnight or longer term repo/reverse repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank would continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management. • All SCBs were advised that CRRs of SCBs was increased by 50 basis points to 7 per cent with effect from the fortnight beginning August 4, 2007.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
August	3	• All SCBs (excluding RRBs) were advised that (i) In cases where negotiation of bills drawn under LC is restricted to a particular bank, and the beneficiary of the LC is not a constituent of that bank, the bank concerned may negotiate such an LC, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary. However, the prohibition regarding negotiation of unrestricted LCs of non-constituents will continue to be in force; and (ii) The banks may negotiate bills drawn under LCs, on 'with recourse' or 'without recourse' basis, as per their discretion and based on their perception about the credit worthiness of the LC issuing bank. However, the restriction on purchase/ discount of other bills (the bills drawn otherwise than under LC) on 'without recourse' basis will continue to be in force.
	13	• All RRBs were advised that they may extend, with the approval of their Boards, direct finance to the housing sector up to Rs. 20 lakh, irrespective of the area. Further, the limit of 5 per cent of incremental deposits over previous year, prescribed earlier also stood withdrawn.
	22	• All SCBs were advised to submit statement on housing finance disbursement on a quarterly basis indicating details of disbursement made by them towards housing finance, to the Reserve Bank. • All SCBs were advised to invariably furnish a copy of the loan agreement to all the borrowers at the time of sanction/disbursement of loans. • All RRBs were advised the revised guidelines on Lending to Priority Sector, which take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006. From the financial year beginning April 1, 1997, the advances of RRBs to priority sector borrowers were to constitute 40 per cent of their outstanding advances, as in the case of commercial banks. Within the overall target of 40 per cent, the advances granted to weaker sections of society were to constitute 25 per cent of the priority sector advances (*i.e.*, 10 per cent of total outstanding advances).
	23	• All SCBs (excluding RRBs and LABs) were advised that the CCIL has developed a reporting platform for OTC Interest Rate Derivatives, which would capture the transactions in OTC interest rate derivatives (Interest Rate Swaps and Forward Rate Agreement (IRS/FRA)). The platform would be operationalised by August 30, 2007. All banks and PDs are required to report all their IRS/FRA trades on the reporting platform within 30 minutes from the deal time. Client trades are not to be reported. Banks and PDs may also ensure that details of all the outstanding IRS/FRA contracts (excluding the client trades) are migrated to the reporting platform by September 15, 2007. Detailed operational guidelines in this regard would be made available by CCIL.
September	3	• All SCBs were advised that on the basis of the revised guidelines on lending to priority sector, the existing formats for the relevant returns stood revised. • All SCBs were advised to take necessary steps for strengthening the branch level committees with greater involvement of customers. Further as senior citizens usually form an important constituency in banks, a senior citizen may preferably be included therein.
	4	• All RRBs were allowed to set up extension counters at places of worship and market places. The condition of being principal bankers would not apply in such cases. However, RRBs shall be required to obtain necessary licence from the concerned Regional Office of the Reserve Bank.
	5	• All Commercial Banks (excluding RRBs) were advised that : (a) the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity into three time buckets, *viz.*, next day, 2-7 days and 8-14 days. (b) The net cumulative negative mismatches during the next day, 2-7 days, 8-14 days and 15-28 days buckets should not exceed 5 per cent, 10 per cent, 15 per cent and 20 per cent of the cumulative cash outflows in the respective time buckets in order to recognise the cumulative impact on liquidity. The format of Statement of Structural Liquidity has been revised suitably.
	7	• All SCBs were advised that the name of "The Sangli Bank Ltd." has been excluded from the Second Schedule to the Reserve Bank of India Act, 1934.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
September	10	• All PSBs were advised that it has been decided in consultation with the Government of India to withdraw 5 more circulars, *viz*., Delegation of powers to CMD/ED of nationalised banks, Delegation of powers to CMD/ED for compromise/write off, Vigilance arrangements in banks, Reporting of cases of bank robberies/dacoities/burglaries and Meeting of Standing Committee on Customer Services Settlement procedures in respect of payment of fraudulent instruments.
	13	• All RRBs were advised that it has been decided to allow RRBs to convert their satellite offices into full-fledged branches after obtaining concurrence from the Empowered Committee on RRBs. RRBs should also obtain necessary licence from the concerned Regional Office of the Reserve Bank.
	17	• All Commercial Banks were advised to ensure that all the branches of their bank meticulously adhere to the instructions issued by the Reserve Bank while extending home loans.
	21	• All RRBs were advised that as the restrictive provisions of Service Area Approach have been dispensed with, it has been decided to modify the undernoted paragraphs as follows: 3.1 *Shifting of branches at rural centers* The shifting of branches in rural centres may be effected by RRBs themselves without obtaining the prior approval of the Reserve Bank, subject to the condition that both the existing and proposed centres are within the same block, and that the relocated branch would be able to cater adequately to the banking needs of the villages served by the existing branch. 3.2. *At Semi-Urban Centres* RRBs may shift their branches at semi-urban centres within the same locality/municipal ward without the prior approval of the Reserve Bank. It should, however, be ensured that the locality/ ward is not rendered unbanked due to the shifting of branch/es. 9. *Merger of loss making branches* Where two loss making branches of any RRB are in close proximity to each other *(i.e*., within a distance of about 5 kms.), they may consider merging the two branches with a view to rationalising the spatial spread and reducing establishment/operating costs. 10. Deleted
October	23	• The name of 'Lord Krishna Bank Ltd' was excluded from the Second Schedule to the Reserve Bank of India Act, 1934.
	24	• The Guidelines on Asset-Liability Management (ALM) System was amended and all commercial banks advised that:(a) the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity into three time buckets viz. Next day , 2-7 days and 8-14 days. (b) the Statement of Structural Liquidity may be compiled on best available data coverage, in due consideration of non-availability of a fully networked environment. Banks may, however, make concerted and requisite efforts to ensure coverage of 100 per cent data in a timely manner.(c) the net cumulative negative mismatches during the Next day, 2-7 days, 8-14 days and 15-28 days buckets should not exceed 5 per cent ,10 per cent, 15 per cent and 20 per cent of the cumulative cash outflows in the respective time buckets in order to recognise the cumulative impact on liquidity.(d) banks may undertake dynamic liquidity management and should prepare the Statement of Structural Liquidity on daily basis. The Statement of Structural Liquidity, may, however, be reported to the Reserve Bank, once a month, as on the third Wednesday of every month.
	30	• It was decided to increase CRR of SCBs by 50 basis points to 7.50 per cent of their demand and time liabilities with effect from the fortnight beginning November 10, 2007. • The name of 'UTI Bank Ltd' was changed to 'Axis Bank Ltd' in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from July 30, 2007.
	31	• It was decided to increase CRR of all RRBs by 50 basis points to 7.50 per cent of their demand and time liabilities with effect from the fortnight beginning November 10, 2007.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
		B) Co-operative Banks
2006		
April	13	• UCBs registered in states, which have signed MOU and those registered under the Multi-State Co-operative Societies Act, 2002 may enter into agreements with mutual funds for marketing their units subject to certain conditions, including i) the UCB should act as an agent of the customers, ii) the purchase of MF units should be at the customers' risk and without the UCB guaranteeing any assured return, iii) the UCB should not acquire such units of mutual fund from the secondary market, iv) the UCB should not buy back units of mutual funds from the customers, and v) the UCBs should ensure compliance with extant KYC/AML guidelines.
	28	• With a view to enable better customer service, UCBs were advised to undertake following limited transactions at the extension counters: i) deposit/withdrawal transactions, ii) issue and encashment of drafts and mail transfers, iii) issue and encashment of travellers' cheques, iv) collection of bills, v) advances against fixed deposits of their customers (within the sanctioning power of the concerned officials at the Extension Counter), and vi) disbursement of other loans (only for individuals) sanctioned by the Head Office / base branch up to the limit of Rs.10 lakh. • The eligibility criterion for UCBs to set up on-site/off site ATMs are specified as: i) minimum deposits of Rs.100 crore, ii) compliance with the prescribed CRAR, iii) net NPA less than 10 per cent, and iv) consistent record of profitability and compliance with CRR/SLR.
May	26	• In order to ensure transparency in banking services, the scheduled UCBs were advised to display and update, on their website, the details of various service charges in the prescribed format. UCBs were also advised to display the charges relating to certain services as prescribed in their offices/ branches. This may also be displayed in the local language.
June	1	• The risk weight on UCBs' exposure to the commercial real estate was raised to 150 per cent from 125 per cent.
	6	• StCBs and DCCBs permitted to open savings bank accounts in the names of State Government departments/bodies/agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by State Governments on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account.
	15	• The general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans increased to 1.0 per cent from the earlier level of 0.40 per cent. The revised norms were made applicable to Unit banks and banks having multiple branches within a single district with deposit of Rs.100 crore and above and all other UCBs operating in more than one district.
	19	• Bureau of Indian Standards (BIS) has formulated a comprehensive building Code namely National Building Code (NBC) of India 2005, providing guidelines for regulating the building construction activities across the country. The Code contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements; fire safety requirements; stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. The boards of UCBs were advised to consider this aspect for incorporation in their loan policies. Similar guidelines were issued to StCBs and DCCBs on June 26, 2006.
July	11	• With a view to rationalizing the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to priority sector borrowers, UCBs were directed that investments that may be made by them on or after April 1, 2007 in the bonds issued by NHB/HUDCO shall not be eligible for classification under priority sector lending.
	21	• UCBs were directed to ensure that all the farmers' loan-accounts in notified districts, which were overdue as on July 01, 2006, are rescheduled on the lines of the package of "Relief Measures to the Vidarbha Region in Maharashtra" announced by the Prime Minister and the interest thereon (as on July 01, 2006) is fully waived. Fresh finance may be ensured to such farmers.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
July	24	• Scheduled UCBs were directed to place service charges and fees on the homepage of their website at a prominent place under the title 'Service Charges and Fees' so as to facilitate easy access by the UCB customers. A complaint form, along with the name of the nodal officer for complaint redressal, may be provided in the homepage itself to facilitate complaint submission by the customers. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month.
	26	• UCBs were advised not to associate themselves with internet based electronic purse schemes which are in the nature of acceptance of deposits that can be withdrawn on demand. Similar guidelines were issued to StCBs, DCCBs and RRBs on August 7, 2006.
August	11	• StCBs advised that with effect from the fortnight beginning June 24, 2006 penal interest in case of default in maintaining stipulated balances under CRR would be charged as follows: i) in cases of default in maintenance of CRR requirement on a daily basis, which is presently 70 per cent of the total Cash Reserve Ratio requirement, penal interest would be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest would be recovered at a rate of five per cent per annum above the bank rate; (ii) in cases of default in maintenance of CRR on average basis during a fortnight, penal interest would be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934. Similar guidelines were issued to Scheduled Primary (Urban) Co-operative Banks on August 16, 2006.
	18	• Accounting and related aspects for 'When Issued' transactions in Central Government issued to UCBs.
September	4	• Guidelines issued to UCBs on relief measures to be extended by banks in areas affected by natural calamities.
	22	• In order to improve the quality of service available to customers in branches StCBs /DCCBs were advised to ensure that full address/telephone number of the branch is invariably mentioned in the pass books/statement of accounts issued to account holders.
	26	• UCBs were advised to furnish the data on frauds, thefts, burglaries *etc.*, in format FMR – 2, 3, and 4 on a quarterly basis to the regional offices of the Reserve Bank within 15 days of the end of the quarter to which the data relates.
October	6	• UCBs were advised to ensure that full address/telephone numbers of the branch is invariably mentioned in the Pass Books/Statement of Accounts issued to account holders.
	11	• StCBs/DCCBs were advised to invariably offer pass book facilities to all its account holders (individuals). Similar guidelines were issued to UCBs on October 16, 2006.
	17	• UCBs were advised that within the overall target for priority sector lending and the sub-target of 25 per cent for the weaker sections, sufficient care should be taken to ensure that the minority communities also receive an equitable portion of the credit. • UCBs allowed to extend individual housing loan upto the limit of Rs.25 lakh per beneficiary of a dwelling unit. However housing loans above Rs.15 lakh will not be treated as priority sector lending. The present stipulation that the amount of instalment and interest should not exceed 30 per cent of the income of the borrowers stands dispensed with.
November	13	• UCBs, other than those in Grade III and IV, registered in states which have signed MoU and those registered under Multi-State Co-operative Societies Act, 2002 will be eligible to convert the extension counters on completion of three years of their operation into full-fledged branches. The shifting/ relocation of these branches, if considered necessary by the bank, would be permitted subject to

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date			Measures
2006			
			the following conditions: (i) the proposal is for shifting/relocation of the converted branch within the city/town limit; (ii) banking services to the existing customers of the extension counter, including the institutional customer, are ensured; (iii) no new extension counter will be allowed in the institution in which the extension counter is housed presently.
November	22	•	UCBs to strictly comply with the directive issued by the Hon'able High Court of Delhi. These directives relate to housing loans for a) building construction; b) purchase of constructed property/ built up property; c) properties which fall under category of unauthorised colonies; and d) properties meant for residential use but which the applicant intends to use for commercial purposes.
	27	•	UCBs were advised that they would be eligible for AD licence, subject to compliance with the norms laid down by the Reserve Bank. It was decided not to give any fresh authorization for UCBs to function as FFMC.
December	11	•	The Reserve Bank has decided to increase the CRR of the StCBs and scheduled primary (urban) co-operative banking system by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, effective from fortnights as indicated: effective date (*i.e.*, the fortnight beginning from): CRR on net demand and time liabilities - December 23, 2006 –5.25; January 06 2007 - 5.50.
	13	•	UCBs were advised that earlier instructions for payment of interest for delay in issue of duplicate Demand Draft would be applicable only in cases where the request for duplicate Demand Draft is made by the purchaser or the beneficiary and would not be applicable in the case of third party endorsements.
	18	•	SCBs were advised that customers should not be compelled to drop the cheques in the drop box. Banks were also advised to display on the cheque drop box, 'Customer can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slips'. No branch should refuse to give an acknowledgement if the customer tenders the cheque at the counters. Similar advises were issued to RRBs, StCBs and DCCBs on December 26, 2006 and to UCBs on December 28, 2006.
	26	•	For mitigating the distress of farmers in the debt stressed districts of Andhra Pradesh, Karnataka and Kerala, the Union Government has approved a package which, besides other items, has a component relating to agriculture credit which includes the following: (i) the entire interest on overdue loans as on July 1, 2006 will be waived in the affected districts and all farmers will have no past interest burden as on that date, so that they will immediately be eligible for fresh loans from the banking system; (ii) the overdue loans of the farmers as on July 1, 2006 would be rescheduled over a period of 3-5 years with a one-year moratorium; and (iii) a credit flow of Rs.13,817.78 crore, Rs.3,076.20 crore and Rs.1,945.07 crore would be ensured in the above debt stressed districts of Andhra Pradesh, Karnakata and Kerala respectively in 2006-07. The burden of waiver of overdue interest would be shared equally by the State and Central Governments. While apportioning the overdue interest as above, due care should be taken to offset releases if any, already made by the State Government on this count.
	28	•	UCBs were advised that their customers should not be compelled to drop cheques in the drop boxes. While the cheque drop box facility may be made available to the customers, the facility for acknowledgement of the cheques at the regular collection counters should not be denied to them. No branch should refuse to give an acknowledgement on cheques tendered by customers at their counters.
2007			
January	22	•	Master Circular consolidating and updating all instructions/guidelines on Management of Advances issued to all UCBs.

Appendix: Chronology of Major Policy Developments *(Continued)*

<table>
<tr><th colspan="2">Announcement Date</th><th>Measures</th></tr>
<tr><td colspan="3">2007</td></tr>
<tr><td>February</td><td>5</td><td>• Despite instructions issued by the Reserve Bank, it has been observed that banks still continue to follow the practice of stapling of note packets. This practice, apart from damaging notes, reduces the life span of notes and renders it difficult for customers to open note packets easily. All DCCBs advised that with immediate effect to: (i) do away with stapling of any note packets and instead secure them with paper bands; (ii) sort notes into re-issuables and non-issuables and issue only clean notes to public. Soiled notes in unstapled condition may be tendered at the Reserve Bank in inward remittances through Currency Chests; and (iii)) forthwith stop writing of any kind on watermark window of bank notes.</td></tr>
<tr><td></td><td>19</td><td>• It was decided to increase the provisioning requirement in respect of the standard assets in the following categories of loans and advaces from one percent to two per cent with immediate effect in respect of unit banks and banks having multiple branches within a single district with deposit of Rs. 100 Crore and above and all other UCBs operating in more than one district: a) Personal loans b) Loans and advances qualifying as capital market exposure; and c) real estate loans (excluding residential housing loans).

The provisioning requirement for all other loans and advances, which are standard assets, including those to agriculture, SMEs and industry in general will remain unchanged. The standard asset provisioning requirements for categories of banks mentioned above, after the above changes, are summarised below. These provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

<table>
<tr><th>Sr. No.</th><th>Category of standard asset</th><th>Rate of provisioning</th></tr>
<tr><td>(a)</td><td>Direct advances to agricultural and SME sectors</td><td>0.25 %</td></tr>
<tr><td>(b)</td><td>Personal loans, loans and advances qualifying as capital market exposures, commercial real estate loans and loans and advances to systemically important NBFCs-ND.</td><td>2.00 %</td></tr>
<tr><td>(c)</td><td>All other loans and advances not included in (a) and (b) above</td><td>0.40%</td></tr>
</table></td></tr>
<tr><td>March</td><td>1</td><td>• All UCBs were advised that they would continue to be exempted from maintaining average CRR with effect from June 22, 2006 on the following liabilities, subject to the maintenance of statutory minimum CRR of 3 per cent on its total demand and time liabilities: (i) Liabilities to the banking system in India as computed under Clause (d) of the Explanation to Section 42 (1) of the RBI Act, 1934; and (ii) Transactions in Collateralised Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India (CCIL).

• All UCBs were advised that Government of India have notified January 9, 2007 as the date on which all the provisions, except Section 3 of the Reserve Bank of India (Amendment) Act, 2006 shall come into force.

Section 3 of Reserve Bank of India (Amendment) Act, 2006 provided for the removal of: (i) the ceiling and floor on the CRR to be prescribed by the Reserve Bank having regard to the need for securing monetary stability in the country; and (ii) the provision for interest payment on eligible CRR balances (i.e., the amount of reserves between the statutory minimum CRR and the CRR prescribed by the Reserve Bank).

1. Effective CRR maintained by UCBs on total demand and time liabilities shall not be less than 3 per cent. In exercise of the powers conferred on Reserve Bank under sub section (1) of section 42 of the Reserve Bank of India Act, 1934, all UCBs would continue to maintain a Cash Reserve Ratio of 5.75 per cent effective fortnight beginning February 17, 2007 and 6.00 per cent effective from the fortnight beginning March 3, 2007 of its total demand and time liabilities.

2. In terms of the powers conferred on the Reserve Bank under sub-Section 42(5)(c) of the Reserve Bank of India Act, 1934, banks who have breached the statutory minimum CRR level of 3 per cent during June 22, 2006 to March 2, 2007 on account of CRR exemptions reckoned for computation of demand and time liabilities for CRR would be exempt from payment of the penal interest.</td></tr>
</table>

Appendix: Chronology of Major Policy Developments *(Continued)*

<table>
<tr><th colspan="2">Announcement Date</th><th>Measures</th></tr>
<tr><td colspan="3">2007</td></tr>
<tr><td></td><td></td><td>3. The Reserve Bank would pay interest to all UCBs on the eligible CRR balances at the rate of: (a) 3.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning June 24, 2006 to December 8, 2006, (b) 2.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning from December 9, 2006 to February 16, 2007, (c) 1.0 per cent on eligible cash balances maintained with the Reserve Bank under CRR requirement from the fortnight beginning from February 17, 2007.</td></tr>
<tr><td>March</td><td>16</td><td>• UCBs were advised to ensure that no loans were sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.</td></tr>
<tr><td></td><td>23</td><td>• StCBs/DCCBs were advised to ensure that no loans were sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.</td></tr>
<tr><td>April</td><td>4</td><td>• StCBs advised that it was decided to increase Cash Reserve Ratio (CRR) by one-half of one percentage point of their Net Demand and Time Liabilities (NDTL) in two stages, effective from the fortnights as indicated below:
<table><tr><th>Effective date (i.e. the fortnight beginning from)</th><th>CRR on net demand and time liabilities (per cent)</th></tr><tr><td>April 14, 2007</td><td>6.25</td></tr><tr><td>April 28, 2007</td><td>6.50</td></tr></table>However, the effective CRR maintained by StCBs on total demand and time liabilities would not be less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934.
• With effect from the fortnight beginning on April 14, 2007, the StCBs would be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank of India under current CRR requirement.</td></tr>
<tr><td></td><td>5</td><td>• UCBs advised that it was decided to increase Cash Reserve Ratio (CRR) by one-half of one percentage point of their Net Demand and Time Liabilities (NDTL) in two stages, effective from the fortnights as indicated below:
<table><tr><th>Effective date (i.e. the fortnight beginning from)</th><th>CRR on net demand and time liabilities (per cent)</th></tr><tr><td>April 14, 2007</td><td>6.25</td></tr><tr><td>April 28, 2007</td><td>6.50</td></tr></table>However, the effective CRR maintained by UCBs on total demand and time liabilities should not be less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934. With effect from the fortnight beginning on April 14, 2007, the UCBs would be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under current CRR requirement.</td></tr>
<tr><td></td><td>9</td><td>• StCBs were advised to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them</td></tr>
<tr><td></td><td>12</td><td>• StCBs and DCCBs were advised to generally insist that the person opening a deposit account makes a nomination. In case the person opening an account declined to fill in nomination, the bank should explain the advantages of nomination facility. If the person opening the account still did not want to nominate, the bank should ask him to give a specific letter to the effect that he does not want to make a nomination. In case the person opening the account declined to give such a letter, the bank should record the fact on the account opening form and proceed with opening of the account, if otherwise found eligible. Under no circumstances, a bank should refuse to open an account solely on the ground that the person opening the account refused to nominate.</td></tr>
</table>

Appendix: Chronology of Major Policy Developments *(Continued)*

<table>
<tr><th colspan="2">Announcement Date</th><th>Measures</th></tr>
<tr><td colspan="2">2007</td><td></td></tr>
<tr><td>April</td><td>17</td><td>• UCBs were advised to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them.</td></tr>
<tr><td></td><td>18</td><td>• UCBs were advised that the Government of India had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006, which was notified on October 2, 2006. The definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services was modified and was required to be implemented by the banks alongwith other policy measures with immediate effect. Bank's lending to medium enterprises, where investment in equipment is more than Rs.2 crore but does not exceed Rs.5 core will not be included for the purpose of reckoning under the priority sector</td></tr>
<tr><td></td><td>19</td><td>• UCBs were advised to generally insist that the person opening a deposit account makes a nomination. In case the person opening an account declined to fill in nomination, the bank should explain the advantages of nomination facility. If the person opening the account still did not want to nominate, the bank should ask him to give a specific letter to the effect that he does not want to make a nomination. In case the person opening the account declined to give such a letter, the bank should record the fact on the account opening form and proceed with opening of the account, if otherwise found eligible. Under no circumstances, a bank should refuse to open an account solely on the ground that the person opening the account refused to nominate.</td></tr>
<tr><td></td><td>24</td><td>• StCBs were advised that they would be exempted from maintaining average CRR with effect from April 01, 2007 on the following liabilities as computed under section 42 of the RBI Act, 1934. (i) Liabilities to the banking system in India as computed under Clause (e) of the Explanation to Section 42 (1) of the RBI Act, 1934; (ii) Transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India. (CCIL).

• GoI in their Extraordinary Gazette notification No.S.O.337(E) dated March 9, 2007 notified April 01, 2007 as the date on which the provisions of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 came into force. Consequent upon the provisions of Section 3 of the RBI (Amendment) Act, 2006 coming into force, the amendment carried out to sub-Section (1) of Section 42 of Reserve Bank of India Act, 1934 was brought into force with effect from April 01, 2007. Accordingly, the statutory minimum CRR requirement of 3 per cent of total demand and time liabilities no longer existed with effect from the said notified date. The Reserve Bank having regard to the needs of securing the monetary stability in the country, may from time to time prescribe the CRR for UCBs without any floor and ceiling rate. (2) In exercise of the powers conferred on the Reserve Bank, it was decided to continue the status quo on the rate of CRR to be maintained by UCBs and the extant exemptions which would be operative till further changes are notified. Accordingly, UCBs would continue to maintain CRR on their total demand and time liabilities.
<table>
<tr><th>Effective date (i.e. the fortnight beginning from)</th><th>CRR on net demand and time liabilities (per cent)</th></tr>
<tr><td>April 14, 2007</td><td>6.25</td></tr>
<tr><td>April 28, 2007</td><td>6.50</td></tr>
</table>
In view of Section 3 of the Reserve Bank of India (Amendment) Act, 2006 coming into force, sub-section (1B) of Section 42 of the Reserve Bank of India Act, 1934 stands omitted with effect from April 01, 2007. Consistent with the amendment it was decided that with effect from the fortnight beginning March 31, 2007, the Reserve Bank would not be paying any interest on the CRR balances maintained by UCBs.</td></tr>
<tr><td></td><td>30</td><td>• UCBs were advised that the risk weight on loans up to Rs.1 lakh against gold and silver ornaments was reduced to 50 per cent from the existing level of 125 per cent with immediate effect.

• Relaxed prudential guidelines on income recognition, asset classification and provisioning norms for UCBs extended by one year.</td></tr>
<tr><td>May</td><td>4</td><td>• UCBs were advised to ensure that no money transaction of the company/ies, declared as "defaulted companies" by the Patna High Court be allowed in the bank. Accordingly, all branches may be advised in this regard immediately and the compliance of the order be reported.</td></tr>
</table>

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	4	• UCBs advised that the risk weight on the residential housing loans to individuals was reduced from the existing 75 per cent to 50 per cent as a temporary measure which would be applicable for loans up to Rs.20 lakh and would be reviewed after one year, keeping in view the default experience and other relevant factors.
	16	• StCBs/DCCBs were advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances.
	18	• UCBs were advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. • StCBs/DCCBs were urged to scale up their financial inclusion efforts by utilizing appropriate technology. Care should be taken to ensure that the solutions developed were: highly secure; amenable to audit; and followed widely accepted open standards to allow inter-operability among the different systems adopted by different banks. • Fresh guidelines issued to StCBs/DCCBs on various issues relating to extension of Safe Deposit Locker/Safe Custody Article Facility and Access to Safe Deposit Lockers / Return of Safe Custody Articles by banks.
	24	• The Reserve Bank directed that all scheduled UCBs comply with the amended Banking Ombudsman Scheme, 2006.
June	21	• UCBs were advised that fresh guidelines were issued in regard to Extension of safe deposit locker/ safe custody article facility and access to safe deposit lockers / return of safe custody articles by banks.
July	13	• UCBs were advised that they were (i) prohibited from extending any fund based or non fund based credit facilities whether secured or unsecured to stockbrokers. The prohibition would cover in addition to shares and debentures, loans and advances against other securities, such as fixed deposits, LIC policies, *etc*., (ii) UCBs were not permitted to extend any facility to commodity brokers. This included issue of guarantees on their behalf. (iii) Advances against units of mutual funds could be extended only to individuals as in the case of advances against the security of shares, debentures and bonds. Any credit facility presently in force, but not in consonance with the above instructions should be withdrawn /closed without any delay. A compliance report in this regard should submitted to the regional office concerned. • UCBs were advised that the matter of amortization of goodwill on merger was reviewed were advised as follows: (i) Where the consideration, if any, paid for the acquisition/amalgamation exceeds the book value of the net assets taken over, the excess amount should be treated as goodwill and amortized over a period of five years in equal installments; (ii) Where no consideration is paid but the book value of the assets is less than the book value of liabilities taken over, the excess of the book value of liabilities over the book value of the assets taken over will be considered as goodwill and amortized over a period of five years in equal installments; and (iii) Where no consideration is paid, but the book value of the assets taken over is greater than the book value of the liabilities taken over, the excess of the book value of assets over the book value of the liabilities will be considered as Capital Reserve. • Guidelines were issued to UCBs for issuance of ATM-cum-Debit Cards. Banks which were authorised to install on-site/off-site ATMs, could introduce ATM-cum-Debit cards with the approval of their Board. Issuance of offline debit card was however, not permitted. Concerned Regional Office of the Reserve Bank should be advised about the details of the ATM-cum-debit cards introduced together with a copy each of the agenda note put up to their Board and the resolution passed thereon. UCBs should not issue ATM-cum- debit cards in tie-up with other non-bank entities. UCBs were to review operations of these cards and put up review notes to their Boards at half yearly intervals, at the end of March and September, every year. A report on the operations of these cards issued by banks should be forwarded to the Reserve Bank, on a half yearly basis, at the end of March and September every year.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
July	17	• UCBs holding AD category I or II licence could act as agents/sub-agents under Money Transfer Service Schemes (MTSS) which was in conformity with the guidelines issued by Foreign Exchange Department (FED), subject to the following conditions: (i) Bank's adherence to AML/KYC standards should be satisfactory; (ii) The principal should maintain foreign currency deposits (USD) with the designated bank in favour of the agent which, at present, is equivalent to 3 days' average payout or USD 50,000, whichever is higher; (iii) Where the UCB is acting as a sub-agent, the agent should also maintain with the designated bank, security deposits equivalent to 3 days' average payout or Rs 20 lakh, whichever is higher, in favour of the UCB sub-agents concerned; (iv) The UCBs should ensure that the payouts not reimbursed do not, at any point of time, exceed the security deposits placed by the overseas principal /agent, as the case may be; (v) No UCB could appoint any other UCB/entity as its sub-agent.
August	14	• All Scheduled UCBs were guided about the notification issued by the Ministry of Consumer Affairs, Food and Public Distribution in regard to creation of buffer stock. As per the GoI notification, the Government has decided to create a buffer stock of 20 lakh tons of sugar for a period of one year with effect from May 1, 2007. Under the arrangement, the Government will release subsidy of Rs.378 crore out of Sugar Development Fund and the banks have to sanction additional credit limit amounting to Rs.420 crore to release the margin consequent upon creation of the buffer stock from the existing stock of sugar. For operation of the Scheme, it would be necessary for sugar mills to segregate the stocks meant for buffer stock operations from the stock of sugar already held by them. The banks should allocate out of the regular limits, separate sub-limits representing 100 per cent value of buffer stocks held by sugar mills. The amount released as a result of providing 100 per cent drawings against buffer stocks, *i.e.*, the amount in *lieu* of the margin money should be credited to a special account. It would be necessary for the banks to ensure that the amount available in this account is utilised for making cane payments.
	28	• All UCBs were advised that the Bank has decided to consider their requests to shift their branches from one city to another in their area of operation within the same State subject to the following conditions – (i) The new centre is of the same or lower population group as the existing centre, *e.g.*, a branch at a 'D' centre can be shifted to another 'D' centre only; (ii) A branch located in underbanked district can be shifted to another centre in underbanked district only; and (iii) The shifting should be beneficial to the bank in terms of cost and business.
	30	• All UCBs were advised to issue necessary instructions to their controlling offices, branch offices advising them to specially monitor the credit flow to minorities in the specified 121 minority concentrated districts thereby ensuring that the minority communities receive an equitable portion of the credit within the overall target of the priority sector. The above requirement should be kept in view for the purpose of earmarking of targets and location of development projects under the 'Prime Ministers New 15 Point Programme for the Welfare of the Minorities'. • All UCBs were advised the revised guidelines on lending to priority Sector, which take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.
September	13	• All Primary UCBs were advised to ensure that loan facilities are utilised by borrowers for the purpose sanctioned. Banks should therefore have a mechanism for proper monitoring of the end use of funds. Wherever diversion is observed, they should take appropriate action against the borrowers concerned and the steps needed to protect the bank's interest. The bank may put in place more stringent safeguards, especially where accounts shows sign of turning into NPAs. In such cases banks may strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds are routed through the borrower's accounts maintained with the bank and insisting on pledge of the stock in place of hypothecation. Whenever stocks under hypothecation to cash credit and other loan accounts are found to have been sold but the proceeds thereof not credited to the loan account, such action should normally be treated as a fraud. In such cases, banks may take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security; as also other action as warranted.
	18	• All Salary Earner Primary UCBs were advised that it has been decided not to insist upon induction of two professional directors on the Boards of Salary Earners Banks.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
September	18	• All Primary UCBs were advised that in order to allow UCBs greater flexibility in making non-SLR investments, these investments would be governed by the following guidelines henceforth: (i) Non-SLR investments will continue to be limited to 10 per cent of a bank's total deposits as on March 31 of the previous year; (ii) Investments will be limited to "A" or equivalent rated Commercial Papers (CPs), debentures and bonds that are redeemable in nature. Investments in perpetual debt instruments are, however, not permitted; (iii) Investments in unlisted securities should not exceed 10 per cent of the total Non-SLR investments at any time. Where banks have already exceeded the said limit, no incremental investment in such securities will be permitted; (iv) Investments in units of mutual funds, except debt mutual funds and money market mutual funds, will not be permitted. The existing holding in units of other than debt mutual funds and money market mutual funds, including those in UTI should be disinvested. Till such time that they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at (i) above; (v) Fresh investments in shares of All India Financial Institutions (AIFIs) will also not be permitted. The existing share holding in these institutions may be phased out and till such time they are held in the books of the bank, they will be reckoned as non-SLR investments for the purpose of the limit at (i) above; (vi) All fresh investments under non-SLR category should be classified under Held for Trading (HFT)/Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments; (vii) Balances held in deposit accounts with commercial banks and in permitted scheduled UCBs and investments in certificate of deposits issued by commercial banks will be outside the limit of 10 per cent of total deposits prescribed for non-SLR investments (viii) The total amount of funds placed as inter-bank deposits (for all purposes including clearing, remittance, *etc*.) shall not exceed 10 per cent of the DTL of a UCB as on March 31 of the previous year. The prudential inter-bank exposure limit of 10 per cent of the DTL would be all-inclusive and not limited to inter-bank call and notice money. The only exception is made for Tier I UCBs, which may place deposits up to 15 per cent of their NDTL with public sector banks over and above the said prudential limit of 10 per cent of NDTL; (ix) Exposure to any single bank should not exceed 2 per cent of the depositing bank's DTL as on March 31 of the previous year, inclusive of its total non- SLR investments and deposits placed with that bank. Deposits, if any, placed for availing CSGL facility, currency chest facility and non-fund; based facilities like Bank Guarantee (BG), Letter of Credit (LC) would be excluded to determine the single bank exposure limit for this purpose; (x) All investments as above, barring deposits placed with banks for which prudential limits have been prescribed at (ix) above, will be subject to the prescribed prudential individual /group exposure limits; (xi) All investments, other than those Ps and CDs, shall be in instruments with an original maturity of at least one year; (xii) The non-scheduled primary (urban) co-operative banks, having single; branch-cum-head-office or having multiple branches within a single district, having a deposit base of Rs.100 crore or less have been exempted from maintaining SLR in prescribed assets up to 15 per cent of their DTL on keeping the required amount, in interest bearing deposits, with State Bank of India and its subsidiary banks and the public sector banks including Industrial Development Bank of India Ltd., in terms of Bank's circular dated February 17, 2006. Such deposits are not covered under these guidelines and the limits prescribed at (vii) above are exclusive of such deposits.
	20	• All Primary (Urban) Co-operative Banks were advised that when a UCB has availed a loan from a DCCB/StCB with which it is maintaining deposits, the amount of loan availed from the DCCB/StCB would be deducted from the deposits irrespective of whether lien has been marked on such deposits or not, for the purpose of computation of SLR. UCBs are given a period of six months to comply with the SLR requirements in case of shortfall, if any, arising from the above instructions.
		C) Financial Institutions
2006		
March	6	• All FIs were advised that loan application forms in respect of priority sector advances for all categories of loans irrespective of the amount of loan sought by the borrower should be comprehensive and should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks could be made and informed decision could be taken by the borrower. FIs were advised that in case of all categories of loans irrespective of any threshold limits, including credit card applications, the lenders should convey in writing, within stipulated time, the main reason/ reasons which, in the opinion of the bank / FI have led to rejection of the loan applications.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
May	16	• In partial modification of the earlier guidelines on purchase/sale of NPAs dated July 13, 2005, AIFIs were advised that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years. The revised guidelines came into force with immediate effect.
		D) Non-Banking Financial Companies (NBFCs)
2006		
April	5	• Certain changes were made in the format of monthly return to be submitted by the NBFCs not accepting/holding public deposits and having assets size of Rs.100 crore and above to include parameters such as cumulative position in Profit and Loss Account, age-wise break up of NPAs, highest outstanding balance of working capital, certain additional information on capital market exposure of the company and foreign sources of funds. • NBFCs, MNBCs and RNBCs to go through the provisions of Prevention of Money Laundering Act (PMLA), 2002 and the Rules notified there under on July 1, 2005 and take all steps considered necessary to ensure compliance. The Rules include, maintenance of records of transactions, preservation of information and reporting to financial intelligence unit-India.
September	20	• While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFCs may 'net-off' against the total outstanding exposure to the borrower advances standardized by cash margins/security deposits/caution money against which right to set off is available. • Securitisation Companies or Reconstruction Companies should invest in security receipts an amount not less than 5 per cent issued under each scheme with immediate effect. In the case of Securitisation Companies or Reconstruction Companies, which have already issued the security receipts, such companies shall achieve the minimum subscription limit in security receipts under each scheme, within a period of six months from the date of Notification issued in this regard.
	21	• The NBFCs were advised to submit a certificate from their Statutory Auditors every year to the effect that they continue to undertake the business of NBFI requiring holding of CoR under Section 45-IA of the RBI Act, 1934. It was clarified vide circular dated October 19, 2006 that for this purpose, the definition of Principle Business as given vide Press Release 1998-99/1269 dated April 8, 1999 may be followed.
	28	• NBFCs were issued comprehensive instructions under Sec 45 of RBI Act, 1934 to frame broad guidelines on fair practice code approved by their Board of Directors and the same should be published and disseminated on the web-site of the company for information of the public.
October	19	• The Securitisation Companies or Reconstruction Companies were advised to commence business within six months from the date of grant of Certificate of Registration. The Bank may, on an application made by the Securitisation Company or Reconstruction Company, grant extension of time for commencement of business beyond six months, on merits, but in no case, such extension of time shall exceed 12 months from the date of grant of Certificate of Registration. Those Securitisation Companies or Reconstruction Companies which have already obtained a Certificate of Registration from the Bank under Section 3 of the Act, ibid, and not commenced business till date, shall commence business within a period of six months from the date of the Notification.
	27	• It has been clarified that prior public notice about change in control / management should be given by the NBFC and also by the transferor or the transferee or jointly by the parties concerned.
December	4	• NBFCs registered with the Reserve Bank allowed, selectively, issuing co-branded credit cards to SCBs without risk sharing, with prior approval of the Reserve Bank for an initial period of 2 years to be reviewed thereafter. The NBFC under the tie-up arrangement should be limited only to marketing and distribution of the co-branded credit cards. The co-branded credit card issuing bank would be subject to all the instructions/guidelines issued by its concerned regulatory authority.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2006		
December	4	• In order to strengthen the NBFC sector by allowing diversification in their area of business, it was decided to allow NBFCs, selectively, to market and distribute mutual fund products as agents of mutual funds, with prior approval of Reserve Bank, for an initial period of two years and a review thereafter. NBFCs fulfilling the minimum prescribed requirements are eligible to apply.
	6	• NBFCs were re-classified by the Reserve Bank as Asset Refinance Company, Investment Company and Loan Company. Companies financing real/physical assets for productive/economic activity would be classified as Asset Finance Compnay (AFC). The remaining companies would continue to be classified as loan/investment companies. Accordingly, the classification in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1988 was modified.
	12	• In the light of the concerns arising out of the divergent regulatory requirements for various aspects of functioning of banks and NBFCs the modifications were made in the regulatory framework for Systemically Important non-deposit taking NBFCs (NBFCs-ND-SI). All NBFCs – ND with asset size of Rs. 100 crore and above as per the last audited balance sheet will be considered as a systemically important NBFC – ND. Such companies have been advised to maintain a minimum CRAR of 10 % and single party / group exposure norms have been prescribed for them.
	28	• UCBs/StCBs/DCCBs were advised that customer should not be compelled to drop the cheques in the drop box. Banks were also advised to display on the cheque drop box, 'Customer can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slips'. No branch should refuse to give an acknowledgement if the customer tenders the cheque at the counters.
2007		
January	4	• NBFCs accepting/holding public deposits were advised earlier to create floating charge on the statutory liquid assets invested in terms of Section 45-IB of the RBI Act, 1934, in favour of their depositors. In view of the practical difficulties expressed by the NBFCs in creating charge on the statutory liquid assets in favour of a large number of depositors, it was decided in January 2007 that NBFCs accepting / holding public deposits may create the floating charge on the statutory liquid assets, in favour of their depositors, through the mechanism of 'Trust Deed'. • In the light of the fact that Ministry of Corporarte Affairs has taken over the entire regulation of Mutual Benefit Financial Companies (Notified Nidhis) and Mutual Benefit Companies (Potential Nidhis), the position regarding submission of Annual Returns by MBFCs and MBCs was reviewed. It was decided not to call for Annual Return in First Schedule, audited balance sheet and profit and loss account, auditor's certificate and other particulars as contained in paragraph 8 of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 from MBFCs and MBCs.
February	19	• The provisioning requirement for loans and advances in the standard assets category to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC- ND -SI) has been increased from 0.40 per cent at present to two per cent with immediate effect. A Non-Deposit taking NBFC with an asset size of Rs.100 crore or above as per the last audited balance sheet is considered as a NBFC-ND-SI. The risk weight for all exposures to NBFC-ND-SI has been increased to 125 per cent from the present level of 100 per cent with immediate effect. Sr. No. | Category of standard asset | Rate of provisioning (a) | Personal loans, loans and advances qualifying as capital market exposures, commercial real estate loans and loans and advances to systemically important NBFCs-ND. | 2.00 %
	22	• Two sets of Prudential Norms Directions *i.e.*, Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 for deposit taking NBFCs and Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 for non-deposit taking NBFCs were issued. Further, all deposit taking NBFCs and RNBCs with total assets of Rs. 100 crore and above were advised to submit the monthly return on Capital Market Exposure in the prescribed format with effect from April 2007. Earlier deposit taking NBFCs with deposits of Rs 50 crore and above were submitting return on Capital Market Exposure.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
February	22	• All NBFCs and RNBCs with total assets of Rs.100 crore and above should submit the return in the prescribed format (NBS 6) on a monthly basis within seven days of the close of the month to which it relates. NBFCs with deposits of Rs 50 crore and above may continue to submit return on Capital Market Exposure as hitherto being submitted, till the month ending March 31, 2007, thereafter revised instructions will be applicable.
	23	• NBFCs were advised to consider a quick scrutiny of the accounts on whom they have large exposure and confirm to themselves that funds have not been diverted for procurement of food grains with a view to hoarding.
April	4	• NBFCs were advised to include in their advertisements issued in print or electronic media (including web-sites) or statement in lieu of advertisement (SILA), a statement regarding their Certificate of Registration, *etc*. It was possible that the advertisement released by NBFCs accepting deposits purely for promoting its business would attract deposits. To ensure transparency in the interest of depositors in the context of such advertisements and draw attention of the depositors to the above provision, it was proposed to incorporate suitable provision in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998. The NBFCs should incorporate following caption in advertisement. (i) As regards deposit taking activity of the company, the viewers may refer to the advertisement in the newspaper/information furnished in the application form for soliciting public deposits; (ii) The company is having a valid Certificate of Registration dated ___ issued by the Reserve Bank of India under section 45-IA of the Reserve Bank of India Act, 1934. However, the Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.
	24	• In view the prevailing interest rates in the entire financial system, the maximum interest rate payable on public deposits by NBFCs would be revised to 12.5 per cent per annum on and from April 24, 2007. This would be the maximum permissible rate an NBFC could pay on its public deposits and they could offer lower rates. The new rate of interest would be applicable to fresh public deposits and renewals of matured public deposits. The ceiling rate of interest of 12.5 per cent per annum was also applicable to the deposits accepted/renewed by Miscellaneous Non-Banking Companies (chit fund companies) as per the directions prescribed by the Reserve Bank.
	25	• The Securitisation Companies / Reconstruction Companies registered with the Bank were advised to submit quarterly statement in the formats SCRC 1 (statement on Assets acquired, securitized and reconstructed) and SCRC 2 (statement on Assets acquired, securitized and reconstructed-Bank-wise), within 15 days of the close of the quarter to which it pertains. The first such statement was to be forwarded for the quarter ending March 31, 2007.
	27	• Systemically Important NBFCs – ND were advised to put in place a system for submission of an annual statement of capital funds, risk asset ratio, *etc*., as at end of March every year in form NBS-7. The first such return would be submitted for the year ending March 31, 2007. The return would be submitted within a period of three months from the close of the financial year, every year. Such returns could be submitted electronically and for the purpose, NBFC-ND-SI could approach the Information Division of Central Office of Department of Non-Banking Supervision for assignment of user-id and password for web-enabled submission of the return. A hard copy of the return duly signed by the designated authority could be filed with the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the company is registered.
May	8	• Corporate governance is the key to protecting the interests of the stake-holders in the corporate sector. In order to enable NBFCs to adopt best practices and ensure greater transparency in their operations, guidelines were proposed on May 8, 2007 for consideration of the boards of directors of all deposit taking NBFCs with deposit size of Rs.20 crore and above, and all non-deposit taking NBFCs with-asset size of Rs.100 crore and above (NBFCs-ND-Sl). The guidelines relate to constitution of audit, nomination and risk management committees, 'disclosure and transparency and connected lending relationship.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	16	• In partial modification of the earlier guidelines on purchase/sale of NPAs dated July 13, 2005, NBFCs (including RNBCs) were advised that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years. The revised guidelines came into force with immediate effect.
	21	• Draft guidelines on requirement of minimum Net Owned Fund (NOF) of Rs.200 lakh for all public deposit taking NBFCs – under Section 45-IA of the Reserve Bank of India Act, 1934 issued.
	24	• In view of several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs, NBFCs have been advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges, even though interest rates are not regulated by the Bank. NBFCs have been advised to keep in view the guidelines on Fair Practice Code about transparency in respect of terms and conditions of the loan.
	25	• In order to widen the reach of NDS-OM, access was extended to qualified entities maintaining gilt accounts with NDS members. 'Qualified' entities would cover all entities required by law or by regulation to invest in Government Securities such as deposit taking NBFCs, Provident Funds, Pension Funds, Mutual Funds, Insurance Companies, Co-operative Banks, Regional Rural Banks and Trusts, *etc*. These entities could place orders on NDS-OM through direct NDS-OM members, *viz*., banks and PDs using the CSGL route. Such trades would settle through the CSGL account and current account of the NDS-OM member. Though the system would permit putting through CSGL trades on behalf of all gilt account holders, it would be the responsibility of the respective custodians (CSGL Account holders) to exercise caution not to permit any trade on account of entities that were not 'qualified'. They should, evolve a mechanism to ensure that the gilt account holder satisfies the eligibility criteria before allowing orders to be placed on NDS-OM.
	28	• Guidelines on Declaration of Net Asset Value of Security Receipts issued by SC/RC was issued and Securitisation Companies / Reconstruction Companies registered with the Bank were advised to declare Net Asset Value of the Security Receipts issued by them, at periodic intervals so that the Qualified Institutional Buyers (QIBs) can value their investment in SRs issued by the SC/RC in accordance with the applicable guidelines.
July	2	• Updated guidelines and directions to securitisation companies and reconstruction companies, as on June 30, 2007 together with guidance notes issued.
	11	• Guidelines on Corporate Governance were issued to NBFCs vide circular dated May 8, 2007. In view of the suggestions received from various NBFCs / association of NBFCs, the instructions contained in paragraph 2(vi) of the circular relating to connected lending have been kept in abeyance and will become operational after final evaluation of the suggestions and modifications, if any, considered necessary. NBFCs have been suitably advised in this regard.
	31	• SEBI has permitted FIMMDA to set up its reporting platform for corporate bonds. It has also been mandated to aggregate the trades reported on its platform as well as those reported on BSE and NSE with appropriate value addition. FIMMDA proposed to go live with its platform from September 01, 2007. All NBFCs are required to report their secondary market transactions in corporate bonds in OTC market, on FIMMDA's reporting platform with effect from September 01, 2007. Detailed operational guidelines in this regard would be issued by FIMMDA.
September	4	• NBFCs were advised vide Company Circular 59 dated October 26, 2005 that in cases where the amount involved in fraud is Rs 25 lakhs and above FMR-1 shall be submitted to Fraud Monitoring Cell, DBS, CO only. NBFCs were advised vide company circular dated September 4, 2007 that a copy of FMR-1 where the amount involved in the fraud is Rs 25 lakhs and above should also be submitted to the Regional Office of the Department of Non-Banking Supervision of Reserve Bank of India under whose jurisdiction the Registered Office of the NBFC falls. Further, it was advised that the Quarterly return in form FMR-3 has been rechristened as 'Quarterly Progress Report on Fraud of Rs 1.00 lakh and above.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
October	10	• Guidelines were issued to NBFCs (including RNBCs) on September 28, 2006 for framing the Fair Practices Code in which it was prescribed under 'Loan appraisal and terms/conditions', that the NBFCs should convey in writing to the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. In this connection, NBFCs were advised to invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.
		E) Primary Dealers (PDs)
2006		
April	4	• Guidelines were issued on Revised Scheme of Underwriting Commitment and Liquidity Support for PDs and banks undertaking PD business departmentally in line with the recommendations of the internal Technical Group on Central Government Securities Market. Following the discontinuance of bidding commitment as one of the obligations of the PDs, the methodology for calculating limits for PDs under the Reserve Bank's Liquidity Support Scheme was also revised.
May	3	• Guidelines issued permitting stand-alone PDs to diversify their activities in addition to existing business of Government securities, subject to limits. It was decided that PDs will not be permitted to set up step-down subsidiaries. PDs that already had step-down subsidiaries (in India or abroad) were advised to restructure the ownership pattern of these subsidiaries. • Guidelines issued permitting NDS-OM members to enter into 'When Issued' transactions in Central Government Securities.
July	4	• Guidelines were issued permitting stand-alone PDs to diversify their activities, as considered appropriate, in addition to existing business of Government securities, subject to limits. It was decided that PDs will not be permitted to set up step-down subsidiaries. PDs that already had step-down subsidiaries (in India or abroad) were advised to restructure the ownership pattern of these subsidiaries.
October	5	• Operational guidelines issued for banks undertaking/proposing to undertake PD business.
	31	• PDs advised that the fixed repo rate under LAF has been revised to 7.25 per cent. Accordingly, the Standing Liquidity Facilities provided to PDs from the Reseve Bank would be available at repo rate, *i.e.*, 7.25 per cent with immediate effect.
2007		
January	31	• As a part of the phased implementation of short sale in Government Securities market, it was decided to expand the period of maintenance of short sale beyond the trading day.
March	30	• PDs were advised the following modifications in the LAF sub-module of the PDO-NDS effective from April 3, 2007. 1. The PDO-NDS would now enable SCBs and Primary Dealers to offer SDLs as eligible securities to the Reserve Bank under the LAF-Repos. A margin of 10 per cent would be applied in respect of SDLs *i.e.* a Repo bid for Rs.100 will have to be backed by Rs.110 (face value) of SDLs. In case a member offers a combination of Central Government Securities/Treasury Bills and SDLs, the availability of Central Government Securities and Treasury Bills in the RC SGL Account will be reckoned first (with margin of 5 per cent) and thereafter the residual amount met with the SDLs available in the RC SGL Account (with margin of 10 per cent). 2. The transfer of securities from the SGL Account to the RC SGL account and *vice-versa* could now be made by the member through RC Transfer or RC Withdrawal (under Transfer Order Booking functionality) in the LAF module without obtaining the approval of PAD (Securities Section). In view of this, members were not required to fax the physical SGL Form to PAD (Securities Section) for effecting RC Transfer or RC Withdrawal. However, the balance available in the RC SGL account could not be utilised for any transaction other than LAF, as hitherto.

Appendix: Chronology of Major Policy Developments *(Concluded)*

Announcement Date		Measures
2007		
		3. Members having insufficient securities in the RC SGL account for the ready leg of a repo transaction would now receive a message on PDO-NDS alerting them about the shortfall. The shortfall would have to be replenished within 15 minutes of the bid close time, failing which the bids would be liable for rejection.
March	30	• PDs were advised that the fixed repo rate under the LAF was revised to 7.75 per cent with effect from March 31, 2007. Accordingly, the Standing Liquidity Facilities provided to Banks (export credit refinance) and Primary Dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the repo rate *i.e.* at 7.75 per cent with effect from March 31, 2007. • PDs were advised that the fixed repo rate under the Liquidity Adjustment Facility (LAF) has been increased by 25 basis points to 7.75 per cent from 7.50 per cent, with effect from March 31, 2007. The reverse repo rate under LAF remained unchanged at 6.0 per cent.
May	16	• PDs were permitted to begin transacting in single-entity credit default swaps. The proposed guidelines for implementation as a first draft for comments and feedback from various stake holders were also circulated.
	25	• In order to widen the reach of NDS-OM, access was extended to qualified entities maintaining gilt accounts with NDS members.
July	31	• All PDs were advised that the ceiling of Rs. 3,000 crore on daily reverse repo under the LAF was withdrawn with effect from August 6, 2007. The Second LAF (SLAF) introduced on November 28, 2005 and conducted between 3.00-3.45 p.m. on a daily basis was withdrawn w.e.f. August 6, 2007. The Bank would continue to conduct LAF operations between 9.30 am and 10.30 am as a single LAF window. • All PDs were advised to report their secondary market transactions in Corporate bonds done in the OTC market, on FIMMDA's reporting platform effective September 01,2007.
August	23	• Banks and PDs advised to report all their IRS/FRS trades on the reporting platform developed by Clearing Corporation of India Limited (CCIL) to capture the transactions in the OTC interest rate derivatives.

Appendix Table III.1(A): Consolidated Balance Sheet of Public Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks*				Nationalised Banks				State Bank Group			
	2006		2007		2006		2007		2006		2007	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	12,329.80	0.61	12,416.31	0.51	10,570.20	0.86	10,656.16	0.70	1,035.80	0.15	1,035.80	0.13
2. Reserve and Surplus	1,02,714.03	5.10	1,23,210.48	5.05	60,441.49	4.90	73,729.42	4.82	36,624.28	5.29	41,905.56	5.20
3. Deposits	16,22,481.09	80.53	19,94,199.57	81.73	10,54,071.06	85.39	13,17,369.93	86.08	5,42,409.12	78.40	6,33,475.60	78.61
3.1. Demand Deposits	1,97,353.32	9.79	2,35,401.27	9.65	1,06,824.15	8.65	1,28,777.70	8.41	85,354.50	12.34	99,634.96	12.36
3.2. Savings Bank Deposits	4,50,787.73	22.37	5,18,471.05	21.25	2,98,238.24	24.16	3,42,354.26	22.37	1,50,050.52	21.69	1,72,082.37	21.36
3.3. Term Deposits	9,74,340.05	48.36	12,40,327.25	50.83	6,49,008.67	52.57	8,46,237.97	55.30	3,07,004.10	44.37	3,61,758.27	44.89
4. Borrowings	1,15,250.06	5.72	1,21,772.60	4.99	30,635.56	2.48	31,045.30	2.03	37,084.29	5.36	48,322.92	6.00
5. Other Liabilities and Provisions	1,62,099.10	8.05	1,88,386.96	7.72	78,744.08	6.38	97,550.64	6.37	74,693.41	10.80	81,055.27	10.06
Total Liabilities	**20,14,874.09**	**100.00**	**24,39,985.92**	**100.00**	**12,34,462.40**	**100.00**	**15,30,351.44**	**100.00**	**6,91,846.91**	**100.00**	**8,05,795.15**	**100.00**
Assets												
1. Cash and balances with RBI	1,12,769.50	5.60	1,42,211.48	5.83	79,060.86	6.40	91,977.73	6.01	31,028.55	4.48	44,827.28	5.56
2. Balances with banks and money at call and short notice	74,416.42	3.69	94,450.80	3.87	43,506.46	3.52	63,834.50	4.17	28,227.28	4.08	29,111.68	3.61
3. Investments	6,33,556.89	31.44	6,64,645.47	27.24	3,83,445.02	31.06	4,27,305.90	27.92	2,24,761.34	32.49	2,11,664.25	26.27
3.1 In Government Securities (a+b)	5,19,875.05	25.80	5,38,374.89	22.06	3,10,570.09	25.16	3,44,728.68	22.53	1,93,125.05	27.91	1,77,454.82	22.02
a. In India	5,16,129.96	25.62	5,34,953.25	21.92	3,07,472.32	24.91	3,41,874.76	22.34	1,92,477.72	27.82	1,76,887.11	21.95
b. Outside India	3,745.09	0.19	3,421.64	0.14	3,097.77	0.25	2,853.93	0.19	647.33	0.09	567.72	0.07
3.2 In Other Approved Securities	13,382.65	0.66	12,338.56	0.51	9,080.13	0.74	8,228.05	0.54	4,302.52	0.62	4,093.27	0.51
3.3 In Non-Approved Securities	1,00,299.19	4.98	1,13,932.01	4.67	63,794.81	5.17	74,349.17	4.86	27,333.77	3.95	30,116.16	3.74
4. Loans and Advances	11,06,287.71	54.91	14,40,122.88	59.02	6,81,869.31	55.24	8,95,225.99	58.50	3,71,679.33	53.72	4,82,426.07	59.87
4.1 Bills purchased and discounted	75,705.19	3.76	92,695.50	3.80	42,132.57	3.41	53,314.39	3.48	31,369.41	4.53	37,086.93	4.60
4.2 Cash Credits, Overdrafts, *etc.*	4,43,376.58	22.01	5,57,345.56	22.84	3,00,857.43	24.37	3,71,171.82	24.25	1,39,962.87	20.23	1,80,696.10	22.42
4.3 Term Loans	5,87,205.95	29.14	7,90,081.82	32.38	3,38,879.32	27.45	4,70,739.79	30.76	2,00,347.05	28.96	2,64,643.04	32.84
5. Fixed Assets	14,668.92	0.73	20,195.16	0.83	9,907.32	0.80	13,455.22	0.88	3,950.71	0.57	3,961.58	0.49
6. Other Assets	73,174.63	3.63	78,360.13	3.21	36,673.43	2.97	38,552.10	2.52	32,199.70	4.65	33,804.30	4.20
Total Assets	**20,14,874.09**	**100.00**	**24,39,985.92**	**100.00**	**12,34,462.40**	**100.00**	**15,30,351.44**	**100.00**	**6,91,846.91**	**100.00**	**8,05,795.15**	**100.00**

* : Includes IDBI Ltd.

Appendix Table III.1(B): Consolidated Balance Sheet of Private Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	2006		2007		2006		2007		2006		2007	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	3,936.54	0.69	4,143.73	0.56	1,018.11	0.68	1,062.89	0.66	2,918.43	0.69	3,080.84	0.53
2. Reserve and Surplus	39,886.93	6.98	46,328.98	6.22	8,665.41	5.78	9,673.54	6.02	31,221.52	7.40	36,655.44	6.27
3. Deposits	4,28,455.61	74.95	5,51,987.07	74.05	1,30,455.85	86.99	1,38,249.13	86.10	2,97,999.76	70.67	4,13,737.94	70.74
3.1. Demand Deposits	56,895.28	9.95	73,340.02	9.84	13,503.03	9.00	14,033.46	8.74	43,392.25	10.29	59,306.56	10.14
3.2. Savings Bank Deposits	73,303.91	12.82	91,341.76	12.25	24,079.89	16.06	25,701.68	16.01	49,224.02	11.67	65,640.08	11.22
3.3. Term Deposits	2,98,256.42	52.18	3,87,305.29	51.96	92,872.93	61.93	98,513.99	61.36	2,05,383.49	48.71	2,88,791.30	49.38
4. Borrowings	49,486.52	8.66	70,131.41	9.41	2,633.16	1.76	3,219.52	2.01	46,853.36	11.11	66,911.89	11.44
5. Other Liabilities and Provisions	49,865.56	8.72	72,812.81	9.77	7,199.65	4.80	8,356.84	5.20	42,665.91	10.12	64,455.97	11.02
Total Liabilities	**5,71,631.15**	**100.00**	**7,45,404.00**	**100.00**	**1,49,972.18**	**100.00**	**1,60,561.92**	**100.00**	**4,21,658.97**	**100.00**	**5,84,842.08**	**100.00**
Assets												
1. Cash and balances with RBI	23,597.68	4.13	41,016.70	5.50	7,067.25	4.71	8,895.69	5.54	16,530.43	3.92	32,121.01	5.49
2. Balances with banks and money at call and short notice	23,275.11	4.07	37,288.38	5.00	8,573.25	5.72	9,074.66	5.65	14,701.86	3.49	28,213.72	4.82
3. Investments	1,80,567.87	31.59	2,14,654.74	28.80	45,253.80	30.17	43,646.60	27.18	1,35,314.07	32.09	1,71,008.14	29.24
3.1 In Government Securities (a+b)	1,29,666.09	22.68	1,59,851.48	21.44	35,897.06	23.94	35,105.33	21.86	93,769.03	22.24	1,24,746.15	21.33
a. In India	1,29,454.06	22.65	1,59,549.45	21.40	35,819.27	23.88	35,105.33	21.86	93,634.79	22.21	1,24,444.12	21.28
b. Outside India	212.03	0.04	302.03	0.04	77.79	0.05	–	–	134.24	0.03	302.03	0.05
3.2 In Other Approved Securities	482.39	0.08	337.08	0.05	446.78	0.30	308.84	0.19	35.61	0.01	28.24	–
3.3 In Non-Approved Securities	50,419.41	8.82	54,466.19	7.31	8,909.97	5.94	8,232.44	5.13	41,509.44	9.84	46,233.75	7.91
4. Loans and Advances	3,12,961.77	54.75	4,14,754.81	55.64	82,956.55	55.31	92,890.08	57.85	2,30,005.22	54.55	3,21,864.73	55.03
4.1 Bills purchased and discounted	18,432.43	3.22	20,185.71	2.71	6,069.01	4.05	5,132.64	3.20	12,363.42	2.93	15,053.07	2.57
4.2 Cash Credits, Overdrafts, *etc.*	80,455.30	14.07	1,02,952.16	13.81	37,094.67	24.73	41,394.32	25.78	43,360.63	10.28	61,557.84	10.53
4.3 Term Loans	2,14,074.05	37.45	2,91,616.95	39.12	39,792.88	26.53	46,363.12	28.88	1,74,281.17	41.33	2,45,253.83	41.94
5. Fixed Assets	8,000.53	1.40	8,166.82	1.10	1,699.04	1.13	1,603.25	1.00	6,301.49	1.49	6,563.57	1.12
6. Other Assets	23,228.17	4.06	29,522.55	3.96	4,422.28	2.95	4,451.64	2.77	18,805.89	4.46	25,070.91	4.29
Total Assets	**5,71,631.15**	**100.00**	**7,45,404.00**	**100.00**	**1,49,972.18**	**100.00**	**1,60,561.92**	**100.00**	**4,21,658.97**	**100.00**	**5,84,842.08**	**100.00**

Appendix Table III.1(C): Consolidated Balance Sheet of Foreign Banks in India
(As at end-March)

(Amount in Rs. crore)

Item	2006		2007	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	8,940.17	4.48	12,999.36	4.68
2. Reserve and Surplus	15,373.68	7.71	20,076.09	7.22
3. Deposits	1,13,744.99	57.06	1,50,793.58	54.24
3.1. Demand Deposits	38,696.61	19.41	43,256.75	15.56
3.2. Savings Bank Deposits	18,783.18	9.42	21,839.14	7.86
3.3. Term Deposits	56,265.20	28.22	85,697.69	30.82
4. Borrowings	38,411.31	19.27	50,966.06	18.33
5. Other Liabilities and Provisions	22,887.87	11.48	43,181.39	15.53
Total Liabilities	**1,99,358.03**	**100.00**	**2,78,016.49**	**100.00**
Assets				
1. Cash and balances with RBI	8,108.24	4.07	12,144.71	4.37
2. Balances with banks and money at call and short notice	18,752.17	9.41	26,674.26	9.59
3. Investments	52,383.57	26.28	71,469.30	25.71
3.1 In Government Securities (a+b)	40,880.14	20.51	56,230.61	20.23
a. In India	40,880.14	20.51	56,230.61	20.23
b. Outside India	–	–	–	–
3.2 In Other Approved Securities	84.85	0.04	84.99	0.03
3.3 In Non-Approved Securities	11,418.58	5.73	15,153.70	5.45
4. Loans and Advances	97,561.93	48.94	1,26,338.57	45.44
4.1 Bills purchased and discounted	9,520.08	4.78	11,543.78	4.15
4.2 Cash Credits, Overdrafts, *etc.*	41,169.28	20.65	52,568.83	18.91
4.3 Term Loans	46,872.57	23.51	62,225.96	22.38
5. Fixed Assets	2,412.12	1.21	3,000.85	1.08
6. Other Assets	20,139.99	10.10	38,388.80	13.81
Total Assets	**1,99,358.03**	**100.00**	**2,78,016.49**	**100.00**

– : Nil/Negligible.

Source : Balance Sheets of respective banks.

Appendix Table III.2: Issue of Certificates of Deposit by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Outstanding (Rs. crore)	Range of Discount Rate (Per cent) @	Fortnight ended	Total Outstanding (Rs. crore)	Rate of Discount Rate (Per cent) @
1	2	3	4	5	6
2006			**2007**		
January 6	32,806	4.40 – 7.75	January 5	68,928	8.26 – 9.25
January 20	34,521	5.40 – 7.75	January 19	70,149	8.00 – 9.55
February 3	33,986	4.35 – 7.90	February 2	70,727	8.41 – 9.80
February 17	34,487	4.35 – 8.16	February 16	72,795	9.40 – 10.83
March 3	36,626	5.85 – 8.50	March 2	77,971	9.90 – 11.30
March 17	36,931	4.35 – 8.81	March 16	92,468	10.30 – 11.25
March 31	43,568	6.50 – 8.94	March 30	93,272	10.23 – 11.90
April 14	38,568	6.00 – 8.90	April 13	93,808	9.50 – 11.50
April 28	44,059	6.00 – 8.45	April 27	95,980	9.40 – 11.50
May 12	48,515	6.50 – 7.90	May 11	97,292	10.05 – 11.50
May 26	50,228	6.37 – 8.67	May 25	99,715	7.00 – 10.82
June 9	53,863	5.75 – 7.96	June 8	99,287	6.13 – 10.95
June 23	56,390	5.50 – 8.16	June 22	98,337	7.00 – 10.20
July 7	57,256	6.00 – 8.70	July 6	1,02,992	6.25 – 9.69
July 21	59,167	4.35 – 8.21	July 20	1,05,317	5.50 – 10.82
August 4	64,748	6.00 – 8.62	August 3	1,03,750	6.05 – 10.75
August 18	65,621	4.75 – 8.50	August 17	1,06,350	6.87 – 8.91
September 1	66,340	4.60 – 8.50	August 31	1,09,224	6.87-10.75
September 15	63,864	7.13 – 8.50	September 14	1,13,892	6.87-10.00
September 29	65,274	7.25 – 8.50	September 28	1,18,481	6.87-10.00
October 13	64,482	4.75 – 8.50			
October 27	65,764	6.00 – 8.50			
November 10	67,694	6.75 – 8.50			
November 24	68,911	7.50 – 8.33			
December 8	69,664	6.00 – 8.36			
December 22	68,619	7.25 – 8.90			

@ : Effective interest rate range per annum.

Appendix Table III.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Sector	Outstanding as on			Variation	
		March 18, 2005	March 31, 2006	March 30, 2007	2005-06	2006-07
	1	2	3	4	5	6
I.	**Gross Bank Credit (II + III)**	**10,45,954**	**14,43,920**	**18,41,878**	**3,97,966**	**3,97,958**
II.	**Food Credit**	**41,121**	**40,691**	**46,521**	**-430**	**5,830**
III.	**Non-Food Gross Bank Credit (1 to 4)**	**10,04,833 (100.0)**	**14,03,229 (100.0)**	**17,95,357 (100.0)**	**3,98,396 (100.0)**	**3,92,128 (100.0)**
	1. Agriculture and Allied Activities	**1,24,269 (12.4)**	**1,73,875 (12.4)**	**2,30,180 (12.8)**	**49,606 (12.5)**	**56,305 (14.4)**
	2. Industry (Small, Medium and Large)	**4,23,136 (42.1)**	**5,49,940 (39.2)**	**6,91,483 (38.5)**	**1,26,804 (31.8)**	**1,41,543 (36.1)**
	3. Services	**2,01,080 (20.0)**	**3,19,334 (22.8)**	**4,18,191 (23.3)**	**1,18,254 (29.7)**	**98,857 (25.2)**
	3.1 Transport Operators	8,396 (0.8)	17,341 (1.2)	26,416 (1.5)	8,945 (2.2)	9,075 (2.3)
	3.2 Computer Software	2,760 (0.3)	3,625 (0.3)	5,093 (0.3)	865 (0.2)	1,468 (0.4)
	3.3 Tourism and Hotels and Restaurants	4,199 (0.4)	7,732 (0.6)	9,704 (0.5)	3,533 (0.9)	1,972 (0.5)
	3.4 Shipping	1,167 (0.1)	4,351 (0.3)	6,838 (0.4)	3,184 (0.8)	2,487 (0.6)
	3.5 Professional and Other Services	9,656 (1.0)	15,283 (1.1)	23,782 (1.3)	5,627 (1.4)	8,499 (2.2)
	3.6 Trade	58,195 (5.8)	83,428 (5.9)	1,08,041 (6.0)	25,233 (6.3)	24,613 (6.3)
	3.6.1 Wholesale Trade (other than food procurement)	31,559 (3.1)	39,584 (2.8)	49,506 (2.8)	8,025 (2.0)	9,922 (2.5)
	3.6.2 Retail Trade	26,636 (2.7)	43,844 (3.1)	58,535 (3.3)	17,208 (4.3)	14,691 (3.7)
	3.7 Real Estate Loans	13,546 (1.3)	26,693 (1.9)	45,328 (2.5)	13,147 (3.3)	18,635 (4.8)
	3.8 Non-Banking Financial Companies	22,807 (2.3)	34,270 (2.4)	48,496 (2.7)	11,463 (2.9)	14,226 (3.6)
	3.9 All Others	80,354 (8.0)	1,26,611 (9.0)	1,44,493 (8.0)	46,257 (11.6)	17,882 (4.6)
	4. Personal Loans	**2,56,348 (25.5)**	**3,60,081 (25.7)**	**4,55,503 (25.4)**	**1,03,733 (26.0)**	**95,422 (24.3)**
	4.1 Consumer Durables	8,976 (0.9)	7,101 (0.5)	9,151 (0.5)	-1,875 -(0.5)	2,050 (0.5)
	4.2 Housing	1,33,908 (13.3)	1,85,181 (13.2)	2,30,689 (12.8)	51,273 (12.9)	45,508 (11.6)
	4.3 Advances against Fixed Deposits (including FCNR (B), NRNR Deposits, *etc.*)	29,774 (3.0)	34,283 (2.4)	40,455 (2.3)	4,509 (1.1)	6,172 (1.6)
	4.4 Advances to individuals against share, bonds, *etc.*	4,101 (0.4)	5,226 (0.4)	4,511 (0.3)	1,125 (0.3)	-715 -(0.2)
	4.5 Credit Card Outstandings	6,432 (0.6)	9,086 (0.6)	13,316 (0.7)	2,654 (0.7)	4,230 (1.1)
	4.6 Education	5,680 (0.6)	9,962 (0.7)	15,020 (0.8)	4,282 (1.1)	5,058 (1.3)
	4.7 Other Personal Loans	67,477 (6.7)	1,09,242 (7.8)	1,42,361 (7.9)	41,765 (10.5)	33,119 (8.4)
	Memo:					
	5. Priority Sector	**3,74,953 (37.3)**	**5,10,175 (36.4)**	**6,32,647 (35.2)**	**1,35,222 (33.9)**	**1,22,472 (31.2)**
	5.1 Agriculture & Allied Activities	1,24,269 (12.4)	1,73,875 (12.4)	2,30,180 (12.8)	49,606 (12.5)	56,305 (14.4)
	5.2 SSI	74,189 (7.4)	91,020 (6.5)	1,16,908 (6.5)	16,831 (4.2)	25,888 (6.6)
	5.3 Housing	90,298 (9.0)	1,33,200 (9.5)	1,61,832 (9.0)	42,902 (10.8)	28,632 (7.3)

Note: 1. Data are provisional and relate to 51 scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks.
2. Due to reclassification of sectors, data for March 2006 onwards is not strictly comparable with the earlier periods.
3. Variations for 2005-06 cover data for 27 fortnights (instead of 26 fortnights in a year).
4. Gross bank credit data include bills rediscounted with Reserve Bank, EXIM Bank, other approved financial institutions and inter-bank participations.
5. Figures in parentheses provide the share in total non-food gross bank credit.

Appendix Table III.4: Advances to the Priority Sectors by Public Sector Banks

(As on the last reporting Friday)

Sector	No. of Accounts (in lakh)					Amount Outstanding (Rs. crore)				
	June 1969	March 2004	March 2005	March 2006	March 2007@	June 1969	March 2004	March 2005	March 2006	March 2007@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	190	202	238	253	162	84,435	1,09,917	1,55,220	2,05,091
						(5.4)	(15.1)	(15.3)	(15.3)	(15.6)
i) Direct	1.6	187	195	221	235	40	62,170	83,038	1,12,126	1,46,941
						(1.3)	(11.1)	(11.6)	(11.0)	(11.2)
ii) Indirect	0.1	3	7	17	18	122	22,265	26,879	43,093	58,150
						(4.0)	(4.0)	(3.7)	(4.2)	(4.4)
II. Small-scale industries	0.5	17	14	17	20	257	58,311	68,000	82,434	1,04,703
						(8.5)	(10.3)	(9.5)	(8.1)	(8.0)
III. Other priority sector advances	0.4	89	89	92	102	22	96,170	1,25,114	1,63,756	2,01,023
						(0.7)	(17.1)	(17.4)	(16.1)	(15.3)
IV. Total priority sector advances #	2.6	301	314	358	391	441	2,44,456	3,07,046	4,09,748	5,21,180
						(14.6)	(43.6)	(42.8)	(40.3)	(39.6)
V. Net Bank Credit	–	–	–	–	–	3,016	5,60,819	7,17,419	10,17,656	13,17,705

@ : Provisional.

: Inclusive of advances for setting up industrial estates, loans to small road and water transport operators, housing loans, education loans, and loans to software industries, food and agro-processing sector, self-help groups, venture capital, *etc.*

Note : Figures in brackets represent percentages to net bank credit.

Appendix Table III.5: Advances of Public Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		Total Priority Sector Advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
1	2	3	4	5	6	7	8	9	10	11	12
	Public Sector Banks	**1,46,941.33**	**11.2**	**58,149.63**	**4.4**	**2,05,090.96**	**15.6**	**94,284.88**	**7.2**	**5,21,180.24**	**39.6**
	Nationalised Banks	**97,888.58**	**11.0**	**43,783.71**	**4.9**	**1,41,672.29**	**16.0**	**63,111.50**	**7.1**	**35,441.07**	**39.9**
1.	Allahabad Bank	5,764.00	13.8	1,928.00	4.6	7,692.00	18.3	2,759.00	6.6	16,554.00	39.6
2.	Andhra Bank	4,506.52	16.2	643.26	2.3	5,149.78	18.5	2,649.19	9.5	11,427.23	41.1
3.	Bank of Baroda	7,113.63	11.4	3,252.76	5.2	10,366.39	15.9	4,675.64	7.5	25,290.84	40.6
4.	Bank of India	8,482.00	13.9	2,807.00	4.6	11,289.00	18.4	6,177.00	10.1	28,735.00	47.1
5.	Bank of Maharashtra	2,178.93	9.5	1,705.19	7.4	3,884.12	14.0	1,202.27	5.2	9,575.78	41.7
6.	Canara Bank	10,553.00	11.2	4,968.00	5.3	15,521.00	15.7	5,613.00	6.0	37,844.00	40.2
7.	Central Bank of India	5,853.98	11.3	3,397.91	6.6	9,251.89	15.8	3,716.50	7.2	22,495.75	43.6
8.	Corporation Bank	1,338.77	4.7	1,282.97	4.5	2,621.74	9.2	946.43	3.3	11,563.94	40.6
9.	Dena Bank	1,945.49	10.7	1,399.21	7.7	3,344.70	15.2	904.07	5.0	7,629.03	42.0
10.	Indian Bank	4,657.16	17.3	998.92	3.7	5,656.08	21.0	3,098.23	11.5	13,334.96	49.4
11.	Indian Overseas Bank	6,020.37	14.2	1,869.85	4.4	7,890.22	18.7	4,329.04	10.2	17,290.14	40.9
12.	Oriental Bank of Commerce	2,867.06	6.6	2,865.22	6.6	5,732.28	11.1	1,965.80	4.5	15,955.20	36.5
13.	Punjab National Bank	13,829.00	14.4	4,742.00	4.9	18,571.00	18.9	10,511.00	11.0	40,197.00	41.9
14.	Punjab & Sind Bank	1,356.62	11.5	1,145.50	9.7	2,502.12	16.0	653.40	5.6	5,032.38	42.8
15.	Syndicate Bank	5,969.89	12.9	2,079.71	4.5	8,049.60	17.4	4,666.58	10.1	18,441.36	39.9
16.	Union Bank of India	7,380.71	12.3	3,294.05	5.5	10,674.76	16.8	4,130.90	6.9	26,648.53	44.4
17.	United Bank of India	1,703.00	7.5	1,010.00	4.5	2,713.00	12.0	1,808.32	8.0	9,416.00	41.7
18.	UCO Bank	4,081.00	9.4	2,073.00	4.8	6,154.00	13.9	1,719.00	4.0	17,466.00	40.4
19.	Vijaya Bank	1,927.21	7.9	1,303.42	5.4	3,230.63	12.4	1,397.89	5.8	9,957.05	41.0
20.	IDBI Ltd.	360.24	0.6	1,017.74	1.6	1,377.98	2.2	188.24	0.30	9,556.51	15.2
	State Bank Group	**49,052.75**	**11.4**	**14,365.92**	**3.3**	**63,418.67**	**14.8**	**31,173.38**	**7.3**	**1,66,769.54**	**38.8**
21.	State Bank of India	32,036.15	11.1	9,625.17	3.4	41,661.32	14.5	21,717.00	7.6	1,10,373.07	38.4
22.	State Bank of Bikaner & Jaipur	2,982.80	14.5	771.79	3.8	3,754.59	18.3	2,113.82	10.3	8,420.78	41.0
23.	State Bank of Hyderabad	3,283.45	11.9	515.20	1.9	3,798.65	13.7	1,954.39	7.1	11,295.12	40.8
24.	State Bank of Indore	2,014.58	13.1	629.98	4.1	2,644.56	17.2	1,540.09	10.0	6,153.06	40.0
25.	State Bank of Mysore	1,736.73	11.0	444.21	2.8	2,180.94	13.8	1,539.97	9.7	6,062.88	38.3
26.	State Bank of Patiala	3,200.00	11.3	1,291.00	4.6	4,491.00	15.8	321.00	1.1	10,310.00	36.3
27.	State Bank of Saurashtra	1,521.04	14.2	415.57	3.9	1,936.61	18.1	727.11	6.8	4,522.63	42.2
28.	State Bank of Travancore	2,278.00	9.7	673.00	2.9	2,951.00	12.6	1,260.00	5.4	9,632.00	41.0

Notes : 1. Data are provisional.
2. NBC - net bank credit.
3. Indirect agriculture is reckoned up to 4.5 per cent of net bank credit for calculation of percentage of agriculture.

Source: Data furnished by respective banks.

Appendix Table III.5A: Targets Achieved by Public Sector Banks under the Priority Sector

(As on the last reporting Friday of March 2007)

Sr. No.	Name of the bank	Overall	Agriculture	Weaker Sections
	1	2	3	4
	Public Sector Banks			
	Nationalised Banks*			
1.	Allahabad Bank		√	
2.	Andhra Bank	√	√	
3.	Bank of Baroda	√		
4.	Bank of India	√	√	√
5.	Bank of Maharashtra	√		
6.	Canara Bank	√		
7.	Central Bank of India	√		
8.	Corporation Bank	√		
9.	Dena Bank	√		
10.	Indian Bank	√	√	√
11.	Indian Overseas Bank	√	√	√
12.	Oriental Bank of Commerce			
13.	Punjab National Bank	√	√	√
14.	Punjab & Sind Bank	√		
15.	Syndicate Bank			√
16.	Union Bank of India	√		
17.	United Bank of India	√		
18.	UCO Bank	√		
19.	Vijaya Bank	√		
20.	IDBI Ltd.			
	State Bank Group			
21.	State Bank of India			
22.	State Bank of Bikaner and Jaipur	√	√	√
23.	State Bank of Hyderabad	√		
24.	State Bank of Indore	√		√
25.	State Bank of Mysore			
26.	State Bank of Patiala			
27.	State Bank of Saurashtra	√	√	
28.	State Bank of Travancore	√		

* : Includes data for IDBI Ltd..

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.6: Advances to the Priority Sector by Private Sector Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2005		March 2006		March 2007@	
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	69,886	43.6	1,06,586	42.8	1,43,768	42.7
of which:						
I. Agriculture	21,636	13.5	36,712	13.6	52,056	12.8
II. Small-scale industries	8,592	5.4	10,421	4.2	13,063	3.9
III. Other priority sectors	38,797	24.2	57,777	23.2	76,925	22.9

@ : Data are provisional.

: Inclusive of advances to setting up industrial estates, loans to small road and water transport operators, housing loans, education loans, loans to software industries, food and agro-processing sector, self-help groups, venture capital, *etc*.

Note : Indirect agriculture is reckoned upto 4.5 per cent of net bank credit for calculation of percentage of agriculture.

Appendix Table III.7: Advances of Private Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections Advances		Total Priority Sector Advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
	1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks	**28,013.95**	**8.32**	**24,041.98**	**7.14**	**52,055.93**	**12.82**	**5,228.58**	**1.55**	**143,767.65**	**42.71**
1.	Axis Bank	3,223.07	9.59	1,871.76	5.57	5,094.83	14.09	371.79	1.11	14,307.63	42.58
2.	Bank of Rajasthan	88.72	1.55	987.87	17.23	1,076.59	6.05	64.00	1.12	1,805.40	31.49
3.	Bharat Overseas Bank	117.68	7.56	54.73	3.52	172.41	11.08	25.36	1.63	638.91	41.05
4.	Catholic Syrian Bank	234.19	7.99	237.71	8.11	471.90	12.49	49.52	1.69	1,329.17	45.35
5.	Centurion Bank of Punjab	1,096.80	10.13	1,106.64	10.22	2,203.44	14.63	57.45	0.53	4,152.44	38.35
6.	City Union Bank	129.27	3.92	105.30	3.20	234.57	7.12	50.66	1.54	1,318.21	40.01
7.	Development Credit Bank	249.62	9.17	276.78	10.17	526.40	13.67	89.44	3.29	1,131.14	41.57
8.	Dhanalakshmi Bank	211.76	11.52	169.64	9.23	381.40	16.02	118.17	6.43	855.54	46.55
9.	Federal Bank	1,540.33	11.30	691.05	5.07	2,231.38	15.80	886.25	6.50	6,051.50	44.37
10.	Yes Bank	899.17	14.34	547.88	8.74	1,447.05	18.84	–	–	2,679.71	42.74
11.	HDFC Bank	4,508.70	9.74	3,953.24	8.54	8,461.94	14.24	323.53	0.70	20,468.26	44.21
12.	ICICI Bank	8,954.10	7.15	9,972.83	7.96	18,926.93	11.65	997.98	0.80	57,457.04	45.87
13.	IndusInd Bank	1,005.46	9.36	1,108.06	10.32	2,113.52	13.86	9.45	0.09	4,458.32	41.52
14.	ING Vysya Bank	477.82	4.24	507.38	4.50	985.20	8.74	434.67	3.86	4,623.56	41.01
15.	Jammu & Kashmir Bank	399.84	2.72	295.21	2.01	695.05	4.73	460.88	3.13	3,614.20	24.57
16.	Karnataka Bank	423.95	4.38	365.05	3.77	789.00	8.16	132.39	1.37	3,396.04	35.11
17.	Karur Vysya Bank	808.60	11.40	378.68	5.34	1,187.28	15.90	296.10	4.17	2,877.27	40.56
18.	Kotak Mahindra Bank	1,272.20	11.76	501.14	4.63	1,773.34	16.26	–	–	4,463.33	41.25
19.	Lakshmi Vilas Bank	543.28	15.17	108.09	3.02	651.37	18.19	235.85	6.59	1,471.02	41.08
20.	Lord Krishna Bank	55.10	5.30	86.48	8.33	141.58	9.80	10.72	1.03	466.65	44.92
21.	Nainital Bank	96.82	12.18	13.90	1.75	110.72	13.93	9.85	1.24	400.16	50.33
22.	Ratnakar Bank	55.24	10.10	41.74	7.63	96.98	14.60	12.19	2.23	235.56	43.08
23.	Sangli Bank	49.92	19.80	139.21	55.20	189.13	24.30	19.24	7.63	236.70	93.86
24.	SBI Commercial & International Bank	9.00	4.26	44.06	20.86	53.06	8.76	–	–	89.52	42.37
25.	South Indian Bank	1,102.81	14.25	230.92	2.98	1,333.73	17.23	313.44	4.05	3,217.28	41.56
26.	Tamilnad Mercantile Bank	460.50	11.12	246.63	5.96	707.13	15.62	259.65	6.27	2,023.09	48.85

– : Nil/Negligible.

Notes : 1) Data are provisional.

2) NBC - net bank credit.

3) Indirect agriculture is reckoned up to 4.5 per cent of net bank credit for calculation of percentage of agriculture.

Source : Data furnished by respective banks.

Appendix Table III.7A: Targets Achieved by Private Sector Banks under the Priority Sector

(As on the last reporting Friday of March 2007)

Sr. No.	Name of the bank	Overall	Agriculture	Weaker Sections
	1	2	3	4
	Private Sector Banks	√		
1.	Axis Bank	√		
2.	Bank of Rajasthan			
3.	Bharat Overseas Bank	√		
4.	Catholic Syrian Bank	√		
5.	Centurion Bank of Punjab			
6.	City Union Bank	√		
7.	Development Credit Bank	√		
8.	Dhanalakshmi Bank	√		
9.	Federal Bank	√		
10.	Yes Bank	√	√	
11.	HDFC Bank	√		
12.	ICICI Bank	√		
13.	IndusInd Bank	√		
14.	ING Vysya Bank	√		
15.	Jammu & Kashmir Bank			
16.	Karnataka Bank			
17.	Karur Vysya Bank	√		
18.	Kotak Mahindra Bank	√		
19.	Lakshmi Vilas Bank	√	√	
20.	Lord Krishna Bank	√		
21.	Nainital Bank	√		
22.	Ratnakar Bank	√		
23.	Sangli Bank	√	√	
24.	SBI Commercial & International Bank	√		
25.	South Indian Bank	√		
26.	Tamilnad Mercantile Bank	√		

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.8: Advances of Foreign Banks to SSI and Export Sectors
(As on the last reporting Friday of March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the bank	SSI Advances		Export Credit		Total Priority Sector	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
	1	2	3	4	5	6	7
	Foreign Banks	**11,648**	**10.3**	**20,714**	**18.3**	**37,835**	**33.4**
1.	ABN Amro Bank	1,853	10.2	5,058	27.8	6,121	33.6
2.	Abu Dhabi Commercial Bank	10	10.7	13	14.3	28	30.9
3.	American Express Bank	657	43.0	97	6.3	743	48.6
4.	Antwerp Diamond Bank	99	26.0	370	96.9	370	96.9
5.	Arab Bangladesh Bank	8	23.4	5	16.1	13	39.5
6.	Bank International Indonesia	5	719.7	–	–	5	719.7
7.	Bank of America	307	10.6	596	20.5	943	32.4
8.	Bank of Baharin and Kuwait	7	13.9	21	42.0	39	75.6
9.	Bank of Ceylon	12	20.5	32	55.0	41	70.0
10.	Bank of Nova Scotia	247	8.3	877	29.6	1,225	41.4
11.	Bank of Tokyo-Mitsubishi	140	9.0	255	16.4	497	31.9
12.	Barclays Bank PLC	11	12.2	20	22.8	30	35.0
13.	BNP Paribas	266	11.3	306	13.0	795	33.8
14.	China Trust Commercial Banks	19	15.8	19	16.4	44	37.3
15.	Calyon Bank	124	12.9	173	17.9	372	38.7
16.	Citi Bank	2,408	8.7	4,426	16.0	8,786	31.8
17.	Deutsche Bank	494	10.3	1,114	23.3	1,632	34.1
18.	Development Bank of Singapore	267	21.9	209	17.2	476	39.1
19.	HSBC Ltd.	1,506	7.6	2,780	14.0	5,880	29.6
20.	JP Morgan Chase Bank	80	9.5	196	23.3	276	32.8
21.	Krung Thai Bank	4	38.9	2	16.1	9	85.7
22.	Mashreqbank	5	14.2	36	102.5	41	116.8
23.	Mizuho Corporate Bank	39	6.1	61	9.5	166	25.8
24.	Oman International Bank	23	26.5	64	73.3	88	99.8
25.	Shinhan Bank	13	9.5	18	13.1	45	33.2
26.	Societe Generale	5	13.9	59	177.1	63	190.9
27.	Sonali Bank	1	25.4	2	54.5	2	54.5
28.	Standard Chartered Bank	3,022	11.4	3,891	14.6	9,055	34.1
29.	State Bank of Mauritius	17	15.3	14	12.7	51	46.4

– Nil/Negligible.

Notes : 1) Data are provisional.
2) NBC - net bank credit.

Source : Data furnished by respective banks.

Appendix Table III.8A: Targets Achieved by Foreign Banks under the Priority Sector
(As on the last reporting Friday of March 2007)

Sr. No.	Name of the bank	Overall	Small Scale Industries	Export Credit
	1	2	3	4
	Foreign Banks	**√**	**√**	**√**
1.	ABN Amro Bank	√	√	√
2.	Abu Dhabi Commercial Bank		√	√
3.	American Express Bank	√	√	
4.	Antwerp Diamond Bank	√	√	√
5.	Arab Bangladesh Bank	√	√	√
6.	Bank International Indonesia	√	√	
7.	Bank of America	√	√	√
8.	Bank of Baharin and Kuwait	√	√	√
9.	Bank of Ceylon	√	√	√
10.	Bank of Nova Scotia	√		√
11.	Bank of Tokyo-Mitsubishi			√
12.	Barclays Bank PLC	√	√	√
13.	BNP Paribas	√	√	√
14.	China Trust Commercial Banks	√	√	√
15.	Calyon Bank	√	√	√
16.	Citi Bank			√
17.	Deutsche Bank	√	√	√
18.	Development Bank of Singapore	√	√	√
19.	HSBC Ltd.			√
20.	JP Morgan Chase Bank	√		√
21.	Krung Thai Bank	√	√	√
22.	Mashreqbank	√	√	√
23.	Mizuho Corporate Bank			
24.	Oman International Bank	√	√	√
25.	Shinhan Bank	√		√
26.	Societe Generale	√	√	√
27.	Sonali Bank	√	√	√
28.	Standard Chartered Bank	√	√	√
29.	State Bank of Mauritius	√	√	√

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.9: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Industry	Outstanding as on			Absolute Variation	
		March 18, 2005	March 31, 2006	March 30, 2007	2005-06	2006-07
	1	2	3	4	5	6
	Industry (Small, Medium and Large)	**4,23,136**	**5,49,940**	**6,91,483**	**1,26,804**	**1,41,543**
1.	Mining and Quarrying (Including Coal)	2,139	4,146	7,582	2,007	3,436
2.	Food Processing	24,025	30,940	39,560	6,915	8,620
	of which:					
	Sugar	6,928	8,776	11,426	1,848	2,650
	Edible Oils and Vanaspati	3,591	5,077	6,026	1,486	949
	Tea	1,627	1,851	2,335	224	484
	Others	11,879	15,237	19,773	3,358	4,536
3.	Beverage and Tobacco	1,943	4,002	4,821	2,059	819
4.	Textiles	43,789	58,326	78,289	14,537	19,963
	of which:					
	Cotton Textiles	22,782	29,668	37,546	6,886	7,878
	Jute Textiles	910	1,047	953	137	-94
	Man Made Textiles	651	3,062	4,201	2,411	1,139
	Other Textiles	19,446	24,550	35,589	5,104	11,039
5.	Leather and Leather Products	3,264	4,483	4,753	1,219	270
6.	Wood and Wood Products	489	1,496	2,875	1,007	1,379
7.	Paper and Paper Products	6,863	9,132	11,494	2,269	2,362
8.	Petroleum, Coal Products and Nuclear Fuels	15,261	25,150	35,462	9,889	10,312
9.	Chemicals and Chemical Products	39,021	48,588	55,480	9,567	6,892
	of which:					
	Fertiliser	8,165	10,569	9,875	2,404	-694
	Drugs and Pharmaceuticals	12,335	16,243	18,397	3,908	2,154
	Petro Chemicals	7,177	6,965	8,237	-212	1,272
	Others	11,344	14,810	18,971	3,466	4,161
10.	Rubber, Plastic and their Products	3,966	7,218	9,003	3,252	1,785
11.	Glass and Glass Ware	395	1,817	2,557	1,422	740
12.	Cement and Cement Products	8,005	7,799	9,334	-206	1,535
13.	Basic Metals and Metal Products	47,015	65,864	83,467	18,849	17,603
	of which:					
	Iron and Steel	35,742	50,967	63,553	15,225	12,586
	Other Metal and Metal Products	11,273	14,897	19,914	3,624	5,017
14.	All Engineering	28,934	34,829	43,368	5,895	8,539
	of which:					
	Electronics	9,114	10,981	13,401	1,867	2,420
	Others	19,820	23,849	29,967	4,029	6,118
15.	Vehicles, Vehicle Parts and Transport Equipments	12,045	18,622	20,673	6,577	2,051
16.	Gems and Jewellery	14,156	20,549	23,789	6,393	3,240
17.	Construction	8,321	13,275	19,470	4,954	6,195
18.	Infrastructure	78,999	1,12,830	1,43,116	33,831	30,286
	of which:					
	Power	38,235	60,134	73,128	21,899	12,994
	Telecommunications	15,705	18,455	19,619	2,750	1,164
	Roads and Ports	14,500	19,695	25,047	5,195	5,352
	Other Infrastructure	10,559	14,546	25,322	3,987	10,776
19.	Other Industries	84,506	80,873	96,390	-3,633	15,517

Note: 1. Data are provisional and relate to 51 scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks.
2. Due to reclassification of sector/industries, data for March 2006 onwards is not strictlty comparable with the earlier periods.
3. Variations for 2005-06 cover data for 27 fortnights (instead of 26 fortnights in a year).
4. Gross bank credit data include bills rediscounted with Reserve Bank, EXIM Bank, other approved financial institutions and inter-bank participation.

Appendix Table III.10: Accommodation by the Reserve Bank to Scheduled Commercial Banks

(Amount in Rs. crore)

As on the last reporting Friday of	Total Export Credit Refinance		Others		Total Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding
1	2	3	4	5	6 (2+4)	7 (3+5)
2003						
March	5,048.26	84.51	399.66	–	5,447.92	84.51
2004						
March	4,664.42	–	399.66	–	5,064.08	–
2005						
March	4,912.13	50.00	399.66	–	5,311.79	50.00
2006						
January	5,419.51	1,900.04	–	–	5,419.51	1,900.04
February	5710.56	3,068.47	–	–	5,710.56	3,068.47
March	6,050.63	1,567.68	–	–	6,050.63	1,567.68
April	6,674.53	119.06	–	–	6,674.53	119.06
May	6,638.08	2.06	–	–	6,638.08	2.06
June	6,513.55	2.06	–	–	6,513.55	2.06
July	7,046.20	2.06	–	–	7,046.20	2.06
August	7,046.52	–	–	–	7,046.52	–
September	6,963.09	1,563.75	–	–	6,963.09	1,563.75
October	7,259.39	1,215.00	–	–	7,259.39	1,215.00
November	7,065.80	4.00	–	–	7,065.80	4.00
December	7,200.34	1,784.23	–	–	7,200.34	1,784.23
2007						
January	7,470.20	3,013.48	–	–	7,470.20	3,013.48
February	7,946.14	–	–	–	7,946.14	–
March	8,110.33	4,984.94	–	–	8,110.33	4,984.94
April	8,871.55	3,760.22	–	–	8,871.55	3,760.22
May	8,510.80	2,746.00	–	–	8,510.80	2,746.00
June	8,342.90	100.90	–	–	8,342.90	100.90
July	8,103.46	0.90	–	–	8,103.46	0.90
August	7,806.76	92.00	–	–	7,806.76	92.00
September	7,505.46	45.00	–	–	7,505.46	45.00

– : Nil/Negligible.

Note : Total limits under normal and back-stop facility merged into a single facility since March 29, 2004.

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

(Amount in Rs. crore)

Advances to	State Bank Group			Nationalised Banks			Other Public Sector Bank			Public Sector Banks		
	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	3,375.22 (0.91)	4,086.16 (0.85)	21.06	8,616.43 (1.26)	12,406.83 (1.39)	43.99	1,478.33 (2.80)	2,599.76 (4.16)	75.86	13,469.98 (1.22)	19,092.75 (1.33)	41.74
2. Real Estate @	46,143.21 (12.41)	61,314.75 (12.71)	32.88	1,01,836.96 (14.93)	1,42,866.67 (15.96)	40.29	10,053.16 (19.06)	13,797.60 (22.09)	37.25	1,58,033.33 (14.29)	2,17,979.02 (15.14)	37.93
3. Commodities	–	–	–	1,227.54 (0.18)	1,695.44 (0.19)	38.12	–	–	–	1,227.54 (0.11)	1,695.44 (0.12)	38.12
Total Advances to Sensitive Sectors	**49,518.43 (13.32)**	**65,400.91 (13.56)**	**32.07**	**1,11,680.93 (16.38)**	**1,56,968.94 (17.53)**	**40.55**	**11,531.49 (21.87)**	**16,397.36 (26.25)**	**42.20**	**1,72,730.85 (15.61)**	**2,38,767.21 (16.58)**	**38.23**

	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	5,282.42 (2.30)	7,053.37 (2.19)	33.53	1,049.21 (1.26)	1,407.78 (1.52)	34.18	2,501.55 (2.56)	3,083.48 (2.44)	23.26	22,303.16 (1.47)	30,637.38 (1.55)	37.37
2. Real Estate @	66,980.22 (29.12)	1,04,092.80 (32.34)	55.41	12,086.46 (14.57)	15,441.82 (16.62)	27.76	24,953.84 (25.58)	33,176.24 (26.26)	32.95	2,62,053.85 (17.28)	3,70,689.88 (18.71)	41.46
3. Commodities	–	–	–	154.74 (0.19)	500.91 (0.54)	223.71	31.64 (0.03)	10.36 (0.01)	-67.26	1,413.92 (0.09)	2,206.71 (0.11)	56.07
Total Advances to Sensitive Sectors	**72,262.64 (31.42)**	**1,11,146.17 (34.53)**	**53.81**	**13,290.58 (16.02)**	**17,350.50 (18.68)**	**30.55**	**27,487.03 (28.17)**	**36,270.08 (28.71)**	**31.95**	**2,85,770.93 (18.84)**	**4,03,533.97 (20.37)**	**41.21**

– : Nil/Negligible.
: Exposure to capital market is inclusive of both investments and advances.
@: Exposure to real estate sector is inclusive of both direct and indirect lending.
Note : Figures in brackets are percentages to total loans and advances of the concerned bank-group.
Source : Balance sheets of respective bank.

Appendix Table III.12: Commercial Bank Survey

(Amount in Rs. crore)

Variable	Outstanding as on March 30, 2007	Variations							
		Financial year				April-September			
		2005-06*		2006-07		2006-07		2007-08	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Components									
C.I Aggregate Deposits of Residents (C.I.1+C.I.2)	**25,41,201**	**3,40,789**	**19.9**	**4,91,427**	**24.0**	**1,97,073**	**9.6**	**2,61,947**	**10.3**
C.I.1 Demand Deposits	4,29,137	78,623	27.5	64,497	17.7	2,028	0.6	10,748	2.5
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	21,12,063	2,62,167	18.4	4,26,930	25.3	1,95,045	11.6	2,51,199	11.9
C.I.2.1 Short-term Time Deposits	9,50,429	1,17,975	18.4	1,92,119	25.3	87,770	11.6	1,13,040	11.9
C.I.2.1.1 Certificates of Deposits (CDs)	97,354	28,972	–	52,855	–	21,287	–	24,181	–
C.I.2.2 Long-term Time Deposits	11,61,635	1,44,192	18.4	2,34,812	25.3	1,07,275	11.6	1,38,160	11.9
C.II Call/Term Funding from Financial Institutions	**85,836**	**11,224**	**15.6**	**2,692**	**3.2**	**1,542**	**1.9**	**2,625**	**3.1**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**28,62,491**	**3,22,807**	**15.8**	**4,98,250**	**21.1**	**1,98,032**	**8.4**	**2,32,425**	**8.1**
S.I.1 Credit to the Government	7,74,980	-19,514	-2.7	74,238	10.6	33,961	4.8	1,13,299	14.6
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	20,87,511	3,42,321	25.9	4,24,012	25.5	1,64,071	9.9	1,19,125	5.7
S.I.2.1 Bank Credit	19,28,913	3,54,868	30.8	4,21,836	28.0	1,54,414	10.2	96,486	5.0
S.I.2.1.1 Non-food Credit	18,82,392	3,54,193	31.8	4,16,006	28.4	1,61,647	11.0	1,05,998	5.6
S.I.2.2 Net Credit to Primary Dealers	2,799	2,586	145.0	-1,570	-35.9	2,025	46.4	497	17.8
S.I.2.3 Investments in Other Approved Securities	15,451	-3,295	-16.5	-1,262	-7.5	-606	-3.6	4,215	27.3
S.I.2.4 Other Investments (in non-SLR Securities)	1,40,347	-11,838	-8.0	5,007	3.7	8,237	6.1	17,927	12.8
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-40,259**	**29,640**	**-39.4**	**5,356**	**-11.7**	**-10,293**	**22.6**	**-11,437**	**28.4**
S.II.1 Foreign Currency Assets	58,754	14,059	47.8	15,260	35.1	-5,088	-11.7	-16,880	-28.7
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	67,108	-16,876	-22.2	7,833	13.2	5,589	9.4	-5,959	-8.9
S.II.3 Overseas Foreign Currency Borrowings	31,905	1,295	4.5	2,071	6.9	-384	-1.3	515	1.6
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**1,90,086**	**35,581**	**34.5**	**51,467**	**37.1**	**14,292**	**10.3**	**82,034**	**43.2**
S.III.1 Balances with the RBI	1,80,222	34,077	36.6	53,161	41.8	13,286	10.5	74,347	41.3
S.III.2 Cash in Hand	16,108	2,897	28.5	3,063	23.5	947	7.3	1,506	9.4
S.III.3 Loans and Advances from the RBI	6,245	1,393	–	4,757	–	-58	–	-6,181	–
S.IV Capital Account	**2,02,618**	**40,320**	**29.3**	**24,891**	**14.0**	**18,194**	**10.2**	**47,981**	**23.7**
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,82,663**	**-4,304**	**-2.9**	**36,063**	**24.6**	**-14,778**	**-10.1**	**-9,532**	**-5.2**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	2,10,099	468	0.3	51,154	32.2	33,345	21.0	18,984	9.0
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	14,196	2,031	8.8	-10,945	-43.5	-9,358	-37.2	6,254	44.1

– : Nil/Negligible.
* : Variation over April 1, 2005.
Note : 1. Data are provisional.
2. Time Deposits include the impact of redemption of India Millennium Deposits (IMDs), since December 29, 2005.

Appendix Table III.13: Credit – Deposit Ratio
(as at end-March)

(Per cent)

Bank Group/Banks	2006	2007
1	2	3
Scheduled Commercial Banks	**70.1**	**73.5**
Public Sector Banks	**68.2**	**72.2**
Nationalised Banks	**68.0**	**70.4**
Allahabad Bank	60.1	69.3
Andhra Bank	65.1	67.3
Bank of Baroda	64.0	66.9
Bank of India	69.4	70.8
Bank of Maharashtra	61.2	67.6
Canara Bank	68.0	69.2
Central Bank of India	56.4	62.6
Corporation Bank	72.9	70.7
Dena Bank	60.2	66.1
Indian Bank	55.1	61.7
Indian Overseas Bank	68.8	68.5
Oriental Bank of Commerce	66.9	69.0
Punjab National Bank	62.4	69.1
Punjab and Sind Bank	53.8	60.8
Syndicate Bank	68.0	65.7
UCO Bank	68.5	72.4
Union Bank of India	72.0	73.2
United Bank of India	53.1	59.6
Vijaya Bank	60.1	64.4
State Bank Group	**68.5**	**76.2**
State Bank of Bikaner and Jaipur	73.3	72.1
State Bank of Hyderabad	61.3	67.7
State Bank of India	68.9	77.5
State Bank of Indore	71.3	76.8
State Bank of Mysore	71.8	74.8
State Bank of Patiala	65.7	73.4
State Bank of Saurashtra	61.0	70.1
State Bank of Travancore	72.6	80.0
Other Public Sector Bank		
IDBI Ltd.	202.8	144.1
Private Sector Banks	**73.3**	**75.1**
Old Private Sector Banks	**63.7**	**67.3**
Bank of Rajasthan	45.7	52.7
Catholic Syrian Bank	62.8	63.4
City Union Bank	72.5	70.8
Dhanalakshmi Bank	63.0	59.6
Federal Bank	65.6	69.0
ING Vysya Bank	76.7	77.7
Jammu & Kashmir Bank	61.7	67.8
Karnataka Bank	58.8	68.1
Karur Vysya Bank	73.3	75.4
Lakshmi Vilas Bank	68.1	72.0
Lord Krishna Bank	62.3	N.A.

Bank Group/Banks	2006	2007
4	5	6
Nainital Bank	53.6	53.7
Ratnakar Bank	56.1	60.5
SBI Commercial and International Bank	67.1	67.5
Sangli Bank	44.3	15.5
South Indian Bank	66.5	64.7
Tamilnad Mercantile Bank	60.1	67.2
New Private Sector Banks	**77.2**	**77.8**
Axis Bank	55.6	62.7
Centurion Bank of Punjab	69.5	75.5
Development Credit Bank	59.8	60.2
HDFC Bank	62.8	68.7
ICICI Bank	88.5	85.0
IndusInd Bank	62.0	62.8
Kotak Mahindra Bank	96.7	99.3
Yes Bank	82.7	76.5
Foreign Banks	**85.8**	**83.8**
ABN Amro Bank	127.1	114.9
Abu Dhabi Commercial Bank	25.9	42.9
American Express Bank	89.3	59.8
Antwerp Diamond Bank	795.4	697.0
Arab Bangladesh Bank	160.6	134.7
BNP Paribas	100.3	111.6
Bank International Indonesia	47.5	5.9
Bank of America	160.0	107.3
Bank of Bahrain & Kuwait	51.7	46.9
Bank of Ceylon	55.9	47.3
Bank of Nova Scotia	103.6	149.7
Bank of Tokyo-Mitsubishi UFJ	131.8	165.4
Barclays Bank	1.2	17.1
Calyon Bank	272.0	129.5
Chinatrust Commercial Bank	126.0	112.7
Citibank	87.6	86.8
DBS Bank	61.4	32.1
Deutsche Bank	58.9	70.9
Hongkong & Shanghai Banking Corporation	67.4	66.5
J P Morgan Chase Bank	4.1	48.0
Krung Thai Bank	32.0	21.2
Mashreq Bank	143.1	93.1
Mizuho Corporate Bank	239.2	245.4
Oman International Bank	3.8	0.9
Shinhan Bank	60.9	65.6
Societe Generale	28.7	34.1
Sonali Bank	15.0	11.9
Standard Chartered Bank	84.6	88.1
State Bank of Mauritius	85.1	63.4

N.A. : Not available.
Source : Balance sheets of banks.

Appendix Table III.14: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in Rs. crore)

Advances to	State Bank Group			Nationalised Banks			Other Public Sector Bank			Public Sector Banks		
	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	1,87,048.79 (27.04)	2,58,766.23 (32.11)	38.34	2,98,695.96 (24.20)	3,36,460.59 (21.99)	12.64	19,570.55 (22.10)	17,708.91 (17.05)	-9.51	5,05,315.30 (25.08)	6,12,935.74 (25.12)	21.30
2. Guarantees given	32,631.36 (4.72)	46,660.81 (5.79)	42.99	66,955.99 (5.42)	82,852.31 (5.41)	23.74	4,027.19 (4.55)	8,202.08 (7.90)	103.67	1,03,614.54 (5.14)	1,37,715.20 (5.64)	32.91
3. Acceptances, endorsements, etc.	77,798.20 (11.25)	85,248.77 (10.58)	9.58	1,01,837.48 (8.25)	1,32,760.96 (8.68)	30.37	53,422.32 (60.32)	82,616.84 (79.56)	54.65	2,33,058.00 (11.57)	3,00,626.56 (12.32)	28.99
Contingent Liabilities	**2,97,478.35 (43.00)**	**3,90,675.81 (48.48)**	**31.33**	**4,67,489.42 (37.87)**	**5,52,073.86 (36.07)**	**18.09**	**77,020.06 (86.96)**	**1,08,527.82 (104.52)**	**40.91**	**8,41,987.84 (41.79)**	**10,51,277.50 (43.09)**	**24.86**

	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation	2005-06	2006-07	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	4,28,420.21 (101.60)	7,00,301.18 (119.74)	63.46	41,534.74 (27.69)	50,491.66 (31.45)	21.56	21,84,020.25 (1,095.53)	42,21,527.54 (1,518.45)	93.29	31,59,290.49 (113.40)	55,85,256.11 (161.25)	76.79
2. Guarantees given	27,083.86 (6.42)	42,009.59 (7.18)	55.11	5,717.74 (3.81)	6,613.16 (4.12)	15.66	24,812.58 (12.45)	33,279.27 (11.97)	34.12	1,61,228.74 (5.79)	2,19,617.22 (6.34)	36.21
3. Acceptances, endorsements, etc.	3,34,638.06 (79.36)	5,15,828.30 (88.20)	54.15	15,778.20 (10.52)	14,848.87 (9.25)	-5.89	3,45,348.90 (173.23)	7,95,537.04 (286.15)	130.36	9,28,823.14 (33.34)	16,26,840.77 (46.97)	75.15
Contingent Liabilities	**7,90,142.13 (187.39)**	**12,58,139.07 (215.12)**	**59.23**	**63,030.69 (42.03)**	**71,953.69 (44.81)**	**14.16**	**25,54,181.73 (1,281.20)**	**50,50,343.85 (1,816.56)**	**97.73**	**42,49,342.38 (152.53)**	**74,31,714.10 (214.58)**	**74.89**

Note : Figures in brackets are percentages to total liabilities of the concerned bank-group.
Source : Balance sheets of respective banks.

Appendix Table III.15: Income of Public Sector Banks -Component-wise

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income	
		2005-06	2006-07	2005-06	2006-07
	1	2	3	4	5
	Public Sector Banks	**4,502.50**	**2,967.11**	**2,586.83**	**2,208.71**
	Nationalised Banks	**2,791.56**	**1,802.31**	**1,321.20**	**1,595.03**
1.	Allahabad Bank	138.95	74.38	58.88	45.71
2.	Andhra Bank	77.15	55.71	27.71	32.27
3.	Bank of Baroda	302.16	136.16	178.19	239.28
4.	Bank of India	114.09	204.93	182.31	224.08
5.	Bank of Maharashtra	-32.37	74.00	28.66	16.16
6.	Canara Bank	111.64	134.10	154.78	173.10
7.	Central Bank of India	183.66	136.22	26.09	43.10
8.	Corporation Bank	135.75	126.42	32.94	45.96
9.	Dena Bank	125.33	39.45	25.26	30.76
10.	Indian Bank	75.92	49.31	68.06	75.77
11.	Indian Overseas Bank	233.68	237.37	65.75	85.64
12.	Oriental Bank of Commerce	188.52	111.06	74.86	61.87
13.	Punjab & Sind Bank	26.62	17.35	21.04	23.49
14.	Punjab National Bank	458.00	-13.89	122.10	176.72
15.	Syndicate Bank	133.45	140.69	43.40	45.26
16.	UCO Bank	83.38	53.99	31.68	33.36
17.	Union Bank of India	95.39	108.54	149.77	198.39
18.	United Bank of India	191.80	41.81	6.20	12.95
19.	Vijaya Bank	148.44	74.71	23.52	31.16
	State Bank Group	**1,007.54**	**831.10**	**1,206.61**	**567.94**
1.	State Bank of India	587.17	567.78	1,001.27	373.40
2.	State Bank of Bikaner & Jaipur	36.08	53.66	15.47	20.34
3.	State Bank of Hyderabad	69.22	84.54	61.27	68.39
4.	State Bank of Indore	78.32	24.79	27.15	20.11
5.	State Bank of Mysore	90.57	38.87	21.58	27.73
6.	State Bank of Patiala	53.87	37.29	40.84	32.73
7.	State Bank of Saurashtra	25.07	8.55	9.53	10.20
8.	State Bank of Travancore	67.25	15.62	29.51	15.04
	Other Public Sector Banks				
1.	IDBI Ltd.	703.40	333.70	59.02	45.73

Note : 1. Trading Income: Net profit on sale of investment.
2. Forex Income: Net profit on foreign exchange transaction.

Source : Balance sheets of respective banks.

Appendix Table III.16: Important Financial Indicators – Bank Group-wise *(Continued)*

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses		Provisions and Contingencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2004-05	51,023.22 (2.17)	20,958.18 (0.89)	1,90,235.72 (8.08)	1,55,801.00 (6.61)	34,434.72 (1.46)	1,69,277.53 (7.19)	89,079.15 (3.78)	50,133.34 (2.13)	29,479.16 (1.25)	30,065.04 (1.28)	66,721.84 (2.83)
2005-06	54,393.72 (1.95)	24,581.77 (0.88)	2,20,755.70 (7.92)	1,85,387.90 (6.65)	35,367.80 (1.27)	1,96,173.93 (7.04)	1,07,161.17 (3.85)	59,200.81 (2.13)	33,460.72 (1.20)	29,811.94 (1.07)	78,226.73 (2.81)
2006-07	65,916.56 (1.90)	31,202.61 (0.90)	2,76,200.60 (7.97)	2,37,271.14 (6.85)	38,929.46 (1.12)	2,44,997.99 (7.07)	1,43,965.41 (4.16)	66,318.63 (1.91)	36,160.14 (1.04)	34,713.95 (1.00)	93,305.73 (2.69)
Public Sector Banks											
2004-05	38,761.43 (2.18)	15,442.42 (0.87)	1,44,566.95 (8.15)	1,20,365.09 (6.79)	24,201.87 (1.36)	1,29,124.53 (7.28)	68,764.45 (3.88)	37,041.07 (2.09)	25,171.67 (1.42)	23,319.00 (1.31)	51,600.63 (2.91)
2005-06	37,967.21 (1.88)	16,538.66 (0.82)	1,59,779.73 (7.93)	1,37,874.45 (6.84)	21,905.28 (1.09)	1,43,241.08 (7.11)	80,504.22 (4.00)	41,308.30 (2.05)	27,378.16 (1.36)	21,428.55 (1.06)	57,370.23 (2.85)
2006-07	42,268.16 (1.73)	20,152.18 (0.83)	1,88,979.31 (7.75)	1,68,107.66 (6.89)	20,871.65 (0.86)	1,68,827.13 (6.92)	1,03,456.63 (4.24)	43,254.52 (1.77)	27,802.86 (1.14)	22,115.98 (0.91)	64,651.03 (2.65)
Nationalised Banks											
2004-05	23,121.24 (2.17)	9,459.31 (0.89)	87,752.53 (8.24)	73,657.91 (6.91)	14,094.62 (1.32)	78,293.22 (7.35)	41,454.51 (3.89)	23,176.78 (2.18)	15,971.59 (1.50)	13,661.93 (1.28)	32,203.40 (3.02)
2005-06	22,139.88 (1.79)	10,021.29 (0.81)	94,292.03 (7.64)	83,193.13 (6.74)	11,098.90 (0.90)	84,270.75 (6.83)	47,463.29 (3.84)	24,688.87 (2.00)	16,394.57 (1.33)	12,118.59 (0.98)	35,729.84 (2.89)
2006-07	27,069.61 (1.77)	12,949.84 (0.85)	1,17,468.87 (7.68)	1,05,423.57 (6.89)	12,045.30 (0.79)	1,04,519.03 (6.83)	63,909.95 (4.18)	26,489.30 (1.73)	17,049.80 (1.11)	14,119.78 (0.92)	41,513.62 (2.71)
State Bank Group											
2004-05	15,279.17 (2.44)	5,675.86 (0.91)	53,531.58 (8.54)	44,051.46 (7.02)	9,480.12 (1.51)	47,855.72 (7.63)	24,842.07 (3.96)	13,410.33 (2.14)	9,042.53 (1.44)	9,603.32 (1.53)	19,209.39 (3.06)
2005-06	15,026.47 (2.17)	5,956.48 (0.86)	58,826.53 (8.50)	49,300.60 (7.13)	9,525.93 (1.38)	52,870.05 (7.64)	28,040.10 (4.05)	15,759.95 (2.28)	10,665.09 (1.54)	9,069.99 (1.31)	21,260.50 (3.07)
2006-07	14,291.90 (1.77)	6,572.04 (0.82)	64,137.84 (7.96)	56,338.67 (6.99)	7,799.17 (0.97)	57,565.80 (7.14)	33,859.19 (4.20)	15,986.75 (1.98)	10,470.17 (1.30)	7,719.86 (0.96)	22,479.48 (2.79)

Appendix Table III.16: Important Financial Indicators – Bank Group-wise *(Concluded)*

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses		Provisions and Contin-gencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	13	14	15	16	17	18	19	20	21	22	23
Other Public Sector Banks											
2004-05	361.01 (0.44)	307.26 (0.38)	3,282.85 (4.03)	2,655.72 (3.26)	627.12 (0.77)	2,975.59 (3.66)	2,467.87 (3.03)	453.96 (0.56)	157.55 (0.19)	53.76 (0.07)	187.85 (0.23)
2005-06	800.86 (0.90)	560.89 (0.63)	6,661.17 (7.52)	5,380.72 (6.08)	1,280.45 (1.45)	6,100.28 (6.89)	5,000.82 (5.65)	859.48 (0.97)	318.51 (0.36)	239.97 (0.27)	379.89 (0.43)
2006-07	906.65 (0.87)	630.31 (0.61)	7,372.60 (7.10)	6,345.42 (6.11)	1,027.18 (0.99)	6,742.29 (6.49)	5,687.49 (5.48)	778.47 (0.75)	282.90 (0.27)	276.34 (0.27)	657.93 (0.63)
Old Private Sector Banks											
2004-05	2,241.75 (1.68)	435.82 (0.33)	10,525.28 (7.89)	9,275.32 (6.95)	1,249.96 (0.94)	10,089.45 (7.56)	5,672.85 (4.25)	2,610.67 (1.96)	1,458.59 (1.09)	1,805.93 (1.35)	3,602.47 (2.70)
2005-06	2,257.18 (1.51)	865.66 (0.58)	11,592.88 (7.73)	10,372.05 (6.92)	1,220.83 (0.81)	10,727.22 (7.15)	6,246.73 (4.17)	3,088.97 (2.06)	1,766.94 (1.18)	1,391.52 (0.93)	4,125.32 (2.75)
2006-07	3,027.30 (1.89)	1,121.87 (0.70)	13,088.29 (8.15)	11,643.42 (7.25)	1,444.86 (0.90)	11,966.42 (7.45)	7,091.82 (4.42)	2,969.17 (1.85)	1,703.99 (1.06)	1,905.44 (1.19)	4,551.61 (2.83)
New Private Sector Banks											
2004-05	5,442.75 (1.85)	3,097.57 (1.05)	22,107.33 (7.51)	16,990.13 (5.77)	5,117.20 (1.74)	19,009.76 (6.46)	10,600.40 (3.60)	6,064.18 (2.06)	1,484.13 (0.50)	2,345.18 (0.80)	6,389.73 (2.17)
2005-06	7,510.89 (1.78)	4,108.85 (0.97)	31,721.02 (7.52)	24,850.58 (5.89)	6,870.44 (1.63)	27,612.17 (6.55)	15,260.73 (3.62)	8,949.41 (2.12)	2,310.45 (0.55)	3,402.03 (0.81)	9,589.85 (2.27)
2006-07	11,021.28 (1.88)	5,343.40 (0.91)	49,176.94 (8.41)	39,501.13 (6.75)	9,675.80 (1.65)	43,833.54 (7.49)	25,801.93 (4.41)	12,353.72 (2.11)	3,572.18 (0.61)	5,677.88 (0.97)	13,699.20 (2.34)
Foreign Banks											
2004-05	4,577.30 (2.98)	1,982.37 (1.29)	13,036.16 (8.49)	9,170.46 (5.97)	3,865.70 (2.52)	11,053.79 (7.19)	4,041.45 (2.63)	4,417.41 (2.88)	1,364.76 (0.89)	2,594.93 (1.69)	5,129.02 (3.34)
2005-06	6,658.44 (3.34)	3,068.60 (1.54)	17,662.07 (8.86)	12,290.82 (6.17)	5,371.25 (2.69)	14,593.47 (7.32)	5,149.50 (2.58)	5,854.13 (2.94)	2,005.17 (1.01)	3,589.84 (1.80)	7,141.33 (3.58)
2006-07	9,599.81 (3.45)	4,585.16 (1.65)	24,956.06 (8.98)	18,018.92 (6.48)	6,937.14 (2.50)	20,370.90 (7.33)	7,615.02 (2.74)	7,741.22 (2.78)	3,081.11 (1.11)	5,014.65 (1.80)	10,403.89 (3.74)

Note : 1. The number of scheduled commercial banks in 2004-05, 2005-06 and 2006-07 were 88, 85 and 82, respecitvely.
2. The number of old private banks in 2004-05, 2005-06 and 2006-07 were 20, 20 and 17, respectively
3. The number of new private banks in 2004-05, 2005-06 and 2006-07 were 9, 8 and 8, respectively.
4. The number of foreign banks in 2004-05, 2005-06 and 2006-07 were 31, 29 and 29, respectively.
5. Figures in brackets are percentages to total assets.
6. NII - Net Interest Income.
7. Scheduled commercial banks data for 2005-06 are as reported in the balance sheets for 2006-07 and hence may not tally with those reported in the Report on Trend and Progress of Banking in India, 2005-06, to the extent the figures of 2005-06 were revised by some banks.

Source : Balance sheets of respective banks.

Appendix Table III.17(A): Financial Performance of Scheduled Commercial Banks*

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**2,20,755.70 (100.00)**	**2,76,200.60 (100.00)**	**55,444.90**	**25.12**
i) Interest Income	1,85,387.90 (83.98)	2,37,271.14 (85.91)	51,883.24	27.99
of which: Interest on Advances	1,09,189.98	1,56,246.35	47,056.38	43.10
Income on Investments	66,368.16	69,596.82	3,228.66	4.86
ii) Other Income	35,367.80 (16.02)	38,929.46 (14.09)	3,561.66	10.07
of which: Commission & Brokerage	18,640.91	24,207.50	5,566.59	29.86
B. Expenditure (i+ii+iii)	**1,96,173.93 (100.00)**	**2,44,997.99 (100.00)**	**48,824.06**	**24.89**
i) Interest Expended	1,07,161.17 (54.63)	1,43,965.41 (58.76)	36,804.23	34.34
of which: Interest on Deposits	89,742.03	1,20,261.08	30,519.04	34.01
ii) Provisions and Contingencies	29,811.94 (15.20)	34,713.95 (14.17)	4,902.01	16.44
of which: Provision for NPAs	48.50	100.26	51.76	106.73
iii) Operating Expenses	59,200.81 (30.18)	66,318.63 (27.07)	7,117.82	12.02
of which: Wage Bill	33,460.72	36,160.14	2,699.42	8.07
C. Profit				
i) Operating Profit	**54,393.72**	**65,916.56**	**11,522.85**	**21.18**
ii) Net Profit	**24,581.77**	**31,202.61**	**6,620.84**	**26.93**
D. Net Interest Income/Margin	**78,226.73**	**93,305.73**	**15,079.00**	**19.28**
E. Total Assets	**27,85,863.27**	**34,63,406.41**	**6,77,543.13**	**24.32**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(B): Financial Performance of Public Sector Banks

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,59,779.73 (100.00)**	**1,88,979.31 (100.00)**	**29,199.58**	**18.27**
i) Interest Income	1,37,874.45 (86.29)	1,68,107.66 (88.96)	30,233.21	21.93
of which: Interest on Advances	78,519.01	1,10,543.30	32,024.30	40.79
Income on Investments	51,757.04	49,820.61	– 1,936.43	-3.74
ii) Other Income	21,905.28 (13.71)	20,871.65 (11.04)	– 1,033.63	-4.72
of which: Commission & Brokerage	10,128.04	12,521.25	2,393.21	23.63
B. Expenditure (i+ii+iii)	**1,43,241.08 (100.00)**	**1,68,827.13 (100.00)**	**25,586.05**	**17.86**
i) Interest Expended	80,504.22 (56.20)	1,03,456.63 (61.28)	22,952.41	28.51
of which: Interest on Deposits	70,011.89	89,182.79	19,170.90	27.38
ii) Provisions and Contingencies	21,428.55 (14.96)	22,115.98 (13.10)	687.43	3.21
of which: Provision for NPAs	40.46	50.57	10.11	24.99
iii) Operating Expenses	41,308.30 (28.84)	43,254.52 (25.62)	1,946.21	4.71
of which: Wage Bill	27,378.16	27,802.86	424.70	1.55
C. Profit				
i) Operating Profit	**37,967.21**	**42,268.16**	**4,300.95**	**11.33**
ii) Net Profit	**16,538.66**	**20,152.18**	**3,613.53**	**21.85**
D. Net Interest Income/Margin	**57,370.23**	**64,651.03**	**7,280.80**	**12.69**
E. Total Assets	**20,14,874.09**	**24,39,985.92**	**4,25,111.83**	**21.10**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(C): Financial Performance of Nationalised Banks

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**94,292.03 (100.00)**	**1,17,468.87 (100.00)**	**23,176.83**	**24.58**
i) Interest Income	83,193.13 (88.23)	1,05,423.57 (89.75)	22,230.44	26.72
of which: Interest on Advances	48,594.85	69,153.88	20,559.03	42.31
Income on Investments	31,822.41	32,309.78	487.37	1.53
Interest on Recapitalisation Bonds	1,886.73	1,885.36	-1.37	-0.07
ii) Other Income	11,098.90 (11.77)	12,045.30 (10.25)	946.40	8.53
of which: Commission & Brokerage	4,545.69	5,594.11	1,048.42	23.06
B. Expenditure (i+ii+iii)	**84,270.75 (100.00)**	**1,04,519.03 (100.00)**	**20,248.29**	**24.03**
i) Interest Expended	47,463.29 (56.32)	63,909.95 (61.15)	16,446.66	34.65
of which: Interest on Deposits	43,810.43	58,550.64	14,740.20	33.65
ii) Provisions and Contingencies	12,118.59 (14.38)	14,119.78 (13.51)	2,001.19	16.51
of which: Provision for NPAs	3438.66	3,133.67	-304.99	-8.87
iii) Operating Expenses	24,688.87 (29.30)	26,489.30 (25.34)	1,800.43	7.29
of which: Wage Bill	16,394.56	17,049.80	655.23	4.00
C. Profit				
i) Operating Profit	**22,139.88**	**27,069.61**	**4,929.74**	**22.27**
ii) Net Profit	**10,021.29**	**12,949.84**	**2,928.55**	**29.22**
D. Net Interest Income/Margin	**35,729.84**	**41,513.62**	**5,783.78**	**16.19**
E. Total Assets	**12,34,462.40**	**15,30,351.44**	**295,889.05**	**23.97**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(D): Financial Performance of State Bank Group

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**58,826.53 (100.00)**	**64,137.84 (100.00)**	**5,311.31**	**9.03**
i) Interest Income	49,300.60 (83.81)	56,338.67 (87.84)	7,038.07	14.28
of which: Interest on Advances	25,517.09	36,147.51	10,630.42	41.66
Income on Investments	19,089.26	16,512.38	-2,576.88	-13.50
ii) Other Income	9,525.93 (16.19)	7,799.17 (12.16)	-1,726.76	-18.13
of which: Commission & Brokerage	5,310.38	6,661.30	1,350.92	25.44
B. Expenditure (i+ii+iii)	**52,870.05 (100.00)**	**57,565.80 (100.00)**	**4,695.75**	**8.88**
i) Interest Expended	28,040.10 (53.04)	33,859.19 (58.82)	5,819.09	20.75
of which: Interest on Deposits	25,288.64	28,638.81	3,350.17	13.25
ii) Provisions and Contingencies	9,069.99 (17.16)	7,719.86 (13.41)	-1,350.13	-14.89
of which: Provision for NPAs	475.28	1,783.88	1,308.60	275.33
iii) Operating Expenses	15,759.95 (29.81)	15,986.75 (27.77)	226.80	1.44
of which: Wage Bill	10,665.09	10,470.17	-194.92	-1.83
C. Profit				
i) Operating Profit	**15,026.47**	**14,291.90**	**-734.57**	**-4.89**
ii) Net Profit	**5,956.48**	**6,572.04**	**615.56**	**10.33**
D. Net Interest Income/Margin	**21,260.50**	**22,479.48**	**1,218.99**	**5.73**
E. Total Assets	**6,91,846.91**	**8,05,795.15**	**113,948.25**	**16.47**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(E): Financial Performance of Old Private Sector Banks

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**11,592.88 (100.00)**	**13,088.29 (100.00)**	**1,495.40**	**12.90**
i) Interest Income	10,372.05 (89.47)	11,643.42 (88.96)	1,271.38	12.26
of which: Interest on Advances	6,590.05	7,948.15	1,358.10	20.61
Income on Investments	3,253.94	3,127.96	-125.98	-3.87
ii) Other Income	1,220.83 (10.53)	1,444.86 (11.04)	224.03	18.35
of which: Commission & Brokerage	626.40	708.98	82.58	13.18
B. Expenditure (i+ii+iii)	**10,727.22 (100.00)**	**11,966.42 (100.00)**	**1,239.20**	**11.55**
i) Interest Expended	6,246.73 (58.23)	7,091.82 (59.26)	845.09	13.53
of which: Interest on Deposits	5,931.35	6,725.59	794.24	13.39
ii) Provisions and Contingencies	1,391.52 (12.97)	1,905.44 (15.92)	513.92	36.93
of which: Provision for NPAs	502.00	433.68	-68.32	-13.61
iii) Operating Expenses	3,088.97 (28.80)	2,969.17 (24.81)	-119.80	-3.88
of which: Wage Bill	1,766.94	1,703.99	-62.95	-3.56
C. Profit				
i) Operating Profit	**2,257.18**	**3,027.30**	**770.12**	**34.12**
ii) Net Profit	**865.66**	**1,121.87**	**256.20**	**29.60**
D Net Interest Income/Margin	**4,125.32**	**4,551.61**	**426.29**	**10.33**
E. Total Assets	**1,49,972.18**	**1,60,561.92**	**10,589.74**	**7.06**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(F): Financial Performance of New Private Sector Banks

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**31,721.02 (100.00)**	**49,176.94 (100.00)**	**17,455.92**	**55.03**
i) Interest Income	24,850.58 (78.34)	39,501.13 (80.32)	14,650.56	58.95
of which: Interest on Advances	16,701.17	26,813.41	10,112.24	60.55
Income on Investments	7,406.60	11,216.22	3,809.62	51.44
ii) Other Income	6,870.44 (21.66)	9,675.80 (19.68)	2,805.37	40.83
of which: Commission & Brokerage	5,014.08	7,187.99	2,173.91	43.36
B. Expenditure (i+ii+iii)	**27,612.17 (100.00)**	**43,833.54 (100.00)**	**16,221.38**	**58.75**
i) Interest Expended	15,260.73 (55.27)	25,801.93 (58.86)	10,541.21	69.07
of which: Interest on Deposits	10,637.63	19,594.46	8,956.83	84.20
ii) Provisions and Contingencies	3,402.03 (12.32)	5,677.88 (12.95)	2,275.85	66.90
of which: Provision for NPAs	205.72	4,203.02	3,997.30	1,943.06
iii) Operating Expenses	8,949.41 (32.41)	12,353.72 (28.18)	3,404.32	38.04
of which: Wage Bill	2,310.45	3,572.18	1,261.73	54.61
C. Profit				
i) Operating Profit	**7,510.89**	**11,021.28**	**3,510.40**	**46.74**
ii) Net Profit	**4,108.85**	**5,343.40**	**1,234.55**	**30.05**
D. Net Interest Income/Margin	**9,589.85**	**13,699.20**	**4,109.35**	**42.85**
E. Total Assets	**4,21,658.97**	**5,84,842.08**	**163,183.11**	**38.70**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.17(G): Financial Performance of Foreign Banks in India

(Amount in Rs. crore)

Item	2005-06	2006-07	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**17,662.07** **(100.00)**	**24,956.06** **(100.00)**	**7,293.99**	**41.30**
i) Interest Income	12,290.82 (69.59)	18,018.92 (72.20)	5,728.09	46.60
of which: Interest on Advances	7,379.75	10,941.49	3,561.74	48.26
Income on Investments	3,950.57	5,432.04	1,481.46	37.50
ii) Other Income	5,371.25 (30.41)	6,937.14 (27.80)	1,565.90	29.15
of which: Commission & Brokerage	2,872.39	3,789.29	916.89	31.92
B. Expenditure (i+ii+iii)	**14,593.47** **(100.00)**	**20,370.90** **(100.00)**	**5,777.43**	**39.59**
i) Interest Expended	5,149.50 (35.29)	7,615.02 (37.38)	2,465.53	47.88
of which: Interest on Deposits	3,161.17	4,758.24	1,597.07	50.52
ii) Provisions and Contingencies	3,589.84 (24.60)	5,014.65 (24.62)	1,424.81	39.69
of which: Provision for NPAs	96.43	332.48	236.06	244.81
iii) Operating Expenses	5,854.13 (40.11)	7,741.22 (38.00)	1,887.09	32.24
of which: Wage Bill	2,005.17	3,081.11	1,075.94	53.66
C. Profit				
i) Operating Profit	**6,658.44**	**9,599.81**	**2,941.37**	**44.18**
ii) Net Profit	**3,068.60**	**4,585.16**	**1,516.56**	**49.42**
D. Net Interest Income/Margin	**7,141.33**	**10,403.89**	**3,262.57**	**45.69**
E. Total Assets	**1,99,358.03**	**2,78,016.49**	**78,658.46**	**39.46**

Note : Figures in brackets are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table III.18: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2007)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Nationalised Banks										
1.	Allahabad Bank	8.10	4.42	12.52	1.07	8.17	0.63	1.84	1.26	456.00	3.97
2.	Andhra Bank	9.98	1.35	11.33	0.17	8.08	1.09	2.27	1.31	536.06	4.14
3.	Bank of Baroda	8.74	3.06	11.80	0.60	7.39	0.94	1.94	0.72	555.00	2.73
4.	Bank of India	6.54	5.04	11.58	0.74	7.23	1.23	1.89	0.88	498.00	2.71
5.	Bank of Maharashtra	6.03	6.03	12.06	1.21	7.65	0.74	1.72	0.76	404.94	1.95
6.	Canara Bank	7.17	6.33	13.50	0.94	7.85	1.00	2.01	0.98	548.76	3.24
7.	Central Bank of India	6.32	4.08	10.40	1.70	7.77	0.59	1.58	0.62	303.85	1.35
8.	Corporation Bank	11.30	1.46	12.76	0.47	7.51	1.24	2.50	1.17	637.00	4.79
9.	Dena Bank	6.06	5.46	11.52	1.99	7.47	1.38	2.24	0.71	458.00	1.99
10.	Indian Bank	12.28	1.86	14.14	0.35	8.24	1.41	2.61	1.46	364.00	3.64
11.	Indian Overseas Bank	8.20	5.07	13.27	0.55	7.85	0.52	2.10	1.36	467.23	4.04
12.	Oriental Bank of Commerce	10.05	2.46	12.51	0.49	7.55	0.88	1.90	1.21	742.64	5.61
13.	Punjab & Sind Bank	9.58	3.30	12.88	0.66	8.01	1.06	2.19	1.01	328.59	2.34
14.	Punjab National Bank	8.93	3.36	12.29	0.76	7.69	1.64	2.15	1.03	407.41	2.68
15.	Syndicate Bank	6.24	5.50	11.74	0.76	7.68	0.79	1.75	0.91	489.17	2.76
16.	UCO Bank	5.78	5.78	11.56	2.14	7.87	0.66	1.40	0.47	464.00	1.30
17.	Union Bank of India	7.79	5.01	12.80	0.96	8.08	0.75	2.19	0.92	509.21	3.25
18.	United Bank of India	7.72	4.30	12.02	1.50	7.82	0.88	1.97	0.73	350.00	1.59
19.	Vijaya Bank	7.07	4.14	11.21	0.59	7.90	0.77	1.95	0.92	455.17	3.04
	State Bank Group										
20.	State Bank of India	8.01	4.33	12.34	1.56	7.34	1.07	1.86	0.84	357.00	2.37
21.	State Bank of Bikaner & Jaipur	7.79	5.10	12.89	1.09	7.53	1.09	2.04	0.89	368.09	2.57
22.	State Bank of Hyderabad	8.25	4.26	12.51	0.22	7.91	1.03	2.27	1.14	473.64	3.92
23.	State Bank of Indore	6.74	5.03	11.77	1.04	7.84	0.99	1.79	0.87	476.67	2.91
24.	State Bank of Mysore	6.62	4.85	11.47	0.45	7.99	1.42	2.09	1.10	398.00	2.60
25.	State Bank of Patiala	8.36	4.02	12.38	0.83	7.97	1.11	2.25	0.77	599.54	3.24
26.	State Bank of Saurashtra	8.17	4.61	12.78	0.70	7.98	0.81	1.48	0.46	343.00	1.21
27.	State Bank of Travancore	7.55	4.13	11.68	1.08	7.45	0.58	1.87	0.86	506.13	2.96
	Other Public Sector Bank										
28.	IDBI Ltd.	9.11	4.62	13.73	1.12	6.77	1.10	0.97	0.67	1,387.16	8.44

Appendix Table III.18: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2007)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee (Amount in Rs. lakh)	Profit per employee (Amount in Rs. lakh)
		Tier I	Tier II	Total							
1	2	3	4	5	6	7	8	9	10	11	12
	Old Private Sector Banks										
1.	Bank of Rajasthan Ltd.	6.62	4.70	11.32	0.24	7.94	1.30	2.01	1.16	400.54	2.83
2.	Catholic Syrian Bank Ltd.	5.70	3.88	9.58	1.98	7.99	0.68	1.20	0.37	278.00	0.68
3.	City Union Bank Ltd.	10.87	1.71	12.58	1.09	8.74	1.18	2.87	1.57	350.12	3.84
4.	Dhanalakshmi Bank Ltd.	6.29	3.48	9.77	1.75	7.95	1.13	1.42	0.52	360.91	1.18
5.	Federal Bank Ltd.	8.94	4.49	13.43	0.44	8.58	1.35	2.89	1.38	544.00	4.43
6.	ING Vysya Bank Ltd.	6.38	4.18	10.56	1.05	8.12	1.13	1.33	0.52	486.09	1.66
7.	Jammu & Kashmir Bank Ltd.	12.60	0.64	13.24	1.13	7.87	0.66	2.30	0.96	585.00	4.00
8.	Karnataka Bank Ltd.	10.46	0.57	11.03	1.22	8.15	1.13	2.31	1.15	523.86	3.97
9.	Karur Vysya Bank Ltd.	14.04	0.47	14.51	0.23	8.29	1.14	2.62	1.53	489.00	4.87
10.	Lakshmi Vilas Bank Ltd.	9.93	2.50	12.43	1.58	7.98	0.85	1.37	0.33	430.00	0.91
11.	Lord Krishna Bank Ltd.	9.13	2.48	11.61	4.37	7.32	0.59	0.12	-0.59	275.53	–
12.	Nainital Bank Ltd.	10.10	2.79	12.89	–	8.74	0.32	2.72	1.26	279.00	3.00
13.	Ratnakar Bank Ltd.	33.39	0.95	34.34	1.92	8.07	0.73	1.49	0.31	254.41	0.54
14.	SBI Comercial and International Bank Ltd.	20.32	0.61	20.93	–	6.46	0.73	1.16	1.13	648.34	7.79
15.	Sangli Bank Ltd.	–	–	–	7.18	6.83	0.42	-2.42	-20.35	101.08	-18.72
16.	South Indian Bank Ltd.	8.84	2.24	11.08	0.98	8.26	0.87	2.13	0.76	462.00	2.69
17.	Tamilnad Mercantile Bank Ltd.	16.12	0.65	16.77	0.98	9.44	1.23	3.42	1.57	451.23	4.76
	New Private Sector Banks										
18.	Axis Bank	6.42	5.15	11.57	0.72	7.58	1.68	2.27	1.10	1,024.00	7.59
19.	Centurion Bank of Punjab Ltd.	9.91	1.14	11.05	1.26	8.78	2.81	1.86	0.84	420.00	2.08
20.	Development Credit Bank Ltd.	8.44	2.90	11.34	1.64	7.81	2.08	0.91	0.71	391.00	0.40
21.	HDFC Bank	8.57	4.51	13.08	0.43	8.01	1.76	2.98	1.33	607.00	6.13
22.	ICICI Bank	7.42	4.27	11.69	1.02	8.04	2.07	2.05	1.09	1,027.00	9.00
23.	IndusInd Bank Ltd.	7.34	5.20	12.54	2.47	7.59	1.23	0.87	0.34	1,039.77	2.61
24.	Kotak Mahindra Bank Ltd.	8.81	4.65	13.46	1.98	8.98	1.88	2.16	0.94	383.91	3.13
25.	Yes Bank Ltd.	8.20	5.40	13.60	–	8.94	2.96	2.19	1.44	531.00	4.00

Appendix Table III.18: Select Financial Parameters of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2007)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India										
1.	ABN-AMRO Bank N.V.	7.33	4.01	11.34	0.12	8.11	2.68	3.63	1.37	1,011.88	11.36
2.	Abu Dhabi Commercial Bank Ltd.	27.18	0.48	27.66	0.63	5.59	1.85	1.33	0.23	1,865.72	4.80
3.	American Express Bank Ltd.	12.18	0.82	13.00	0.77	7.64	10.03	4.29	1.28	216.75	2.59
4.	Antwerp Diamond Bank	33.28	13.20	46.48	–	6.66	1.15	2.94	1.70	2,071.57	55.63
5.	Arab Bangladesh Bank Ltd.	98.55	1.82	100.37	–	6.52	6.98	6.74	3.42	209.48	8.80
6.	BNP Paribas	7.38	3.38	10.76	–	6.71	3.03	3.06	1.41	1,353.26	19.39
7.	Bank Internasional Indonesia	139.98	1.26	141.24	–	6.52	5.08	6.38	6.52	97.00	37.39
8.	Bank of America NA	11.75	1.58	13.33	–	7.26	4.32	5.74	3.10	1,920.89	69.09
9.	Bank of Bahrain & Kuwait B.S.C.	20.75	1.25	22.00	0.12	7.84	1.15	1.69	-1.90	704.00	-11.00
10.	Bank of Ceylon	62.82	0.39	63.21	14.96	5.33	2.10	3.65	1.25	579.18	9.41
11.	Bank of Nova Scotia	22.57	0.69	23.26	–	6.01	1.72	2.73	1.73	2,311.12	39.10
12.	Bank of Tokyo-Mitsubishi UFJ	26.47	4.24	30.71	–	6.24	2.41	4.27	2.11	1,780.52	35.42
13.	Barclays Bank PLC	13.68	–	13.68	–	6.71	10.60	7.60	4.45	280.54	36.28
14.	Calyon Bank	11.50	3.60	15.10	–	8.60	7.80	7.50	4.60	1,629.00	82.00
15.	Chinatrust Commercial Bank	21.57	0.57	22.14	0.27	7.08	0.78	1.16	0.34	1,042.00	3.00
16.	Citibank N.A.	10.12	0.94	11.06	1.02	8.00	2.45	3.98	2.79	1,360.48	17.33
17.	Development Bank of Singapore Ltd.	22.84	6.40	29.24	–	8.23	1.82	3.24	1.60	1,003.02	39.84
18.	Deutsche Bank AG	9.73	0.89	10.62	0.01	6.68	4.49	2.82	1.23	1,143.53	20.98
19.	HSBC Ltd.	10.01	1.05	11.06	0.43	7.57	2.62	4.09	1.82	979.68	14.32
20.	JPMorgan Chase Bank	15.99	0.15	16.14	2.17	8.83	5.44	8.01	1.71	1,121.88	82.15
21.	Krung Thai Bank Public Co. Ltd.	114.22	7.51	121.73	–	6.08	0.42	2.69	1.63	539.16	13.04
22.	Mashreqbank psc	94.73	2.33	97.06	–	6.05	6.26	6.47	8.19	440.07	64.70
23.	Mizuho Corporate Bank Ltd.	34.15	0.25	34.40	–	7.01	2.13	4.12	1.30	918.87	14.60
24.	Oman International Bank S.A.O.G.	10.94	0.05	10.99	–	6.49	-0.16	-0.47	-0.90	528.62	-6.14
25.	Shinhan Bank	88.97	0.29	89.26	–	6.78	0.77	3.52	1.60	1,433.00	25.00
26.	Societe Generale	31.66	0.16	31.82	–	7.32	1.71	1.87	0.96	1,316.00	19.20
27.	Sonali Bank	71.21	0.21	71.42	23.25	8.43	21.65	7.10	1.52	71.45	1.38
28.	Standard Chartered Bank	8.93	1.51	10.44	1.43	9.07	3.02	5.25	3.06	924.20	19.62
29.	State Bank of Mauritius Ltd.	34.74	4.25	38.99	–	7.92	1.38	2.54	1.53	1,236.00	28.00

– : Nil/Negligible.

Note : Data reported in this table may not exactly tally with the data reported in Appendix Table III.19 to Appendix Table III.25 on account of conceptual differences.

Source: Balance sheets of respective banks.

Appendix Table III.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.53**	**1.94**	**2.39**	**2.66**	**2.17**	**1.95**	**1.90**
	Public Sector Banks	**1.34**	**1.88**	**2.31**	**2.67**	**2.18**	**1.88**	**1.73**
	Nationalised Banks	**1.29**	**1.83**	**2.34**	**2.70**	**2.17**	**1.79**	**1.77**
1.	Allahabad Bank	1.21	1.65	1.84	2.52	2.07	1.85	1.63
2.	Andhra Bank	1.22	2.03	3.06	3.44	3.03	1.73	1.96
3.	Bank of Baroda	1.64	1.85	2.25	2.92	2.44	1.69	1.69
4.	Bank of India	1.30	2.02	2.66	2.64	1.54	1.52	1.69
5.	Bank of Maharashtra	1.26	1.93	2.09	2.10	1.66	1.17	1.57
6.	Canara Bank	1.70	2.30	2.43	2.88	2.34	1.92	1.75
7.	Central Bank of India	1.00	1.34	1.62	2.41	2.35	1.60	1.36
8.	Corporation Bank	2.70	2.64	3.24	3.11	3.03	2.35	2.16
9.	Dena Bank	0.43	1.78	2.45	3.21	1.59	2.26	2.02
10.	Indian Bank	0.23	1.01	1.67	2.05	2.18	1.88	2.42
11.	Indian Overseas Bank	1.01	1.74	1.93	2.80	2.95	2.27	1.90
12.	Oriental Bank of Commerce	1.97	2.84	3.42	3.74	2.28	2.02	1.75
13.	Punjab & Sind Bank	0.77	1.19	1.94	1.00	1.64	1.41	2.15
14.	Punjab National Bank	1.49	2.02	2.69	3.05	1.90	2.01	1.99
15.	Syndicate Bank	1.05	1.12	1.80	2.16	1.96	1.65	1.55
16.	UCO Bank	0.78	1.52	1.79	1.82	1.54	1.23	1.26
17.	Union Bank of India	1.31	1.96	2.55	2.54	2.17	1.65	1.95
18.	United Bank of India	0.64	1.04	2.29	2.37	2.37	1.94	1.70
19.	Vijaya Bank	1.25	1.56	2.27	3.60	2.73	2.01	1.64
	State Bank Group	**1.42**	**1.94**	**2.27**	**2.62**	**2.44**	**2.17**	**1.77**
20.	State Bank of India	1.26	1.74	2.07	2.34	2.39	2.29	1.77
21.	State Bank of Bikaner & Jaipur	1.93	2.52	2.45	3.39	3.11	1.75	1.97
22.	State Bank of Hyderabad	2.43	2.71	2.90	3.31	2.04	1.81	2.05
23.	State Bank of Indore	2.10	3.48	3.70	4.08	2.08	1.88	1.59
24.	State Bank of Mysore	1.47	2.27	3.11	3.09	2.73	2.26	1.76
25.	State Bank of Patiala	2.79	3.25	3.47	3.73	2.71	1.78	1.66
26.	State Bank of Saurashtra	1.36	2.36	2.52	3.53	2.57	1.67	1.32
27.	State Bank of Travancore	1.59	1.95	2.39	2.92	2.78	2.11	1.87
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	0.44	0.90	0.87

Appendix Table III.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.74**	**1.74**	**2.44**	**2.27**	**1.80**	**1.71**	**1.88**
	Old Private Sector Banks	**1.75**	**2.70**	**2.67**	**2.64**	**1.68**	**1.51**	**1.89**
1.	Bank of Rajasthan Ltd.	1.33	1.69	2.42	2.19	0.90	0.20	1.59
2.	Bharat Overseas Bank Ltd.	1.98	2.53	2.02	2.02	1.69	1.22	–
3.	Catholic Syrian Bank Ltd.	1.63	2.60	2.89	2.86	1.77	0.77	1.18
4.	City Union Bank Ltd.	2.70	2.92	3.06	3.69	2.34	2.64	2.45
5.	Dhanalakshmi Bank Ltd.	1.46	2.68	3.02	2.74	0.70	0.81	1.12
6.	Federal Bank Ltd.	2.12	3.01	2.88	2.89	2.38	2.19	2.44
7.	Ganesh Bank of Kurundwad Ltd.	0.42	1.14	1.65	0.89	-1.17	-0.61	–
8.	ING Vysya Bank Ltd.	1.13	1.91	2.11	1.98	0.65	0.61	1.19
9.	Jammu & Kashmir Bank Ltd.	2.14	3.14	3.30	2.96	1.51	1.62	1.94
10.	Karnataka Bank Ltd.	2.04	3.23	2.73	3.12	2.72	2.20	2.20
11.	Karur Vysya Bank Ltd.	2.61	3.17	3.20	3.02	2.53	2.54	2.47
12.	Lakshmi Vilas Bank Ltd.	2.30	2.72	2.50	2.27	1.35	0.81	1.26
13.	Lord Krishna Bank Ltd.	1.08	2.93	2.76	1.85	-0.04	0.04	0.14
14.	Nainital Bank Ltd.	1.58	1.77	1.51	2.41	2.01	2.11	2.25
15.	Ratnakar Bank Ltd.	1.75	3.69	2.74	1.70	1.10	1.33	0.83
16.	Sangli Bank Ltd.	1.08	1.51	1.11	1.41	0.28	-0.41	-2.24
17.	SBI Commercial & International Bank Ltd.	1.34	1.86	2.78	5.31	2.29	3.78	0.93
18.	South Indian Bank Ltd.	2.05	2.64	2.84	2.61	1.82	1.44	1.84
19.	Tamilnad Mercantile Bank Ltd.	2.78	2.82	2.87	3.34	3.10	3.18	3.26
20.	United Western Bank Ltd.	0.88	2.99	2.31	1.86	1.02	0.57	–
	New Private Sector Banks	**1.74**	**1.22**	**2.31**	**2.08**	**1.85**	**1.78**	**1.88**
21.	Axis Bank	1.23	2.83	2.09	2.89	1.50	2.00	1.86
22.	Bank of Punjab Ltd.	1.73	2.46	2.53	2.13	0.40	–	–
23.	Centurion Bank of Punjab Ltd.	0.98	0.35	0.64	0.34	0.67	1.52	1.46
24.	Development Credit Bank Ltd.	1.62	2.47	1.35	1.00	-0.09	-0.53	0.77
25.	HDFC Bank	2.44	2.29	2.33	2.38	2.61	2.69	3.07
26.	ICICI Bank	1.47	0.52	2.41	1.98	1.76	1.55	1.70
27.	IndusInd Bank Ltd.	2.00	2.47	3.28	2.95	2.57	1.06	0.82
28.	Kotak Mahindra Bank Ltd.	–	–	4.16	2.18	2.05	2.07	1.64
29.	Yes Bank Ltd.	–	–	–	–	-0.29	2.38	1.55

Appendix Table III.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.05**	**3.10**	**3.20**	**3.68**	**2.98**	**3.34**	**3.45**
1.	ABN-AMRO Bank N.V.	3.51	3.68	3.13	3.38	2.87	2.47	3.18
2.	Abu Dhabi Commercial Bank Ltd.	1.35	0.90	0.69	0.70	0.26	0.57	1.38
3.	American Express Bank Ltd.	1.81	3.80	3.37	2.95	2.56	2.94	4.02
4.	Antwerp Diamond Bank	–	–	1.09	2.29	1.98	2.05	2.95
5.	Arab Bangladesh Bank Ltd.	7.09	6.40	5.26	6.93	6.23	7.61	6.55
6.	Bank Internasional Indonesia	-6.89	0.22	-2.93	0.04	-0.23	0.90	4.63
7.	Bank of America NA	3.36	3.56	2.71	2.34	2.86	4.80	5.60
8.	Bank of Bahrain & Kuwait B.S.C.	1.49	2.72	2.23	1.23	0.30	0.46	1.38
9.	Bank of Ceylon	4.91	5.49	2.58	2.98	3.63	4.17	4.24
10.	Bank of Nova Scotia	2.19	2.70	3.19	1.95	2.05	1.87	2.72
11.	Bank of Tokyo-Mitsubishi UFJ	9.22	3.04	3.19	8.05	5.70	2.27	3.63
12.	Barclays Bank PLC	-0.09	4.51	8.42	15.15	12.61	11.69	4.98
13.	BNP Paribas	1.36	-0.60	0.06	1.18	1.92	2.11	3.29
14.	Calyon Bank	0.01	0.50	1.24	-0.27	-0.61	4.25	4.40
15.	Chinatrust Commercial Bank	2.03	4.20	4.23	4.58	2.33	1.84	1.02
16.	Citibank N.A.	3.55	3.97	3.44	4.17	3.47	3.47	3.29
17.	Deutsche Bank AG	5.72	4.39	5.93	5.88	2.04	2.69	2.34
18.	Development Bank of Singapore Ltd.	2.93	3.49	4.45	1.95	0.79	1.45	2.48
19.	HSBC Ltd.	2.84	2.50	2.25	3.04	3.39	3.41	3.50
20.	ING Bank N.V.	-2.44	0.06	-4.86	0.67	3.15	–	–
21.	JPMorgan Chase Bank	10.32	8.29	5.19	3.75	6.84	4.60	4.06
22.	Krung Thai Bank Public Co. Ltd.	4.94	4.38	2.75	1.66	1.32	8.70	2.80
23.	Mashreqbank psc	0.41	3.26	4.01	1.84	1.26	5.43	8.34
24.	Mizuho Corporate Bank Ltd.	1.62	1.10	1.23	2.96	2.09	2.09	2.74
25.	Oman International Bank S.A.O.G.	-0.64	-2.05	-1.34	-0.17	-0.10	-0.74	-0.33
26.	Shinhan Bank	8.38	6.45	7.44	4.67	3.69	2.37	2.43
27.	Societe Generale	0.60	-0.05	0.58	2.61	1.27	1.91	1.51
28.	Sonali Bank	5.87	3.66	2.15	6.35	7.61	3.31	2.90
29.	Standard Chartered Bank	3.15	3.84	3.80	4.01	2.87	3.75	3.97
30.	State Bank of Mauritius Ltd.	3.80	4.56	4.12	5.22	2.41	2.65	2.27
31.	UFJ Bank Ltd.	1.95	3.34	2.51	3.86	4.16	–	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**0.49**	**0.75**	**1.01**	**1.13**	**0.89**	**0.88**	**0.90**
	Public Sector Banks	**0.42**	**0.72**	**0.96**	**1.12**	**0.87**	**0.82**	**0.83**
	Nationalised Banks	**0.33**	**0.69**	**0.98**	**1.19**	**0.89**	**0.81**	**0.85**
1.	Allahabad Bank	0.18	0.32	0.59	1.34	1.20	1.28	1.11
2.	Andhra Bank	0.59	0.97	1.63	1.72	1.59	1.19	1.13
3.	Bank of Baroda	0.43	0.77	1.01	1.14	0.71	0.73	0.72
4.	Bank of India	0.42	0.73	1.12	1.19	0.36	0.62	0.79
5.	Bank of Maharashtra	0.24	0.68	0.89	0.95	0.54	0.16	0.70
6.	Canara Bank	0.43	1.03	1.24	1.35	1.01	1.01	0.86
7.	Central Bank of India	0.10	0.31	0.54	0.98	0.52	0.34	0.54
8.	Corporation Bank	1.33	1.31	1.58	1.73	1.19	1.10	1.02
9.	Dena Bank	-1.49	0.06	0.57	1.04	0.25	0.27	0.64
10.	Indian Bank	-1.03	0.11	0.53	1.04	0.93	1.06	1.35
11.	Indian Overseas Bank	0.38	0.65	1.01	1.08	1.28	1.32	1.23
12.	Oriental Bank of Commerce	0.75	0.99	1.34	1.67	1.34	0.95	0.79
13.	Punjab & Sind Bank	0.10	0.17	0.03	0.06	-0.45	0.57	1.00
14.	Punjab National Bank	0.73	0.77	0.98	1.08	1.12	0.99	0.95
15.	Syndicate Bank	0.83	0.79	1.00	0.92	0.77	0.88	0.80
16.	UCO Bank	0.12	0.52	0.59	0.99	0.63	0.32	0.42
17.	Union Bank of India	0.40	0.71	1.08	1.22	0.99	0.76	0.82
18.	United Bank of India	0.09	0.52	1.26	1.22	1.03	0.62	0.63
19.	Vijaya Bank	0.50	0.81	1.03	1.71	1.30	0.40	0.78
	State Bank Group	**0.55**	**0.77**	**0.91**	**1.02**	**0.91**	**0.86**	**0.82**
20.	State Bank of India	0.51	0.70	0.83	0.90	0.94	0.89	0.80
21.	State Bank of Bikaner & Jaipur	0.76	1.06	1.13	1.50	0.88	0.53	0.89
22.	State Bank of Hyderabad	0.82	1.02	1.15	1.24	0.72	1.05	1.03
23.	State Bank of Indore	0.78	1.27	1.76	1.73	0.79	0.67	0.77
24.	State Bank of Mysore	0.27	0.64	1.02	1.28	1.25	1.12	0.93
25.	State Bank of Patiala	1.12	1.34	1.51	1.60	0.91	0.74	0.77
26.	State Bank of Saurashtra	0.16	0.88	0.81	1.38	0.27	0.36	0.46
27.	State Bank of Travancore	0.67	0.73	0.90	1.02	0.86	0.81	0.86
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	0.38	0.63	0.61

Appendix Table III.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**0.70**	**0.66**	**1.00**	**0.95**	**0.83**	**0.87**	**0.87**
	Old Private Sector Banks	**0.59**	**1.08**	**1.17**	**1.20**	**0.33**	**0.58**	**0.70**
1.	Bank of Rajasthan Ltd.	0.74	0.84	1.12	0.82	0.38	0.15	0.91
2.	Bharat Overseas Bank Ltd.	0.95	1.08	1.17	1.25	0.62	0.15	–
3.	Catholic Syrian Bank Ltd.	0.38	1.07	1.17	1.31	0.24	0.13	0.36
4.	City Union Bank Ltd.	1.16	1.28	1.27	1.79	1.33	1.37	1.34
5.	Dhanalakshmi Bank Ltd.	0.40	0.53	0.71	0.71	-0.82	0.33	0.47
6.	Federal Bank Ltd.	0.69	0.81	0.86	0.90	0.54	1.09	1.17
7.	Ganesh Bank of Kurundwad Ltd.	0.22	0.50	0.66	0.61	-2.56	-4.79	–
8.	ING Vysya Bank Ltd.	0.38	0.64	0.75	0.45	-0.25	0.05	0.46
9.	Jammu & Kashmir Bank Ltd.	1.32	1.77	2.01	1.92	0.47	0.67	0.96
10.	Karnataka Bank Ltd.	0.68	1.17	1.19	1.26	1.17	1.18	1.09
11.	Karur Vysya Bank Ltd.	1.70	2.12	2.02	2.27	1.34	1.50	1.44
12.	Lakshmi Vilas Bank Ltd.	1.02	1.06	1.07	1.07	0.08	0.46	0.30
13.	Lord Krishna Bank Ltd.	0.36	1.14	1.24	1.01	-0.97	0.14	-0.61
14.	Nainital Bank Ltd.	0.53	0.87	0.99	1.43	1.08	0.92	1.04
15.	Ratnakar Bank Ltd.	0.67	1.00	1.30	1.04	-1.09	0.06	0.26
16.	Sangli Bank Ltd.	0.38	0.58	0.65	0.61	-1.48	-1.36	-18.87
17.	SBI Commercial & International Bank Ltd.	-6.65	0.46	-1.45	3.67	-2.10	1.09	1.13
18.	South Indian Bank Ltd.	0.80	0.95	0.95	0.91	0.09	0.47	0.76
19.	Tamilnad Mercantile Bank Ltd.	1.37	1.29	1.35	1.59	1.47	1.66	1.49
20	United Western Bank Ltd.	-0.27	0.50	0.46	0.43	-1.39	-1.49	–
	New Private Sector Banks	**0.81**	**0.44**	**0.90**	**0.83**	**1.05**	**0.97**	**0.91**
21.	Axis Bank Ltd.	0.80	0.93	0.98	1.15	0.89	0.98	0.90
22.	Bank of Punjab Ltd.	0.93	0.92	0.74	0.76	-1.25	–	–
23.	Centurion Bank of Punjab Ltd.	0.12	-2.26	-0.75	-2.96	0.54	0.77	0.66
24.	Development Credit Bank Ltd.	0.76	0.81	0.78	0.32	-3.50	-2.28	0.14
25.	HDFC Bank	1.35	1.25	1.27	1.20	1.29	1.18	1.25
26.	ICICI Bank	0.82	0.25	1.13	1.31	1.20	1.01	0.90
27.	IndusInd Bank Ltd.	0.47	0.50	0.91	1.74	1.35	0.21	0.33
28.	Kotak Mahindra Bank Ltd.	–	–	2.09	1.35	1.30	1.16	0.71
29.	Yes Bank Ltd.	–	–	–	–	-0.29	1.33	0.85

Appendix Table III.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**0.93**	**1.32**	**1.56**	**1.65**	**1.29**	**1.54**	**1.65**
1.	ABN-AMRO Bank N.V.	0.40	1.72	1.56	1.84	1.27	1.03	1.20
2.	Abu Dhabi Commercial Bank Ltd.	0.44	0.47	0.17	0.49	-2.57	0.66	0.24
3.	American Express Bank Ltd.	-0.62	0.27	-0.90	-0.69	0.55	1.45	1.28
4.	Antwerp Diamond Bank	–	–	0.36	1.18	1.00	1.21	1.70
5.	Arab Bangladesh Bank Ltd.	3.50	2.82	2.73	4.08	3.61	4.26	3.33
6.	Bank Internasional Indonesia	-2.95	0.24	2.11	-0.22	-0.67	-0.98	4.72
7.	Bank of America NA	1.25	1.72	1.74	1.26	1.46	2.42	3.10
8.	Bank of Bahrain & Kuwait B.S.C.	0.81	1.25	1.06	0.12	-3.77	-1.51	-1.73
9.	Bank of Ceylon	0.95	0.02	0.27	0.36	1.19	0.25	1.25
10.	Bank of Nova Scotia	1.06	1.00	0.78	0.57	-0.35	0.86	1.72
11.	Bank of Tokyo-Mitsubishi Ltd.	7.57	4.08	3.27	6.96	0.93	0.02	2.11
12.	Barclays Bank PLC	1.35	1.78	2.87	9.37	6.68	6.49	2.92
13.	BNP Paribas	0.33	-0.94	-0.53	-0.44	0.50	0.51	1.51
14.	Calyon Bank	-1.62	0.99	0.36	0.51	-0.84	4.06	2.71
15.	Chinatrust Commercial Bank	0.63	1.00	2.12	1.15	-7.68	-1.71	0.34
16.	Citibank N.A.	1.46	1.51	1.55	1.93	1.77	1.55	1.36
17.	Deutsche Bank AG	1.71	2.24	2.92	3.17	0.72	1.04	1.23
18.	Development Bank of Singapore Ltd.	1.58	2.02	2.01	-1.31	0.64	0.50	1.22
19.	HSBC Ltd.	1.26	0.87	0.72	1.55	1.21	1.37	1.54
20.	ING Bank N.V.	-3.97	-0.44	-12.92	-0.05	-4.38	–	–
21.	JPMorgan Chase Bank	5.06	3.18	3.10	2.34	3.58	2.53	1.71
22.	Krung Thai Bank Public Co. Ltd.	2.22	0.02	-0.72	1.38	0.03	5.37	1.53
23.	Mashreqbank psc	-3.10	1.59	3.25	1.76	1.10	4.23	9.37
24.	Mizuho Corporate Bank Ltd.	-3.30	-1.45	0.31	2.41	2.13	0.88	1.30
25.	Oman International Bank S.A.O.G.	-4.41	-4.47	-1.83	-0.39	-3.14	-0.89	-0.62
26.	Shinhan Bank	3.15	3.42	2.47	2.21	2.07	1.35	1.11
27.	Societe Generale	0.04	-2.29	-1.58	2.04	1.71	0.95	0.77
28.	Sonali Bank	3.05	1.41	1.23	3.36	4.32	1.69	1.52
29.	Standard Chartered Bank	1.51	2.02	2.92	1.74	1.62	1.97	2.32
30.	State Bank of Mauritius Ltd.	1.05	0.85	1.05	1.33	1.20	0.68	1.53
31.	UFJ Bank Ltd.	0.25	0.05	0.31	1.88	2.10	–	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**8.88**	**8.26**	**8.28**	**7.31**	**6.61**	**6.65**	**6.85**
	Public Sector Banks	**8.85**	**8.72**	**8.34**	**7.45**	**6.79**	**6.84**	**6.89**
	Nationalised Banks	**9.09**	**8.78**	**8.39**	**7.44**	**6.91**	**6.74**	**6.89**
1.	Allahabad Bank	9.39	9.18	9.16	7.69	7.06	6.81	7.22
2.	Andhra Bank	9.20	9.69	8.89	8.25	6.97	6.58	6.97
3.	Bank of Baroda	9.09	8.40	7.98	7.22	6.79	6.22	6.44
4.	Bank of India	8.93	8.01	7.77	6.83	6.35	6.26	6.48
5.	Bank of Maharashtra	8.96	9.31	8.36	6.83	7.20	7.93	6.98
6.	Canara Bank	8.45	8.83	8.16	7.11	6.86	6.56	6.85
7.	Central Bank of India	9.03	8.85	8.88	7.99	7.59	7.21	6.70
8.	Corporation Bank	9.16	8.24	8.00	7.55	6.63	6.48	6.51
9.	Dena Bank	9.58	9.07	8.79	7.83	7.18	6.63	6.74
10.	Indian Bank	7.91	7.58	7.16	6.81	6.54	7.06	7.63
11.	Indian Overseas Bank	9.22	8.95	8.47	7.93	7.78	7.42	7.09
12.	Oriental Bank of Commerce	10.19	9.43	9.72	8.05	6.61	6.99	6.99
13.	Punjab & Sind Bank	9.23	9.20	8.86	8.52	7.94	6.82	7.86
14.	Punjab National Bank	9.23	9.12	8.68	7.60	6.70	6.60	7.10
15.	Syndicate Bank	9.89	9.08	8.35	6.53	7.21	6.63	6.77
16.	UCO Bank	8.32	8.10	8.00	7.07	6.50	7.04	7.10
17.	Union Bank of India	9.58	9.05	8.43	7.74	6.86	6.58	7.19
18.	United Bank of India	8.99	8.93	8.73	8.02	7.33	7.10	6.74
19.	Vijaya Bank	9.51	9.53	8.76	8.06	7.15	7.33	6.66
	State Bank Group	**8.47**	**8.62**	**8.26**	**7.46**	**7.02**	**7.13**	**6.99**
20.	State Bank of India	8.28	8.56	8.27	7.47	7.05	7.28	6.97
21.	State Bank of Bikaner & Jaipur	9.12	8.76	8.00	7.82	7.43	7.14	7.26
22.	State Bank of Hyderabad	9.19	8.67	7.91	7.22	6.66	6.77	7.11
23.	State Bank of Indore	8.63	9.02	8.68	8.02	6.57	6.39	6.96
24.	State Bank of Mysore	9.72	9.38	9.15	7.68	7.09	6.96	6.73
25.	State Bank of Patiala	9.38	8.66	8.26	7.02	6.77	5.97	6.68
26.	State Bank of Saurashtra	8.95	8.99	7.90	7.62	7.52	7.12	7.10
27.	State Bank of Travancore	9.08	8.82	8.32	7.25	6.96	7.21	7.45
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	3.26	6.08	6.11

Appendix Table III.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**8.87**	**6.18**	**8.26**	**6.99**	**6.14**	**6.16**	**6.86**
	Old Private Sector Banks	**9.53**	**9.36**	**8.50**	**7.56**	**6.95**	**6.92**	**7.25**
1.	Bank of Rajasthan Ltd.	10.20	9.41	7.71	5.95	5.71	5.48	6.27
2.	Bharat Overseas Bank Ltd.	8.54	7.94	7.21	7.05	6.80	6.76	–
3.	Catholic Syrian Bank Ltd.	10.48	9.68	8.98	8.29	8.30	7.65	7.85
4.	City Union Bank Ltd.	10.08	9.51	8.91	8.65	8.32	7.91	7.46
5.	Dhanalakshmi Bank Ltd.	10.45	9.59	8.98	7.82	7.27	7.37	7.15
6.	Federal Bank Ltd.	10.42	10.28	9.11	7.89	7.08	6.96	7.24
7.	Ganesh Bank of Kurundwad Ltd.	10.61	10.04	9.39	8.29	7.76	5.53	–
8.	ING Vysya Bank Ltd.	8.76	8.61	7.89	6.99	6.44	7.29	7.27
9.	Jammu & Kashmir Bank Ltd.	8.46	9.21	8.50	7.17	6.34	6.45	6.63
10.	Karnataka Bank Ltd.	9.79	9.57	8.76	8.02	6.71	6.81	7.74
11.	Karur Vysya Bank Ltd.	10.88	9.44	8.35	9.11	7.49	7.23	7.83
12.	Lakshmi Vilas Bank Ltd.	9.61	9.53	8.48	7.48	7.36	6.55	7.37
13.	Lord Krishna Bank Ltd.	8.75	8.36	8.37	6.39	7.79	7.08	8.65
14.	Nainital Bank Ltd.	9.72	9.55	8.78	8.20	7.00	6.97	7.21
15.	Ratnakar Bank Ltd.	10.18	9.39	8.79	7.99	7.54	7.18	6.93
16.	Sangli Bank Ltd.	9.11	8.00	7.65	6.77	6.48	6.09	6.34
17.	SBI Commercial & International Bank Ltd.	10.17	8.07	8.30	8.08	5.42	6.85	5.15
18.	South Indian Bank Ltd.	10.36	9.39	8.62	7.36	7.48	7.03	7.15
19.	Tamilnad Mercantile Bank Ltd.	10.24	10.12	9.99	10.56	9.13	8.98	9.00
20.	United Western Bank Ltd.	8.29	9.59	7.99	6.48	6.87	6.78	–
	New Private Sector Banks	**8.17**	**4.48**	**8.13**	**6.71**	**5.77**	**5.89**	**6.75**
21.	Axis Bank	8.26	8.20	7.47	6.62	5.10	5.81	6.23
22.	Bank of Punjab Ltd.	9.11	9.35	8.24	7.02	6.70	–	–
23.	Centurion Bank of Punjab Ltd.	9.29	11.57	10.97	9.41	7.50	7.09	6.86
24.	Development Credit Bank Ltd.	9.84	9.01	8.14	6.54	6.51	7.41	6.59
25.	HDFC Bank	8.06	7.16	6.62	6.02	6.02	6.09	7.55
26.	ICICI Bank	6.29	2.07	8.77	7.19	5.61	5.69	6.67
27.	IndusInd Bank Ltd.	8.42	6.96	7.50	6.54	7.26	6.74	7.17
28.	Kotak Mahindra Bank Ltd.	–	–	8.42	4.96	6.45	7.06	6.80
29.	Yes Bank Ltd.	–	–	–	–	2.35	4.63	5.29

Appendix Table III.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**9.27**	**8.56**	**7.68**	**6.74**	**5.97**	**6.17**	**6.48**
1.	ABN-AMRO Bank N.V.	10.18	10.16	7.92	7.18	5.89	5.85	7.09
2.	Abu Dhabi Commercial Bank Ltd.	6.54	10.03	9.65	8.47	7.68	16.16	5.88
3.	American Express Bank Ltd.	8.39	8.60	10.05	8.99	8.93	7.09	7.15
4.	Antwerp Diamond Bank	–	–	4.61	4.06	3.95	5.71	6.69
5.	Arab Bangladesh Bank Ltd.	7.77	6.19	4.65	4.78	4.37	5.55	6.34
6.	Bank Internasional Indonesia	5.16	4.27	4.48	3.61	2.87	3.38	4.73
7.	Bank of America NA	10.31	9.13	6.99	5.48	4.68	5.83	6.81
8.	Bank of Bahrain & Kuwait B.S.C.	9.96	8.55	8.12	5.77	5.71	6.49	6.40
9.	Bank of Ceylon	8.45	8.32	6.86	5.14	4.68	5.48	6.19
10.	Bank of Nova Scotia	8.79	8.73	9.67	4.52	4.75	4.97	5.99
11.	Bank of Tokyo-Mitsubishi Ltd.	10.53	8.62	9.70	6.55	5.02	4.15	5.30
12.	Barclays Bank PLC	7.31	4.60	2.83	3.95	3.35	3.50	4.40
13.	BNP Paribas	9.68	7.54	9.11	5.93	5.99	5.98	7.20
14.	Calyon Bank	7.02	5.95	8.28	8.42	6.22	6.93	5.08
15.	Chinatrust Commercial Bank	10.70	13.35	11.17	10.01	7.82	5.22	6.20
16.	Citibank N.A.	9.00	8.89	7.84	7.70	6.52	6.74	6.61
17.	Deutsche Bank AG	9.77	8.17	5.67	3.50	3.63	5.01	5.49
18.	Development Bank of Singapore Ltd.	8.92	7.92	10.58	4.86	2.45	4.86	6.30
19.	HSBC Ltd.	8.29	7.83	7.08	6.15	5.83	5.88	6.38
20.	ING Bank N.V.	4.84	4.65	9.82	1.77	2.41	–	–
21.	JPMorgan Chase Bank	8.43	6.32	4.78	5.43	3.06	4.37	4.48
22.	Krung Thai Bank Public Co. Ltd.	9.46	8.71	6.90	5.77	4.91	5.81	6.33
23.	Mashreqbank psc	8.36	11.18	12.19	10.02	8.57	23.06	6.93
24.	Mizuho Corporate Bank Ltd.	10.64	8.39	8.40	6.84	3.79	4.41	4.76
25.	Oman International Bank S.A.O.G.	6.36	4.42	4.11	4.00	4.05	3.95	4.49
26.	Shinhan Bank	9.86	7.11	10.38	5.44	4.53	4.25	4.67
27.	Societe Generale	7.38	7.57	5.62	4.03	4.16	5.12	5.90
28.	Sonali Bank	3.71	3.54	4.00	3.92	4.40	4.43	3.45
29.	Standard Chartered Bank	9.12	8.12	7.80	7.35	6.70	6.65	6.87
30.	State Bank of Mauritius Ltd.	9.03	9.27	6.10	6.78	7.94	8.84	7.09
31.	UFJ Bank Ltd.	8.38	9.62	6.11	5.25	5.02	–	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**6.03**	**5.70**	**5.51**	**4.44**	**3.78**	**3.85**	**4.16**
	Public Sector Banks	**5.99**	**5.99**	**5.43**	**4.47**	**3.88**	**4.00**	**4.24**
	Nationalised Banks	**6.19**	**6.03**	**5.39**	**4.38**	**3.89**	**3.84**	**4.18**
1.	Allahabad Bank	6.29	6.23	5.92	4.56	4.03	3.96	4.63
2.	Andhra Bank	6.74	6.95	5.84	4.87	3.71	3.70	3.99
3.	Bank of Baroda	6.03	5.75	5.23	4.20	3.65	3.42	3.79
4.	Bank of India	6.15	5.40	5.10	4.24	4.00	3.92	4.05
5.	Bank of Maharashtra	6.03	6.57	5.64	4.44	4.52	4.81	4.17
6.	Canara Bank	5.62	6.31	5.39	4.35	4.01	3.86	4.42
7.	Central Bank of India	5.96	5.93	5.56	4.64	4.13	4.02	4.04
8.	Corporation Bank	6.21	5.59	4.99	4.24	3.30	3.46	3.89
9.	Dena Bank	7.08	6.72	5.97	5.16	4.32	3.91	4.02
10.	Indian Bank	6.05	5.83	4.84	3.96	3.57	3.89	4.30
11.	Indian Overseas Bank	6.31	6.21	5.50	4.55	4.12	3.94	3.98
12.	Oriental Bank of Commerce	7.27	6.42	6.15	4.50	3.79	4.27	4.70
13.	Punjab & Sind Bank	6.72	6.90	6.20	5.23	4.30	3.51	4.37
14.	Punjab National Bank	6.02	5.97	5.06	4.06	3.53	3.39	3.71
15.	Syndicate Bank	6.01	5.59	4.84	3.51	3.96	3.55	4.36
16.	UCO Bank	5.90	5.77	5.47	4.34	3.92	4.51	4.84
17.	Union Bank of India	6.45	6.04	5.50	4.77	4.01	3.92	4.47
18.	United Bank of India	6.60	6.29	5.77	5.00	4.18	4.03	3.96
19.	Vijaya Bank	6.28	6.52	5.39	4.58	3.78	4.25	4.13
	State Bank Group	**5.68**	**5.91**	**5.50**	**4.62**	**3.96**	**4.05**	**4.20**
20.	State Bank of India	5.63	5.95	5.62	4.73	4.02	4.13	4.14
21.	State Bank of Bikaner & Jaipur	5.84	5.59	4.93	4.26	3.72	3.54	4.16
22.	State Bank of Hyderabad	5.88	5.74	5.05	4.48	3.90	4.07	4.35
23.	State Bank of Indore	5.79	6.05	5.45	4.54	3.60	3.77	4.58
24.	State Bank of Mysore	6.39	6.33	5.74	4.38	3.76	3.80	4.07
25.	State Bank of Patiala	5.16	4.88	4.58	3.96	3.67	3.55	4.34
26.	State Bank of Saurashtra	6.02	6.01	5.11	4.47	4.15	4.22	4.65
27.	State Bank of Travancore	6.35	6.24	5.58	4.40	3.85	4.22	4.47
	Other Public Sector Bank	**–**	**–**	**–**	**–**		**5.65**	**5.48**
28.	IDBI Ltd.	–	–	–	–	3.03	5.65	5.48

Appendix Table III.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**6.54**	**4.60**	**6.29**	**4.77**	**3.80**	**3.76**	**4.41**
	Old Private Sector Banks	**7.02**	**6.97**	**6.03**	**4.96**	**4.25**	**4.17**	**4.42**
1.	Bank of Rajasthan Ltd.	7.13	6.73	4.76	3.70	3.37	3.22	3.63
2.	Bharat Overseas Bank Ltd.	5.74	5.59	4.73	4.02	3.54	3.90	–
3.	Catholic Syrian Bank Ltd.	7.75	7.36	6.67	5.45	5.01	4.57	4.75
4.	City Union Bank Ltd.	7.17	7.06	6.37	5.64	5.14	4.52	4.34
5.	Dhanalakshmi Bank Ltd.	8.10	7.34	6.46	4.98	4.50	4.45	4.34
6.	Federal Bank Ltd.	7.73	7.55	6.33	5.10	4.09	4.05	4.32
7.	Ganesh Bank of Kurundwad Ltd.	8.52	8.28	7.91	7.16	6.40	4.62	–
8.	ING Vysya Bank Ltd.	7.05	6.91	6.00	5.14	4.12	4.42	4.46
9.	Jammu & Kashmir Bank Ltd.	5.66	6.23	5.36	4.25	3.90	3.94	3.95
10.	Karnataka Bank Ltd.	7.52	7.76	7.09	6.00	4.18	4.36	5.16
11.	Karur Vysya Bank Ltd.	7.21	6.22	5.61	4.93	4.24	4.08	4.70
12.	Lakshmi Vilas Bank Ltd.	7.07	7.36	6.34	5.30	4.73	4.40	5.13
13.	Lord Krishna Bank Ltd.	7.31	7.59	6.95	5.09	5.52	4.99	6.59
14.	Nainital Bank Ltd.	5.91	5.68	5.08	4.33	3.47	3.05	3.25
15.	Ratnakar Bank Ltd.	7.11	6.50	6.10	5.26	4.45	4.11	3.70
16.	Sangli Bank Ltd.	5.96	5.58	5.46	4.14	4.09	3.77	4.04
17.	SBI Commercial & International Bank Ltd.	8.95	7.30	6.16	5.33	3.47	3.59	3.40
18.	South Indian Bank Ltd.	7.49	7.02	6.28	5.19	4.77	4.17	4.46
19.	Tamilnad Mercantile Bank Ltd.	6.95	6.77	6.40	6.33	5.01	4.95	4.83
20.	United Western Bank Ltd.	6.33	7.62	6.00	4.77	4.80	4.48	–
	New Private Sector Banks	**6.03**	**3.33**	**6.43**	**4.68**	**3.60**	**3.62**	**4.41**
21.	Axis Bank	7.35	6.81	5.82	4.23	3.16	3.64	4.09
22.	Bank of Punjab Ltd.	6.09	7.03	5.94	4.38	3.95	–	–
23.	Centurion Bank of Punjab Ltd.	7.56	9.09	7.95	5.74	3.65	3.57	3.78
24.	Development Credit Bank Ltd.	7.64	6.87	6.52	4.76	5.01	5.40	4.32
25.	HDFC Bank	4.83	4.51	3.92	2.86	2.56	2.62	3.48
26.	ICICI Bank	4.24	1.50	7.44	5.60	3.92	3.82	4.75
27.	IndusInd Bank Ltd.	6.58	5.36	5.64	4.44	4.60	4.95	5.87
28.	Kotak Mahindra Bank Ltd.	–	–	4.03	2.02	2.99	3.33	3.51
29.	Yes Bank Ltd.	–	–	–	–	0.93	2.52	3.75

Appendix Table III.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**5.64**	**5.34**	**4.33**	**3.15**	**2.63**	**2.58**	**2.74**
1.	ABN-AMRO Bank N.V.	6.24	5.49	4.01	2.94	2.17	2.80	3.24
2.	Abu Dhabi Commercial Bank Ltd.	5.56	9.11	8.78	7.51	7.07	14.66	4.07
3.	American Express Bank Ltd.	5.77	5.78	6.62	5.25	5.00	4.23	4.12
4.	Antwerp Diamond Bank	–	–	1.24	1.06	1.48	3.32	3.96
5.	Arab Bangladesh Bank Ltd.	1.16	0.69	0.77	0.77	0.50	0.56	0.74
6.	Bank Internasional Indonesia	2.35	1.70	1.06	0.72	0.55	0.78	1.32
7.	Bank of America NA	7.03	6.20	4.47	3.18	2.32	2.46	2.86
8.	Bank of Bahrain & Kuwait B.S.C.	8.32	7.37	6.40	4.71	3.63	4.47	3.68
9.	Bank of Ceylon	4.58	3.90	3.80	3.11	2.93	2.31	2.42
10.	Bank of Nova Scotia	6.57	6.32	6.83	3.11	3.21	3.50	4.07
11.	Bank of Tokyo-Mitsubishi Ltd.	4.30	3.92	4.45	1.73	1.39	1.56	1.98
12.	Barclays Bank PLC	5.77	3.67	2.00	0.95	0.92	1.50	2.27
13.	BNP Paribas	7.07	5.66	6.26	3.32	3.08	3.03	4.10
14.	Calyon Bank	5.56	4.96	5.98	5.55	5.20	5.58	2.88
15.	Chinatrust Commercial Bank	6.48	7.14	4.20	3.16	2.85	1.71	3.67
16.	Citibank N.A.	5.02	5.13	4.08	3.12	2.22	2.21	2.56
17.	Deutsche Bank AG	4.63	4.41	3.03	2.66	2.84	3.06	2.64
18.	Development Bank of Singapore Ltd.	6.06	4.83	5.11	2.23	0.60	1.90	3.99
19.	HSBC Ltd.	5.33	5.21	4.20	2.85	2.31	2.21	2.21
20.	ING Bank N.V.	3.34	3.71	7.81	1.31	–	–	–
21.	JPMorgan Chase Bank	5.48	3.01	1.25	1.32	1.24	1.79	2.04
22.	Krung Thai Bank Public Co. Ltd.	1.18	0.68	0.34	0.49	0.75	0.86	1.15
23.	Mashreqbank psc	7.26	8.96	8.76	7.61	7.32	20.88	0.62
24.	Mizuho Corporate Bank Ltd.	7.65	6.18	5.74	2.32	1.28	2.09	1.62
25.	Oman International Bank S.A.O.G.	6.87	6.38	5.83	4.36	3.36	3.22	3.24
26.	Shinhan Bank	1.65	0.97	3.24	1.14	1.03	1.81	1.14
27.	Societe Generale	6.09	6.38	3.66	2.15	2.42	2.86	4.08
28.	Sonali Bank	1.42	2.00	2.90	2.48	2.48	2.64	1.79
29.	Standard Chartered Bank	5.38	4.61	3.93	3.12	2.98	2.59	2.81
30.	State Bank of Mauritius Ltd.	5.95	6.57	3.61	3.80	4.98	5.50	4.81
31.	UFJ Bank Ltd.	4.49	5.36	2.73	0.71	0.61	–	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table III.23: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.85**	**2.57**	**2.77**	**2.88**	**2.83**	**2.81**	**2.69**
	Public Sector Banks	**2.86**	**2.73**	**2.91**	**2.98**	**2.91**	**2.85**	**2.65**
	Nationalised Banks	**2.90**	**2.74**	**3.00**	**3.06**	**3.02**	**2.89**	**2.71**
1.	Allahabad Bank	3.10	2.95	3.24	3.13	3.02	2.85	2.59
2.	Andhra Bank	2.45	2.75	3.05	3.37	3.27	2.87	2.98
3.	Bank of Baroda	3.06	2.65	2.75	3.02	3.15	2.80	2.64
4.	Bank of India	2.78	2.62	2.67	2.59	2.36	2.34	2.43
5.	Bank of Maharashtra	2.93	2.73	2.72	2.38	2.68	3.11	2.80
6.	Canara Bank	2.83	2.52	2.76	2.76	2.86	2.70	2.43
7.	Central Bank of India	3.07	2.92	3.32	3.35	3.46	3.19	2.66
8.	Corporation Bank	2.95	2.65	3.02	3.31	3.33	3.03	2.61
9.	Dena Bank	2.51	2.35	2.82	2.67	2.86	2.72	2.72
10.	Indian Bank	1.86	1.75	2.32	2.85	2.97	3.17	3.33
11.	Indian Overseas Bank	2.91	2.74	2.97	3.38	3.65	3.48	3.11
12.	Oriental Bank of Commerce	2.92	3.02	3.57	3.55	2.82	2.72	2.29
13.	Punjab & Sind Bank	2.51	2.30	2.67	3.29	3.64	3.31	3.49
14.	Punjab National Bank	3.21	3.15	3.62	3.54	3.17	3.21	3.40
15.	Syndicate Bank	3.87	3.49	3.51	3.03	3.25	3.08	2.41
16.	UCO Bank	2.42	2.33	2.53	2.73	2.58	2.53	2.26
17.	Union Bank of India	3.13	3.01	2.93	2.98	2.85	2.66	2.72
18.	United Bank of India	2.39	2.64	2.97	3.02	3.15	3.07	2.78
19.	Vijaya Bank	3.23	3.01	3.37	3.48	3.36	3.08	2.53
	State Bank Group	**2.79**	**2.71**	**2.76**	**2.83**	**3.06**	**3.07**	**2.79**
20.	State Bank of India	2.66	2.61	2.65	2.74	3.03	3.16	2.83
21.	State Bank of Bikaner & Jaipur	3.28	3.16	3.07	3.56	3.71	3.61	3.10
22.	State Bank of Hyderabad	3.32	2.94	2.86	2.75	2.76	2.69	2.76
23.	State Bank of Indore	2.84	2.97	3.23	3.48	2.97	2.61	2.38
24.	State Bank of Mysore	3.33	3.04	3.41	3.30	3.33	3.16	2.66
25.	State Bank of Patiala	4.22	3.78	3.69	3.06	3.10	2.42	2.34
26.	State Bank of Saurashtra	2.93	2.99	2.79	3.15	3.37	2.90	2.45
27.	State Bank of Travancore	2.73	2.57	2.75	2.85	3.10	3.00	2.98
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	0.23	0.43	0.63

Appendix Table III.23: Net-Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**2.33**	**1.58**	**1.97**	**2.21**	**2.34**	**2.40**	**2.45**
	Old Private Sector Banks	**2.51**	**2.39**	**2.47**	**2.60**	**2.70**	**2.75**	**2.83**
1.	Bank of Rajasthan Ltd.	3.07	2.69	2.95	2.25	2.33	2.27	2.63
2.	Bharat Overseas Bank Ltd.	2.80	2.34	2.48	3.03	3.27	2.86	–
3.	Catholic Syrian Bank Ltd.	2.72	2.32	2.32	2.84	3.30	3.08	3.10
4.	City Union Bank Ltd.	2.91	2.45	2.53	3.02	3.17	3.39	3.12
5.	Dhanalakshmi Bank Ltd.	2.34	2.25	2.53	2.84	2.76	2.91	2.81
6.	Federal Bank Ltd.	2.69	2.72	2.78	2.79	2.99	2.91	2.92
7.	Ganesh Bank of Kurundwad Ltd.	2.09	1.77	1.48	1.13	1.36	0.92	–
8.	ING Vysya Bank Ltd.	1.71	1.70	1.89	1.85	2.32	2.87	2.81
9.	Jammu & Kashmir Bank Ltd.	2.81	2.98	3.13	2.92	2.44	2.51	2.68
10.	Karnataka Bank Ltd.	2.28	1.81	1.67	2.02	2.53	2.45	2.59
11.	Karur Vysya Bank Ltd.	3.67	3.22	2.74	4.18	3.26	3.14	3.13
12.	Lakshmi Vilas Bank Ltd.	2.55	2.17	2.13	2.18	2.63	2.14	2.23
13.	Lord Krishna Bank Ltd.	1.44	0.77	1.42	1.30	2.26	2.09	2.06
14.	Nainital Bank Ltd.	3.81	3.87	3.70	3.87	3.53	3.92	3.96
15.	Ratnakar Bank Ltd.	3.07	2.89	2.70	2.73	3.08	3.07	3.23
16.	Sangli Bank Ltd.	3.14	2.42	2.19	2.63	2.40	2.33	2.30
17.	SBI Commercial & International Bank Ltd.	1.22	0.78	2.15	2.76	1.95	3.26	1.75
18.	South Indian Bank Ltd.	2.87	2.37	2.33	2.17	2.71	2.86	2.69
19.	Tamilnad Mercantile Bank Ltd.	3.29	3.35	3.58	4.24	4.12	4.03	4.17
20.	United Western Bank Ltd.	1.96	1.97	1.99	1.71	2.07	2.30	–
	New Private Sector Banks	**2.14**	**1.15**	**1.70**	**2.03**	**2.17**	**2.27**	**2.34**
21.	Axis Bank	0.91	1.38	1.64	2.39	1.94	2.17	2.14
22.	Bank of Punjab Ltd.	3.03	2.32	2.30	2.65	2.75	–	–
23.	Centurion Bank of Punjab Ltd.	1.73	2.48	3.01	3.66	3.86	3.52	3.08
24.	Development Credit Bank Ltd.	2.20	2.14	1.62	1.77	1.50	2.01	2.27
25.	HDFC Bank Ltd.	3.24	2.65	2.70	3.16	3.46	3.46	4.07
26.	ICICI Bank Ltd.	2.05	0.57	1.33	1.59	1.69	1.87	1.93
27.	IndusInd Bank Ltd.	1.84	1.60	1.86	2.10	2.66	1.79	1.30
28.	Kotak Mahindra Bank Ltd.	–	–	4.38	2.94	3.46	3.73	3.29
29.	Yes Bank Ltd.	–	–	–	–	1.42	2.12	1.54

Appendix Table III.23: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.63**	**3.22**	**3.35**	**3.59**	**3.34**	**3.58**	**3.74**
1.	ABN-AMRO Bank N.V.	3.94	4.67	3.90	4.23	3.73	3.05	3.85
2.	Abu Dhabi Commercial Bank Ltd.	0.98	0.92	0.87	0.96	0.61	1.49	1.81
3.	American Express Bank Ltd.	2.61	2.82	3.43	3.74	3.92	2.87	3.03
4.	Antwerp Diamond Bank	–	–	3.36	2.99	2.47	2.40	2.73
5.	Arab Bangladesh Bank Ltd.	6.61	5.50	3.89	4.01	3.87	4.99	5.59
6.	Bank Internasional Indonesia	2.81	2.57	3.42	2.88	2.32	2.60	3.41
7.	Bank of America NA	3.28	2.93	2.52	2.30	2.36	3.36	3.95
8.	Bank of Bahrain & Kuwait B.S.C.	1.64	1.18	1.72	1.06	2.09	2.02	2.72
9.	Bank of Ceylon	3.87	4.43	3.06	2.03	1.75	3.17	3.77
10.	Bank of Nova Scotia	2.21	2.41	2.84	1.41	1.54	1.46	1.92
11.	Bank of Tokyo-Mitsubishi UFJ	6.23	4.70	5.25	4.82	3.63	2.58	3.32
12.	Barclays Bank PLC	1.55	0.94	0.83	3.00	2.43	2.00	2.13
13.	BNP Paribas	2.61	1.88	2.85	2.61	2.91	2.95	3.10
14.	Calyon Bank	1.46	0.99	2.30	2.87	1.02	1.35	2.20
15.	Chinatrust Commercial Bank	4.22	6.21	6.97	6.85	4.97	3.51	2.53
16.	Citibank N.A.	3.98	3.76	3.76	4.58	4.29	4.53	4.05
17.	Deutsche Bank AG	5.14	3.76	2.65	0.84	0.80	1.95	2.85
18.	DBS Bank Ltd.	2.85	3.10	5.47	2.64	1.85	2.96	2.31
19.	HSBC Ltd.	2.96	2.63	2.88	3.29	3.52	3.67	4.17
20.	ING Bank N.V.	1.50	0.94	2.01	0.46	2.41	–	–
21.	JPMorgan Chase Bank	2.95	3.30	3.53	4.12	1.81	2.58	2.44
22.	Krung Thai Bank Public Co. Ltd.	8.28	8.03	6.56	5.28	4.16	4.95	5.18
23.	Mashreqbank psc	1.11	2.22	3.43	2.41	1.26	2.18	6.31
24.	Mizuho Corporate Bank Ltd.	2.98	2.21	2.66	4.52	2.51	2.32	3.14
25.	Oman International Bank S.A.O.G.	-0.51	-1.96	-1.72	-0.36	0.69	0.73	1.25
26.	Shinhan Bank	8.21	6.14	7.15	4.30	3.50	2.44	3.54
27.	Societe Generale	1.29	1.19	1.96	1.88	1.74	2.27	1.82
28.	Sonali Bank	2.29	1.55	1.10	1.44	1.93	1.79	1.66
29.	Standard Chartered Bank	3.74	3.51	3.87	4.23	3.72	4.06	4.06
30.	State Bank of Mauritius Ltd.	3.08	2.70	2.50	2.98	2.97	3.34	2.28
31.	UFJ Bank Ltd.	3.89	4.27	3.37	4.55	4.41	–	–

– : Nil/Negligible.

Source : Balance sheet of respective banks.

Appendix Table III.24: Provisions & Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.03**	**1.19**	**1.39**	**1.54**	**1.28**	**1.07**	**1.00**
	Public Sector Banks	**0.92**	**1.16**	**1.36**	**1.55**	**1.31**	**1.06**	**0.91**
	Nationalised Banks	**0.95**	**1.15**	**1.35**	**1.52**	**1.28**	**0.98**	**0.92**
1.	Allahabad Bank	1.03	1.32	1.25	1.19	0.87	0.58	0.52
2.	Andhra Bank	0.63	1.07	1.43	1.73	1.44	0.53	0.83
3.	Bank of Baroda	1.20	1.08	1.23	1.78	1.73	0.96	0.97
4.	Bank of India	0.87	1.29	1.55	1.45	1.18	0.89	0.90
5.	Bank of Maharashtra	1.02	1.26	1.20	1.15	1.12	1.01	0.88
6.	Canara Bank	1.27	1.27	1.19	1.53	1.34	0.91	0.90
7.	Central Bank of India	0.90	1.03	1.08	1.44	1.82	1.26	0.83
8.	Corporation Bank	1.37	1.33	1.66	1.38	1.84	1.26	1.15
9.	Dena Bank	1.92	1.72	1.88	2.17	1.34	1.99	1.38
10.	Indian Bank	1.26	0.91	1.13	1.01	1.25	0.82	1.07
11.	Indian Overseas Bank	0.63	1.09	0.92	1.72	1.66	0.95	0.67
12.	Oriental Bank of Commerce	1.22	1.85	2.08	2.07	0.94	1.08	0.97
13.	Punjab & Sind Bank	0.67	1.02	1.91	0.94	2.09	0.84	1.16
14.	Punjab National Bank	0.76	1.25	1.71	1.97	0.79	1.02	1.04
15.	Syndicate Bank	0.22	0.33	0.80	1.24	1.18	0.77	0.75
16.	UCO Bank	0.66	0.99	1.19	0.83	0.90	0.91	0.84
17.	Union Bank of India	0.91	1.25	1.47	1.32	1.18	0.89	1.13
18.	United Bank of India	0.55	0.52	1.03	1.15	1.34	1.32	1.07
19.	Vijaya Bank	0.76	0.75	1.24	1.89	1.43	1.61	0.86
	State Bank Group	**0.87**	**1.17**	**1.36**	**1.59**	**1.53**	**1.31**	**0.96**
20.	State Bank of India	0.75	1.04	1.24	1.44	1.45	1.40	0.96
21.	State Bank of Bikaner & Jaipur	1.17	1.46	1.32	1.89	2.24	1.22	1.08
22.	State Bank of Hyderabad	1.62	1.69	1.75	2.07	1.32	0.76	1.02
23.	State Bank of Indore	1.32	2.21	1.94	2.35	1.30	1.21	0.81
24.	State Bank of Mysore	1.19	1.63	2.09	1.81	1.48	1.14	0.83
25.	State Bank of Patiala	1.66	1.91	1.96	2.13	1.80	1.04	0.89
26.	State Bank of Saurashtra	1.20	1.49	1.71	2.15	2.30	1.31	0.86
27.	State Bank of Travancore	0.92	1.21	1.49	1.90	1.92	1.30	1.01
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	0.07	0.27	0.27

Appendix Table III.24: Provisions and Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.04**	**1.07**	**1.44**	**1.32**	**0.97**	**0.84**	**1.02**
	Old Private Sector Banks	**1.15**	**1.62**	**1.50**	**1.45**	**1.35**	**0.93**	**1.19**
1.	Bank of Rajasthan Ltd.	0.59	0.86	1.31	1.38	0.52	0.04	0.67
2.	Bharat Overseas Bank Ltd.	1.02	1.45	0.85	0.77	1.07	1.07	–
3.	Catholic Syrian Bank Ltd.	1.25	1.53	1.72	1.55	1.53	0.65	0.82
4.	City Union Bank Ltd.	1.54	1.64	1.79	1.90	1.01	1.28	1.11
5.	Dhanalakshmi Bank Ltd.	1.06	2.15	2.30	2.02	1.51	0.48	0.65
6.	Federal Bank Ltd.	1.43	2.20	2.02	1.99	1.84	1.10	1.28
7.	Ganesh Bank of Kurundwad Ltd.	0.20	0.64	0.99	0.28	1.39	4.18	–
8.	ING Vysya Bank Ltd.	0.75	1.27	1.36	1.53	0.89	0.55	0.73
9.	Jammu & Kashmir Bank Ltd.	0.83	1.37	1.29	1.05	1.04	0.95	0.98
10.	Karnataka Bank Ltd.	1.36	2.06	1.55	1.86	1.55	1.02	1.11
11.	Karur Vysya Bank Ltd.	0.91	1.04	1.17	0.75	1.19	1.04	1.03
12.	Lakshmi Vilas Bank Ltd.	1.28	1.65	1.44	1.20	1.27	0.35	0.96
13.	Lord Krishna Bank Ltd.	0.72	1.79	1.52	0.84	0.93	-0.10	0.75
14.	Nainital Bank Ltd.	1.04	0.91	0.52	0.98	0.93	1.19	1.21
15.	Ratnakar Bank Ltd.	1.07	2.69	1.43	0.67	2.18	1.27	0.57
16.	Sangli Bank Ltd.	0.70	0.93	0.46	0.80	1.77	0.95	16.63
17.	SBI Commercial & International Bank Ltd.	7.99	1.40	4.23	1.64	4.39	2.70	-0.20
18.	South Indian Bank Ltd.	1.26	1.69	1.89	1.70	1.73	0.97	1.08
19.	Tamilnad Mercantile Bank Ltd.	1.41	1.52	1.52	1.75	1.64	1.53	1.77
20.	United Western Bank Ltd.	1.16	2.49	1.85	1.43	2.41	2.05	–
	New Private Sector Banks	**0.93**	**0.78**	**1.41**	**1.26**	**0.80**	**0.81**	**0.97**
21.	Axis Bank	0.43	1.90	1.11	1.74	0.61	1.02	0.96
22.	Bank of Punjab Ltd.	0.80	1.54	1.79	1.36	1.65	–	–
23.	Centurion Bank of Punjab Ltd.	0.86	2.60	1.39	3.30	0.13	0.75	0.80
24.	Development Credit Bank Ltd.	0.86	1.66	0.57	0.68	3.41	1.75	0.62
25.	HDFC Bank	1.10	1.04	1.06	1.18	1.32	1.51	1.82
26.	ICICI Bank	0.65	0.28	1.28	0.67	0.57	0.54	0.80
27.	IndusInd Bank Ltd.	1.53	1.98	2.36	1.21	1.22	0.85	0.49
28.	Kotak Mahindra Bank Ltd.	–	–	2.07	0.82	0.75	0.91	0.93
29.	Yes Bank Ltd.	–	–	–	–	0.01	1.05	0.70

Appendix Table III.24: Provisions & Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**2.12**	**1.78**	**1.63**	**2.02**	**1.69**	**1.80**	**1.80**
1.	ABN-AMRO Bank N.V.	3.11	1.96	1.57	1.54	1.60	1.45	1.97
2.	Abu Dhabi Commercial Bank Ltd.	0.91	0.43	0.52	0.21	2.83	-0.10	1.13
3.	American Express Bank Ltd.	2.42	3.53	4.26	3.64	2.01	1.49	2.74
4.	Antwerp Diamond Bank	–	–	0.73	1.11	0.98	0.84	1.25
5.	Arab Bangladesh Bank Ltd.	3.58	3.58	2.53	2.85	2.62	3.35	3.22
6.	Bank Internasional Indonesia	-3.93	-0.01	-5.03	0.26	0.44	1.87	-0.09
7.	Bank of America NA	2.12	1.84	0.97	1.08	1.40	2.37	2.51
8.	Bank of Bahrain & Kuwait B.S.C.	0.68	1.48	1.17	1.11	4.08	1.96	3.11
9.	Bank of Ceylon	3.95	5.48	2.30	2.62	2.44	3.92	2.99
10.	Bank of Nova Scotia	1.13	1.71	2.41	1.38	2.41	1.01	1.00
11.	Bank of Tokyo-Mitsubishi UFJ	1.64	-1.03	-0.08	1.09	4.76	2.25	1.52
12.	Barclays Bank PLC	-1.43	2.73	5.55	5.79	5.92	5.20	2.07
13.	BNP Paribas	1.02	0.35	0.59	1.61	1.42	1.60	1.77
14.	Calyon Bank	1.64	-0.49	0.87	-0.78	0.23	0.18	1.68
15.	Chinatrust Commercial Bank	1.40	3.21	2.11	3.43	10.01	3.55	0.68
16.	Citibank N.A.	2.09	2.45	1.89	2.24	1.69	1.92	1.93
17.	Deutsche Bank AG	4.02	2.15	3.01	2.71	1.32	1.65	1.10
18.	Development Bank of Singapore Ltd.	1.35	1.47	2.44	3.27	0.15	0.95	1.26
19.	HSBC Ltd.	1.58	1.63	1.53	1.49	2.18	2.03	1.96
20.	ING Bank N.V.	1.53	0.50	8.05	0.72	7.54	–	–
21.	JPMorgan Chase Bank	5.25	5.11	2.09	1.41	3.26	2.07	2.35
22.	Krung Thai Bank Public Co. Ltd.	2.73	4.35	3.47	0.28	1.29	3.33	1.27
23.	Mashreqbank psc	3.52	1.67	0.76	0.08	0.16	1.20	-1.03
24.	Mizuho Corporate Bank Ltd.	4.92	2.55	0.92	0.55	-0.04	1.21	1.45
25.	Oman International Bank S.A.O.G.	3.76	2.41	0.48	0.23	3.04	0.15	0.29
26.	Shinhan Bank	5.23	3.02	4.97	2.45	1.62	1.02	1.32
27.	Societe Generale	0.57	2.24	2.16	0.57	-0.44	0.95	0.74
28.	Sonali Bank	2.82	2.25	0.91	2.99	3.28	1.62	1.38
29.	Standard Chartered Bank	1.64	1.82	0.89	2.27	1.26	1.78	1.65
30.	State Bank of Mauritius Ltd.	2.75	3.72	3.07	3.89	1.21	1.98	0.74
31.	UFJ Bank Ltd.	1.70	3.29	2.20	1.99	2.05	–	–

– : Nil/Negligible.

Source : Balance sheet of respective banks.

Appendix Table III.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.64**	**2.19**	**2.24**	**2.21**	**2.13**	**2.13**	**1.91**
	Public Sector Banks	**2.72**	**2.29**	**2.25**	**2.21**	**2.09**	**2.05**	**1.77**
	Nationalised Banks	**2.76**	**2.40**	**2.33**	**2.21**	**2.18**	**2.00**	**1.73**
1.	Allahabad Bank	2.98	2.86	3.27	2.76	2.37	1.87	1.52
2.	Andhra Bank	2.24	2.17	2.44	2.44	2.53	2.11	1.96
3.	Bank of Baroda	2.54	2.20	2.16	2.12	2.09	2.10	1.78
4.	Bank of India	2.93	2.19	2.16	2.06	2.03	1.88	1.84
5.	Bank of Maharashtra	2.84	2.23	2.07	1.74	2.19	2.11	1.91
6.	Canara Bank	2.51	2.21	2.13	1.91	1.91	1.77	1.55
7.	Central Bank of India	3.06	2.72	2.67	2.46	2.46	2.30	1.81
8.	Corporation Bank	1.73	1.63	1.79	1.97	1.97	1.84	1.52
9.	Dena Bank	3.19	2.44	2.54	2.25	2.56	2.11	1.94
10.	Indian Bank	2.79	2.40	2.13	2.71	2.08	2.27	2.22
11.	Indian Overseas Bank	2.89	2.50	2.30	2.14	2.28	2.13	1.69
12.	Oriental Bank of Commerce	1.94	1.64	1.71	1.57	1.47	1.64	1.35
13.	Punjab & Sind Bank	2.98	2.77	2.85	3.99	3.63	2.54	2.38
14.	Punjab National Bank	2.95	2.47	2.39	2.32	2.60	2.08	2.05
15.	Syndicate Bank	3.81	3.24	3.15	2.51	2.43	2.35	1.55
16.	UCO Bank	2.73	2.67	2.48	2.33	1.99	1.90	1.59
17.	Union Bank of India	2.62	2.18	1.99	1.86	1.74	1.57	1.44
18.	United Bank of India	2.52	3.33	2.44	2.60	2.42	2.45	1.84
19.	Vijaya Bank	3.07	2.61	2.92	2.07	1.84	1.98	1.54
	State Bank Group	**2.66**	**2.11**	**2.11**	**2.21**	**2.14**	**2.28**	**1.98**
20.	State Bank of India	2.63	2.07	2.11	2.27	2.19	2.37	2.09
21.	State Bank of Bikaner & Jaipur	3.07	2.58	2.50	2.62	2.66	2.76	2.18
22.	State Bank of Hyderabad	2.45	1.88	1.73	1.74	1.92	2.01	1.65
23.	State Bank of Indore	2.72	2.28	2.18	2.16	1.94	1.92	1.67
24.	State Bank of Mysore	3.68	3.03	2.89	2.69	2.89	2.63	2.09
25.	State Bank of Patiala	2.62	2.05	1.86	1.67	1.52	1.48	1.39
26.	State Bank of Saurashtra	2.88	2.48	2.15	2.00	1.69	1.87	1.73
27.	State Bank of Travancore	2.48	2.02	1.93	1.88	1.74	1.98	1.70
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	0.56	0.97	0.75

Appendix Table III.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.87**	**1.44**	**1.99**	**2.02**	**2.03**	**2.11**	**2.06**
	Old Private Sector Banks	**1.99**	**2.07**	**2.05**	**1.97**	**1.96**	**2.06**	**1.85**
1.	Bank of Rajasthan Ltd.	3.04	3.02	2.59	2.15	2.13	2.59	2.07
2.	Bharat Overseas Bank Ltd.	2.21	2.16	1.93	2.13	2.18	2.33	–
3.	Catholic Syrian Bank Ltd.	2.71	2.56	2.66	2.73	2.57	3.15	2.59
4.	City Union Bank Ltd.	1.80	1.68	1.52	1.41	1.79	1.70	1.68
5.	Dhanalakshmi Bank Ltd.	2.42	2.68	2.84	2.48	2.62	2.87	2.55
6.	Federal Bank Ltd.	1.98	1.89	1.82	1.87	1.87	1.77	1.62
7.	Ganesh Bank of Kurundwad Ltd.	2.14	2.07	2.24	2.26	2.23	1.85	–
8.	ING Vysya Bank Ltd.	1.80	2.42	2.91	2.61	2.47	3.09	2.63
9.	Jammu & Kashmir Bank Ltd.	1.30	1.59	1.55	1.38	1.32	1.31	1.30
10.	Karnataka Bank Ltd.	1.58	1.68	1.52	1.46	1.58	1.37	1.46
11.	Karur Vysya Bank Ltd.	2.33	2.10	1.69	2.21	2.16	1.94	1.74
12.	Lakshmi Vilas Bank Ltd.	2.50	2.47	2.26	2.19	2.23	2.04	1.75
13.	Lord Krishna Bank Ltd.	1.85	2.21	2.28	2.06	2.35	2.66	2.61
14.	Nainital Bank Ltd.	2.65	2.55	2.81	2.99	2.42	2.77	1.98
15.	Ratnakar Bank Ltd.	2.84	3.12	2.58	2.48	2.56	2.39	2.80
16.	Sangli Bank Ltd.	2.92	2.87	2.82	2.75	2.53	2.75	4.93
17.	SBI Commercial & International Bank Ltd.	1.45	1.20	1.50	1.63	1.61	1.45	1.41
18.	South Indian Bank Ltd.	2.21	1.84	1.86	2.09	1.97	2.09	1.60
19.	Tamilnad Mercantile Bank Ltd.	1.90	1.99	1.97	2.31	2.22	2.13	2.08
20.	United Western Bank Ltd.	1.83	1.96	2.10	1.71	1.98	2.52	–
	New Private Sector Banks	**1.75**	**1.10**	**1.96**	**2.04**	**2.06**	**2.12**	**2.11**
21.	Axis Bank	1.20	1.44	1.65	1.74	1.54	1.64	1.66
22.	Bank of Punjab Ltd.	2.45	2.88	2.92	3.26	3.76	–	–
23.	Centurion Bank of Punjab Ltd.	2.42	3.84	4.68	5.10	4.75	4.44	3.82
24.	Development Credit Bank Ltd.	1.82	1.95	2.23	2.41	3.54	4.01	3.26
25.	HDFC Bank	1.98	1.76	1.90	1.91	2.11	2.30	2.65
26.	ICICI Bank	1.70	0.60	1.88	2.05	1.97	1.99	1.94
27.	IndusInd Bank Ltd.	1.19	0.93	1.19	1.44	1.70	1.80	1.64
28.	Kotak Mahindra Bank Ltd.	–	–	3.57	2.39	3.45	3.81	3.08
29.	Yes Bank Ltd.	–	–	–	–	3.12	2.07	1.74

Appendix Table III.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.05**	**3.00**	**2.79**	**2.77**	**2.88**	**2.94**	**2.78**
1.	ABN-AMRO Bank N.V.	2.58	3.62	3.47	4.43	3.68	3.18	3.02
2.	Abu Dhabi Commercial Bank Ltd.	0.44	0.49	0.79	0.56	2.43	2.03	2.38
3.	American Express Bank Ltd.	6.58	5.49	6.33	7.27	9.66	8.24	8.39
4.	Antwerp Diamond Bank	–	–	2.60	1.39	1.14	1.12	0.93
5.	Arab Bangladesh Bank Ltd.	2.40	1.89	2.23	2.30	3.02	3.39	5.84
6.	Bank Internasional Indonesia	11.49	3.85	7.27	2.97	2.27	2.27	2.47
7.	Bank of America NA	1.60	1.76	1.42	1.55	1.66	1.89	2.21
8.	Bank of Bahrain & Kuwait B.S.C.	1.75	1.39	1.71	1.92	2.20	2.60	2.28
9.	Bank of Ceylon	1.58	1.29	1.55	1.54	1.33	1.43	1.62
10.	Bank of Nova Scotia	0.96	1.07	1.36	1.03	1.03	0.91	0.91
11.	Bank of Tokyo-Mitsubishi UFJ	4.45	4.88	4.70	3.46	2.98	2.22	1.74
12.	Barclays Bank PLC	2.81	1.87	1.94	3.24	3.36	2.76	4.10
13.	BNP Paribas	2.82	3.59	4.01	2.92	3.28	2.79	3.07
14.	Calyon Bank	2.27	1.62	1.96	2.20	2.82	2.82	2.39
15.	Chinatrust Commercial Bank	2.79	3.34	3.72	3.33	3.87	2.24	2.19
16.	Citibank N.A.	3.15	3.52	3.32	3.41	3.62	3.36	2.79
17.	Deutsche Bank AG	3.90	3.43	2.89	2.00	2.56	3.87	4.20
18.	Development Bank of Singapore Ltd.	1.58	1.53	2.36	1.15	1.31	1.23	1.22
19.	HSBC Ltd.	2.61	2.63	2.94	2.47	2.50	2.74	2.88
20.	ING Bank N.V.	6.52	3.40	10.55	2.87	0.49	–	–
21.	JPMorgan Chase Bank	5.36	7.24	2.72	3.38	2.06	1.48	1.13
22.	Krung Thai Bank Public Co. Ltd.	4.41	4.33	4.25	3.90	3.19	4.20	2.82
23.	Mashreqbank psc	2.05	1.88	2.05	1.28	1.09	4.54	5.13
24.	Mizuho Corporate Bank Ltd.	2.58	2.14	2.65	2.61	1.79	1.67	1.84
25.	Oman International Bank S.A.O.G.	1.25	1.18	1.36	1.07	1.18	1.30	1.47
26.	Shinhan Bank	2.30	1.75	2.43	2.00	1.58	1.25	1.64
27.	Societe Generale	2.81	2.83	2.99	2.01	1.86	1.68	1.70
28.	Sonali Bank	5.13	6.66	6.06	7.17	9.24	11.00	7.61
29.	Standard Chartered Bank	3.04	2.22	1.98	2.26	2.26	2.61	2.38
30.	State Bank of Mauritius Ltd.	0.84	1.19	1.21	1.08	1.01	1.09	1.25
31.	UFJ Bank Ltd.	3.27	1.85	1.66	1.89	1.83	–	–

– : Nil/Negligible.

Source: Balance sheet of respective banks.

Appendix Table III.26: Operating and Net Profit before and after Adjustment of Interest of Recapitalisation Bonds – Nationalised Banks

(Rs. crore)

Sr. No.	Name of the Bank	Before adjusting interest amount				After adjusting interest amount +			
		Operating Profit		Net Profit		Operating Profit		Net Profit	
		2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10
1.	Allahabad Bank	1,024.15	1,099.91	706.13	750.14	955.29	1,017.59	637.26	667.82
2.	Andhra Bank	702.59	931.24	485.50	537.90	657.88	880.14	440.79	486.80
3.	Bank of Baroda	1,917.50	2,415.01	826.96	1,026.46	1,906.85	2,400.24	816.30	1,011.70
4.	Bank of India	1,701.22	2,394.99	701.44	1,123.17	1,542.01	2,213.56	542.22	941.74
5.	Bank of Maharashtra	365.08	613.20	50.79	271.84	297.26	535.91	-17.03	194.55
6.	Canara Bank	2,549.94	2,912.47	1,343.22	1,420.81	2,478.32	2,830.58	1,271.60	1,338.92
7.	Central Bank of India	1,194.67	1,265.72	257.42	498.01	1,018.80	1,070.87	81.55	303.16
8.	Corporation Bank	953.62	1,140.03	444.46	536.14	949.38	1,133.28	440.21	529.38
9.	Dena Bank	600.36	635.37	72.99	201.56	579.34	608.76	51.97	174.95
10.	Indian Bank	893.65	1,358.59	504.48	759.77	479.13	933.93	89.96	335.10
11.	Indian Overseas Bank	1,346.74	1,560.04	783.34	1,008.43	1,222.71	1,422.08	659.32	870.47
12.	Oriental Bank of Commerce	1,191.98	1,296.69	557.16	580.81	1,183.34	1,285.12	548.53	569.24
13.	Punjab and Sind Bank	267.60	472.44	108.33	218.53	173.45	367.36	14.17	113.45
14.	Punjab National Bank	2,917.11	3,230.65	1,439.31	1,540.08	2,875.91	3,175.96	1,398.11	1,485.40
15.	Syndicate Bank	1,008.02	1,382.56	536.49	716.06	883.45	1,243.95	411.92	577.46
16.	UCO Bank	762.43	944.76	196.65	316.10	547.85	717.88	-17.93	89.22
17.	Union Bank of India	1,466.35	2,000.83	675.18	845.39	1,444.25	1,974.66	653.08	819.22
18.	United Bank of India	643.85	719.10	204.57	267.28	471.15	534.08	31.86	82.26
19.	Vijaya Bank	633.01	696.02	126.88	331.34	586.78	643.84	80.65	279.17
	Total	**22,139.88**	**27,069.61**	**10,021.29**	**12,949.84**	**20,253.15**	**24,989.79**	**8,134.56**	**10,870.02**

+ : Adjusted for interest on recapitalisation bonds.

Note: 10 per cent GOI National Recaptilisation Bonds 2006 and 10 per cent National Banks (NT) Spl Sec 2006 were converted into 8.20 per cent GS 2022, 8.24 per cent GS 2027 and 8.28 per cent GS 2032 on February 15, 2007.

Appendix Table III.27: Non-Performing Assets as percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets					Net NPAs/Total Assets				
		2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**4.00**	**3.30**	**2.52**	**1.83**	**1.46**	**1.90**	**1.20**	**0.92**	**0.67**	**0.58**
	Public Sector Banks	**4.21**	**3.50**	**2.73**	**2.05**	**1.60**	**1.93**	**1.28**	**0.95**	**0.72**	**0.62**
	Nationalised Banks	**4.66**	**3.86**	**2.96**	**2.24**	**1.64**	**2.16**	**1.40**	**0.91**	**0.64**	**0.53**
1.	Allahabad Bank	6.56	4.09	2.84	2.14	1.62	3.16	1.05	0.60	0.45	0.65
2.	Andhra Bank	2.35	2.28	1.35	1.07	0.84	0.84	0.44	0.15	0.13	0.10
3.	Bank of Baroda	5.45	4.68	3.51	2.11	1.46	2.22	2.07	0.65	0.46	0.35
4.	Bank of India	4.99	4.40	3.32	2.21	1.48	3.00	2.43	1.64	0.86	0.45
5.	Bank of Maharashtra	3.84	2.96	2.93	3.02	2.10	1.84	0.89	0.85	1.07	0.71
6.	Canara Bank	3.02	3.15	2.15	1.35	0.90	1.77	1.39	1.02	0.66	0.56
7.	Central Bank of India	5.68	4.88	3.82	3.59	2.77	2.74	2.01	1.19	1.30	0.94
8.	Corporation Bank	2.50	2.48	1.91	1.54	1.18	0.76	0.86	0.61	0.38	0.27
9.	Dena Bank	8.02	6.70	4.78	3.58	2.37	4.95	3.99	2.46	1.63	1.16
10.	Indian Bank	4.61	3.04	1.71	1.40	0.97	2.13	0.98	0.56	0.37	0.18
11.	Indian Overseas Bank	4.61	3.33	2.73	2.07	1.36	2.22	1.22	0.63	0.38	0.31
12.	Oriental Bank of Commerce	3.37	2.95	4.61	3.59	1.97	0.66	–	0.61	0.28	0.29
13.	Punjab & Sind Bank	8.60	8.02	7.62	4.94	1.32	4.41	3.85	3.24	1.16	0.35
14.	Punjab National Bank	5.783	4.56	2.96	2.16	2.09	1.77	0.44	0.09	0.14	0.45
15.	Syndicate Bank	4.12	3.37	2.75	2.47	1.75	2.03	1.13	0.82	0.51	0.44
16.	UCO Bank	3.91	3.38	2.56	2.00	2.01	2.00	1.72	1.49	1.27	1.34
17.	Union Bank of India	4.68	4.02	2.84	2.35	1.82	2.45	1.45	1.46	0.94	0.59
18.	United Bank of India	3.95	2.96	2.50	2.24	1.93	1.67	1.16	0.95	0.91	0.79
19.	Vijaya Bank	2.65	1.62	1.47	1.71	1.33	1.08	0.42	0.29	0.45	0.34
	State Bank Group	**3.48**	**2.91**	**2.49**	**1.81**	**1.57**	**1.58**	**1.09**	**1.01**	**0.88**	**0.79**
20.	State Bank of India	3.59	3.11	2.71	1.95	1.76	1.64	1.33	1.16	0.99	0.93
21.	State Bank of Bikaner & Jaipur	3.23	2.40	1.71	1.41	1.34	1.57	0.53	0.83	0.68	0.65
22.	State Bank of Hyderabad	2.83	2.26	1.58	1.12	0.72	1.21	0.25	0.27	0.19	0.12
23.	State Bank of Indore	2.60	2.04	1.80	1.75	1.20	1.21	0.00	0.54	1.05	0.65
24.	State Bank of Mysore	4.96	3.74	2.51	2.06	1.43	2.41	1.35	0.49	0.45	0.28
25.	State Bank of Patiala	2.51	1.87	2.07	1.32	1.10	0.75	–	0.60	0.53	0.50
26.	State Bank of Saurashtra	3.09	1.56	1.22	0.95	0.65	1.43	–	0.63	0.59	0.41
27.	State Bank of Travancore	3.34	2.76	2.26	1.91	1.42	1.47	0.64	0.93	0.87	0.70
	Other Public Sector Bank										
28.	IDBI Ltd.	–	–	1.49	1.26	1.19	–	–	1.04	0.64	0.70

Appendix Table III.27: Non-Performing Assets as percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets					Net NPAs/Total Assets				
		2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**3.97**	**2.82**	**2.05**	**1.37**	**1.24**	**2.32**	**1.32**	**0.98**	**0.55**	**0.54**
	Old Private Sector Banks	**4.34**	**3.64**	**3.15**	**2.51**	**1.85**	**2.61**	**1.77**	**1.39**	**0.92**	**0.56**
1.	Bank of Rajasthan Ltd.	4.34	2.81	1.74	1.38	1.00	2.46	0.86	0.79	0.41	0.11
2.	Bharat Overseas Bank Ltd.	3.30	2.53	1.80	1.79	–	1.56	1.12	0.80	1.03	–
3.	Catholic Syrian Bank Ltd.	5.24	4.07	3.83	3.35	2.43	3.01	2.05	1.96	1.57	1.13
4.	City Union Bank Ltd.	5.92	5.25	3.48	2.73	1.62	3.78	3.09	1.94	1.21	0.68
5.	Dhanalakshmi Bank Ltd.	7.03	5.59	4.75	3.91	2.79	4.98	3.27	2.28	1.58	0.94
6.	Federal Bank Ltd.	4.33	3.97	4.03	2.73	1.80	2.52	1.47	1.16	0.54	0.26
7.	Ganesh Bk of Kurundwad Ltd.	9.56	8.20	8.17	8.55	–	6.27	4.63	3.37	3.52	–
8.	ING Vysya Bank Ltd.	1.77	1.41	1.26	1.08	0.66	6.27	1.39	1.26	1.08	0.59
9.	Jammu & Kashmir Bank Ltd.	1.51	1.35	1.30	1.40	1.75	0.76	0.65	0.67	0.51	0.68
10.	Karnataka Bank Ltd.	5.81	5.66	4.01	2.78	2.39	3.09	2.19	1.14	0.61	0.72
11.	Karur Vysya Bank Ltd.	4.14	3.37	3.07	2.48	1.83	2.25	1.29	0.96	0.50	0.14
12.	Lakshmi Vilas Bank Ltd.	6.60	5.67	4.62	2.54	2.25	3.93	2.86	2.84	1.13	0.98
13.	Lord Krishna Bank Ltd.	4.54	3.66	3.62	2.72	3.73	3.12	2.60	2.33	1.70	2.03
14.	Nainital Bank Ltd.	1.43	1.13	0.90	0.88	0.91	–	–	–	–	–
15.	Ratnakar Bank Ltd.	5.31	4.76	5.29	4.02	3.32	3.13	2.37	2.70	1.31	0.89
16.	Sangli Bank Ltd.	4.13	4.05	3.60	2.88	4.38	2.15	2.13	1.65	0.97	0.83
17.	SBI Commercial & International Bank Ltd.	14.76	14.16	14.16	8.27	1.67	6.23	4.51	3.70	1.83	0.09
18.	South Indian Bank Ltd.	4.53	3.55	3.86	3.03	2.35	2.83	2.06	2.15	1.09	0.57
19.	Tamilnad Mercantile Bank Ltd.	7.21	6.28	5.72	3.78	2.69	3.59	2.06	1.37	1.11	0.56
20.	United Western Bank Ltd.	7.50	7.23	6.36	6.85	–	5.01	4.70	3.35	3.17	–
	New Private Sector Banks	**3.76**	**2.42**	**1.56**	**0.96**	**1.07**	**2.16**	**1.10**	**0.80**	**0.43**	**0.54**
21.	Axis Bank	1.17	1.14	0.82	0.76	0.57	0.83	0.46	0.57	0.44	0.36
22.	Bank of Punjab Ltd.	3.96	3.06	5.00	–	–	3.01	2.28	2.29	–	–
23.	Centurion Bank of Punjab Ltd.	6.75	6.24	3.39	2.83	1.72	3.07	1.94	1.19	0.65	0.77
24.	Development Credit Bank Ltd.	5.89	3.92	6.67	8.42	2.78	4.37	2.20	3.09	2.24	0.83
25.	HDFC Bank	0.87	0.79	0.85	0.69	0.72	0.14	0.07	0.12	0.21	0.22
26.	ICICI Bank	4.71	2.43	1.65	0.88	1.20	2.60	1.10	0.90	0.42	0.58
27.	IndusInd Bank Ltd.	2.69	1.72	2.05	1.53	1.64	2.30	1.41	1.56	1.11	1.31
28.	Kotak Mahindra Bank Ltd.	0.70	0.31	0.43	0.37	1.39	0.06	0.06	0.23	0.15	1.09
29.	Yes Bank	–	–	–	–	–	–	–	–	–	–

Appendix Table III.27: Non-Performing Assets as percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets					Net NPAs/Total Assets				
		2001-02	2002-03	2003-04	2004-05	2005-06	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**2.44**	**2.13**	**1.43**	**0.97**	**0.81**	**0.79**	**0.66**	**0.42**	**0.41**	**0.33**
1.	ABN-AMRO Bank N.V.	1.92	2.03	1.47	0.22	0.31	0.92	0.56	0.22	0.07	0.07
2.	Abu Dhabi Commercial Bank Ltd.	2.75	3.94	2.11	9.17	5.02	1.39	2.35	0.59	2.75	0.16
3.	American Express Bank Ltd.	8.19	6.90	0.80	0.56	0.54	3.26	2.11	0.49	0.32	0.30
4.	Antwerp Diamond Bank	–	–	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	0.84	0.11	0.10	–	–	0.28	0.05	0.06	–	–
6.	Bank Internasional Indonesia	33.19	30.66	28.50	0.20	–	3.25	2.32	1.67	–	–
7.	Bank of America NA	0.70	0.51	0.34	0.07	0.01	0.04	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	7.28	10.20	10.87	10.09	7.94	5.75	7.84	2.43	0.49	0.04
9.	Bank of Ceylon	19.76	14.92	14.17	18.48	17.47	12.29	6.83	4.51	6.51	3.67
10.	Bank of Nova Scotia	7.08	7.64	2.91	1.89	0.41	5.41	5.87	1.89	0.66	–
11.	Bank of Tokyo-Mitsubishi Ltd.	1.12	0.79	0.71	0.42	0.32	0.05	0.07	0.04	0.06	0.05
12.	Barclays Bank PLC	0.40	0.63	–	–	–	–	–	–	–	–
13.	BNP Paribas	3.31	3.00	2.13	1.10	0.92	1.97	1.18	0.34	–	–
14.	Calyon Bank	12.55	5.20	1.59	0.51	0.09	0.12	0.02	0.09	0.08	–
15.	Chinatrust Commercial Bank	0.38	6.78	15.24	2.12	1.56	–	4.07	3.04	1.06	0.17
16.	Citibank N.A.	0.98	1.33	1.09	0.86	0.80	0.58	0.72	0.54	0.51	0.51
17.	Deutsche Bank AG	0.70	0.24	0.08	0.07	0.06	–	–	–	–	–
18.	Development Bank of Singapore Ltd.	7.48	–	–	–	–	5.92	–	–	–	–
19.	HSBC Ltd.	2.08	1.65	1.47	0.85	0.72	0.40	0.27	0.23	0.26	0.18
20.	ING Bank N.V.	11.80	1.00	0.60	–	–	–	–	–		
21.	JPMorgan Chase Bank	–	–	–	–	0.99	–	–	–	–	0.28
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–
23.	Mashreqbank psc	4.60	3.57	3.65	13.84	–	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	8.12	8.40	5.25	1.31	0.70	0.46	–	–	0.09	0.05
25.	Oman International Bank S.A.O.G.	30.34	35.20	29.86	33.02	39.16	2.05	2.02	1.59	0.73	–
26.	Shinhan Bank	0.48	0.39	–	–	–	0.24	0.19	–	–	–
27.	Societe Generale	2.50	2.61	1.32	0.29	0.12	–	0.32	–	–	–
28.	Sonali Bank	1.13	1.27	1.53	3.05	1.89	0.75	0.23	0.35	0.07	–
29.	Standard Chartered Bank	1.46	1.41	1.49	1.49	1.36	0.14	0.24	0.60	0.82	0.73
30.	State Bank of Mauritius Ltd.	11.41	4.27	3.87	2.37	–	8.80	2.80	–	0.96	–
31.	UFJ Bank Ltd.	5.39	–	–	–	–	4.15	–	–	–	–

– : Nil/Negligible.

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

Appendix Table III.28: Non-Performing Assets as percentage of Advances – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances					Net NPAs/Net Advances				
		2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**8.80**	**7.20**	**5.20**	**3.29**	**2.51**	**4.40**	**2.90**	**2.00**	**1.22**	**1.01**
	Public Sector Banks	**9.36**	**7.79**	**5.53**	**3.64**	**2.66**	**4.53**	**2.99**	**2.06**	**1.32**	**1.05**
	Nationalised Banks	**9.72**	**8.21**	**5.82**	**3.81**	**2.69**	**4.74**	**3.14**	**1.85**	**1.16**	**0.92**
1.	Allahabad Bank	13.65	8.66	5.80	3.94	2.61	7.07	2.37	1.28	0.84	1.07
2.	Andhra Bank	4.89	4.60	2.46	1.94	1.41	1.79	0.93	0.28	0.24	0.17
3.	Bank of Baroda	11.02	10.52	7.30	3.90	2.47	4.81	4.95	1.45	0.86	0.60
4.	Bank of India	8.55	7.86	5.45	3.72	2.42	5.36	4.49	2.80	1.49	0.74
5.	Bank of Maharashtra	9.55	7.70	7.00	5.53	3.50	4.83	2.46	2.15	2.03	1.21
6.	Canara Bank	5.96	6.33	3.89	2.25	1.51	3.59	2.89	1.88	1.11	0.94
7.	Central Bank of India	13.06	12.55	9.50	6.85	4.81	6.74	5.57	2.98	2.59	1.70
8.	Corporation Bank	5.27	5.03	3.41	2.56	2.05	1.65	1.80	1.12	0.64	0.47
9.	Dena Bank	17.86	14.82	9.67	6.44	4.08	11.82	9.40	5.23	3.04	1.99
10.	Indian Bank	12.39	7.99	4.19	2.91	1.85	6.15	2.71	1.35	0.79	0.35
11.	Indian Overseas Bank	10.29	7.40	5.28	3.43	2.34	5.23	2.85	1.27	0.65	0.55
12.	Oriental Bank of Commerce	6.94	5.87	9.06	5.95	3.20	1.44	–	1.29	0.49	0.49
13.	Punjab and Sind Bank	19.25	18.16	17.17	9.61	2.43	10.85	9.62	8.11	2.42	0.66
14.	Punjab National Bank	11.58	9.35	5.96	4.10	3.45	3.80	0.98	0.20	0.28	0.75
15.	Syndicate Bank	8.34	7.33	5.17	4.00	2.95	4.29	2.57	1.59	0.86	0.76
16.	UCO Bank	8.24	6.93	4.96	3.27	3.17	4.38	3.65	2.93	2.10	2.14
17.	Union Bank of India	8.96	7.59	5.01	3.84	2.94	4.91	2.87	2.64	1.56	0.96
18.	United Bank of India	12.15	9.07	6.14	4.66	3.61	5.52	3.75	2.43	1.95	1.50
19.	Vijaya Bank	6.18	3.44	2.94	3.17	2.29	2.61	0.91	0.59	0.85	0.59
	State Bank Group	**8.68**	**6.98**	**5.32**	**3.31**	**2.59**	**4.12**	**2.70**	**2.23**	**1.63**	**1.32**
20.	State Bank of India	9.34	7.75	5.96	3.60	2.92	4.49	3.45	2.65	1.88	1.56
21.	State Bank of Bikaner and Jaipur	8.15	5.36	3.26	2.42	2.23	4.16	1.24	1.61	1.18	1.09
22.	State Bank of Hyderabad	7.28	5.60	3.46	2.14	1.24	3.26	0.65	0.61	0.36	0.22
23.	State Bank of Indore	5.53	3.99	3.28	3.02	1.90	2.66	–	1.00	1.83	1.04
24.	State Bank of Mysore	10.14	7.76	4.56	3.30	2.29	5.19	2.96	0.92	0.74	0.45
25.	State Bank of Patiala	4.80	3.71	4.13	2.41	1.80	1.49	–	1.23	0.99	0.83
26.	State Bank of Saurashtra	7.32	3.68	2.70	1.85	1.10	3.53	–	1.40	1.16	0.70
27.	State Bank of Travancore	6.67	5.63	4.29	3.18	2.16	3.05	1.39	1.81	1.47	1.08
	Other Public Sector Bank										
28.	IDBI Ltd.	–	–	2.92	1.98	1.89	–	–	1.74	1.07	1.16

Appendix Table III.28: Non-Performing Assets as percentage of Advances – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances					Net NPAs/Net Advances				
		2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**8.07**	**5.84**	**3.77**	**2.45**	**2.20**	**4.95**	**2.84**	**1.85**	**1.01**	**0.97**
	Old Private Sector Banks	**8.86**	**7.59**	**5.97**	**4.39**	**3.13**	**5.54**	**3.85**	**2.74**	**1.65**	**0.96**
1.	Bank of Rajasthan Ltd.	11.39	9.14	5.34	3.26	2.08	6.80	2.99	2.50	0.99	0.24
2.	Bharat Overseas Bank Ltd.	6.75	4.99	3.44	3.21	–	3.30	2.26	1.56	1.87	–
3.	Catholic Syrian Bank Ltd.	13.01	8.84	7.16	5.76	4.19	7.89	4.65	3.80	2.78	1.98
4.	City Union Bank Ltd.	12.11	10.36	5.89	4.32	2.58	8.16	6.37	3.37	1.95	1.09
5.	Dhanalakshmi Bank Ltd.	13.18	11.43	8.51	6.71	5.06	9.71	7.06	3.92	2.82	1.75
6.	Federal Bank Ltd.	8.21	7.44	7.29	4.62	2.95	4.95	2.89	2.21	0.95	0.44
7.	Ganesh Bk of Kurundwad Ltd.	18.42	17.32	18.04	–	–	12.90	10.59	8.32	–	–
8.	ING Vysya Bank Ltd.	3.61	2.65	2.14	1.77	1.05	3.55	2.60	2.13	1.76	0.95
9.	Jammu and Kashmir Bank Ltd.	3.11	3.04	2.72	2.51	2.89	1.59	1.49	1.41	0.92	1.14
10.	Karnataka Bank Ltd.	12.99	11.93	7.58	5.13	3.95	7.34	4.98	2.29	1.17	1.21
11.	Karur Vysya Bank Ltd.	7.46	5.83	5.10	3.91	2.82	4.16	2.32	1.66	0.81	0.23
12.	Lakshmi Vilas Bank Ltd.	11.47	10.15	7.88	4.14	3.57	7.11	5.40	4.98	1.88	1.58
13.	Lord Krishna Bank Ltd.	8.96	8.32	6.39	4.89	7.72	6.33	6.05	4.22	3.12	4.37
14.	Nainital Bank Ltd.	6.11	4.00	2.57	1.91	1.95	–	–	–	–	–
15.	Ratnakar Bank Ltd.	11.96	10.63	10.31	7.59	6.81	7.42	5.58	5.54	2.61	1.92
16.	Sangli Bank Ltd.	12.45	11.79	8.95	6.67	29.06	6.87	6.56	4.30	2.34	7.08
17.	SBI Commercial & International Bank Ltd.	38.48	41.28	24.06	15.20	3.28	20.85	18.31	7.65	3.81	0.19
18.	South Indian Bank Ltd.	9.27	7.59	6.64	4.99	3.94	5.96	4.55	3.81	1.86	0.98
19.	Tamilnad Mercantile Bank Ltd.	16.06	13.79	11.26	7.02	4.54	8.66	5.00	2.95	2.17	0.98
20.	United Western Bank Ltd.	13.58	13.14	10.87	11.47	–	9.50	8.96	5.83	5.67	–
	New Private Sector Banks	**7.64**	**4.99**	**3.59**	**1.74**	**1.93**	**4.63**	**2.36**	**1.85**	**0.78**	**0.97**
21.	Axis Bank	3.16	2.88	1.98	1.68	1.13	2.26	1.20	1.39	0.99	0.72
22.	Bank of Punjab Ltd.	9.23	6.20	9.43	–	–	7.17	4.69	4.64	–	–
23.	Centurion Bank of Punjab Ltd.	15.88	12.96	6.81	4.73	2.79	7.92	4.43	2.49	1.13	1.26
24.	Development Credit Bank Ltd.	9.56	8.19	14.19	15.01	5.14	7.76	4.87	6.34	4.50	1.64
25.	HDFC Bank	2.22	1.86	1.69	1.44	1.39	0.37	0.16	0.24	0.44	0.43
26.	ICICI Bank	8.72	4.70	4.27	1.51	2.08	5.21	2.21	1.65	0.72	1.02
27.	IndusInd Bank Ltd.	4.94	3.30	3.53	2.86	3.07	4.25	2.72	2.71	2.09	2.47
28.	Kotak Mahindra Bank Ltd.	1.20	0.85	0.69	0.59	2.53	0.11	0.17	0.37	0.24	1.98
29.	Yes Bank	–	–	–	–	–	–	–	–	–	–

Appendix Table III.28: Non-Performing Assets as percentage of Advances – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances					Net NPAs/Net Advances				
		2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**5.25**	**4.62**	**2.85**	**1.95**	**1.77**	**1.76**	**1.48**	**0.86**	**0.83**	**0.73**
1.	ABN-AMRO Bank N.V.	3.25	3.15	2.26	0.34	0.55	1.59	0.88	0.35	0.11	0.12
2.	Abu Dhabi Commercial Bank Ltd.	17.53	38.78	34.42	38.80	16.44	9.67	27.39	12.73	15.97	0.63
3.	American Express Bank Ltd.	19.29	16.47	1.63	1.01	1.35	8.69	5.68	0.99	0.58	0.77
4.	Antwerp Diamond Bank	–	–	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	4.49	0.68	0.32	–	–	1.50	0.34	0.18	–	–
6.	Bank Internasional Indonesia	64.62	97.07	66.55	3.24	–	15.18	69.57	10.49	–	–
7.	Bank of America NA	1.03	0.84	0.57	0.02	–	0.05	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	13.77	21.90	20.77	21.24	17.92	11.26	17.73	5.53	1.28	0.11
9.	Bank of Ceylon	36.08	37.91	33.41	46.89	45.58	25.98	21.85	13.76	23.74	14.85
10.	Bank of Nova Scotia	11.02	11.48	4.66	2.81	0.61	8.64	9.07	3.08	1.00	–
11.	Bank of Tokyo-Mitsubishi Ltd.	2.76	2.18	1.43	0.77	0.49	0.13	0.21	0.01	0.11	0.07
12.	Barclays Bank PLC	64.01	65.36	–	–	–	–	–	–	–	–
13.	BNP Paribas	6.17	6.56	3.48	2.17	1.63	3.77	2.70	–	–	–
14.	Calyon Bank	34.89	43.96	4.24	0.94	0.30	0.51	0.26	0.30	0.15	–
15.	Chinatrust Commercial Bank	0.65	9.25	24.33	3.53	2.49	–	5.76	6.02	1.80	0.28
16.	Citibank N.A.	1.94	2.52	2.01	1.58	1.60	1.17	1.40	1.00	0.95	1.02
17.	Deutsche Bank AG	2.49	0.97	0.33	0.32	0.22	–	–	–	–	0.01
18.	Development Bank of Singapore Ltd.	12.65	–	–	–	–	10.37	–	–	–	–
19.	HSBC Ltd.	5.09	4.20	3.16	1.86	1.69	1.03	0.70	0.50	0.58	0.43
20.	ING Bank N.V.	44.13	–	–	–	–	–	–	–	–	–
21.	JPMorgan Chase Bank	–	–	–	–	7.32	–	–	–	–	2.17
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–
23.	Mashreqbank psc	31.32	41.31	39.51	28.54	–	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	11.99	11.93	8.22	2.13	1.02	0.76	–	–	0.15	0.08
25.	Oman International Bank S.A.O.G.	91.50	96.51	95.85	96.86	98.87	42.13	61.39	55.05	40.47	–
26.	Shinhan Bank	0.98	1.60	–	–	–	0.48	0.81	–	–	–
27.	Societe Generale	13.89	10.21	6.91	1.92	0.90	–	1.36	–	–	–
28.	Sonali Bank	6.49	7.49	7.86	23.50	17.75	4.52	1.42	1.75	0.75	–
29.	Standard Chartered Bank	3.17	2.91	2.73	2.80	2.62	0.31	0.52	1.12	1.57	1.43
30.	State Bank of Mauritius Ltd.	17.67	6.91	7.65	4.59	–	14.20	4.64	4.08	1.91	–
31.	UFJ Bank Ltd.	10.88	–	–	–	–	8.60	–	–	–	–

– : Nil/Negligible.

Source : 1. Balance sheets of respective banks.
2. Off-site returns (domestic).

Appendix Table III.29(A): Non-Performing Assets of Public Sector Banks – Sector-wise

(As at end-March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Public Sector Banks	**6,506.34**	**16.86**	**5,843.28**	**15.14**	**10,604.01**	**27.47**	**22,953.62**	**59.46**	**490.18**	**1.27**	**15,157.99**	**39.27**	**38,601.80**
	Nationalised Banks	**4,056.62**	**16.45**	**4,420.64**	**17.92**	**7,034.36**	**28.52**	**15,511.63**	**62.89**	**292.97**	**1.19**	**8,861.01**	**35.92**	**24,665.61**
1.	Allahabad Bank	320.84	29.34	156.05	14.27	302.71	27.68	779.60	71.29	10.70	0.98	303.29	27.73	1,093.60
2.	Andhra Bank	18.65	4.70	38.43	9.68	94.64	23.84	151.72	38.22	9.81	2.47	235.48	59.31	397.01
3.	Bank of Baroda	403.89	20.48	272.91	13.84	391.24	19.84	1,068.04	54.15	–	–	904.36	45.85	1,972.40
4.	Bank of India	397.19	20.57	423.65	21.94	459.38	23.80	1,280.22	66.32	46.44	2.41	603.85	31.28	1,930.51
5.	Bank of Maharashtra	99.84	12.17	125.60	15.31	228.69	27.88	454.12	55.36	23.52	2.87	342.63	41.77	820.28
6.	Canara Bank	228.39	15.36	150.75	10.14	544.59	36.62	923.73	62.11	18.96	1.27	544.50	36.61	1,487.19
7.	Central Bank of India	450.67	17.52	519.47	20.20	628.72	24.44	1,598.86	62.16	10.15	0.39	962.97	37.44	2,571.98
8.	Corporation Bank	64.88	10.39	35.87	5.74	218.09	34.92	318.84	51.05	–	–	305.73	48.95	624.57
9.	Dena Bank	95.83	12.87	128.77	17.30	211.06	28.35	435.66	58.52	0.12	0.02	308.71	41.47	744.48
10.	Indian Bank	62.72	11.78	181.13	34.03	209.63	39.39	453.48	85.21	8.73	1.64	70.00	13.15	532.21
11.	Indian Overseas Bank	85.26	8.16	346.42	33.16	223.42	21.38	655.10	62.70	22.06	2.11	367.69	35.19	1,044.85
12.	Oriental Bank of Commerce	129.08	8.88	199.11	13.69	227.59	15.65	555.78	38.22	24.01	1.65	874.26	60.13	1,454.05
13.	Punjab and Sind Bank	62.96	21.65	41.85	14.39	100.30	34.49	205.11	70.52	–	–	85.73	29.48	290.84
14.	Punjab National Bank	647.39	19.09	991.32	29.24	872.89	25.74	2,511.60	74.07	90.61	2.67	788.51	23.25	3,390.72
15.	Syndicate Bank	198.49	12.78	177.71	11.44	675.12	43.47	1,051.32	67.69	–	–	501.73	32.31	1,553.05
16.	UCO Bank	263.30	17.51	195.92	13.03	501.64	33.35	960.86	63.89	17.27	1.15	525.89	34.97	1,504.02
17.	Union Bank of India	330.34	17.64	250.43	13.37	586.77	31.33	1,167.54	62.35	–	–	705.08	37.65	1,872.62
18.	United Bank of India	147.88	18.10	135.19	16.55	239.76	29.35	522.83	64.00	–	–	294.09	36.00	816.92
19.	Vijaya Bank	49.02	8.69	50.06	8.87	318.13	56.38	417.22	73.93	10.59	1.88	136.51	24.19	564.31
	Other Public Sector Bank													
20.	IDBI Ltd.	73.16	5.30	67.22	4.87	126.53	9.16	266.91	19.33	9.33	0.68	1,104.38	79.99	1,380.62
	State Bank Group	**2,376.56**	**18.93**	**1,355.41**	**10.80**	**3,443.12**	**27.42**	**7,175.08**	**57.15**	**187.88**	**1.50**	**5,192.60**	**41.36**	**12,555.57**
21.	State Bank of Bikaner and Jaipur	19.30	4.17	38.89	8.40	129.95	28.07	188.14	40.63	3.33	0.72	271.56	58.65	463.03
22.	State Bank of Hyderabad	20.59	5.87	35.78	10.20	105.95	30.20	162.33	46.27	–	–	188.51	53.73	350.83
23.	State Bank of India	1,977.18	20.03	1,074.78	10.89	2,758.23	27.94	5,810.19	58.86	149.32	1.51	3,911.50	39.63	9,871.01
24.	State Bank of Indore	65.98	22.43	36.45	12.39	92.13	31.31	194.56	66.13	–	–	99.65	33.87	294.21
25.	State Bank of Mysore	38.23	9.96	45.08	11.75	47.61	12.41	130.92	34.11	18.19	4.74	234.66	61.15	383.77
26.	State Bank of Patiala	174.99	33.37	37.65	7.18	154.59	29.48	367.23	70.03	–	–	157.18	29.97	524.41
27.	State Bank of Saurashtra	13.43	10.48	10.79	8.42	26.58	20.73	50.80	39.63	–	–	77.40	60.37	128.20
28.	State Bank of Travancore	66.85	12.38	75.99	14.07	128.08	23.71	270.92	50.16	17.04	3.15	252.15	46.68	540.11

Appendix Table III.29(B): Non-Performing Assets of Private Sector Banks – Sector-wise

(As at end-March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Private Sector Banks	**860.51**	**9.31**	**644.59**	**6.98**	**1379.09**	**14.93**	**2884.18**	**31.22**	**2.79**	**0.03**	**6352.51**	**68.75**	**9239.48**
	Old Private Sector Banks	**248.97**	**8.39**	**489.96**	**16.51**	**677.22**	**22.81**	**1416.15**	**47.71**	–	–	**1552.36**	**52.29**	**2968.51**
1.	Bank of Rajasthan Ltd.	8.20	6.77	11.88	9.82	13.69	11.31	33.77	27.90	–	–	87.27	72.10	121.04
2.	Catholic Syrian Bank Ltd.	8.61	6.67	34.54	26.76	49.29	38.19	92.44	71.63	–	–	36.62	28.37	129.06
3.	City Union Bank Ltd.	3.99	4.58	5.36	6.16	7.99	9.18	17.34	19.92	–	–	69.73	80.08	87.07
4.	Dhanalakshmi Bank Ltd.	2.87	2.98	14.19	14.74	34.59	35.92	51.65	53.64	–	–	44.64	46.36	96.29
5.	Federal Bank Ltd.	20.41	4.53	56.27	12.48	197.15	43.73	273.83	60.74	–	–	176.97	39.26	450.80
6.	ING Vysya Bank Ltd.	41.24	32.63	19.92	15.77	12.04	9.53	73.20	57.92	–	–	53.18	42.08	126.38
7.	Jammu and Kashmir Bank Ltd.	28.54	5.69	68.96	13.74	122.09	24.33	219.59	43.76	–	–	282.24	56.24	501.83
8.	Karnataka Bank Ltd.	61.49	15.87	83.35	21.52	50.29	12.98	195.12	50.37	–	–	192.22	49.63	387.34
9.	Karur Vysya Bank Ltd.	4.09	2.02	53.43	26.37	21.19	10.46	78.71	38.84	–	–	123.92	61.16	202.63
10.	Lakshmi Vilas Bank Ltd.	5.42	4.13	31.25	23.82	28.45	21.69	65.12	49.64	–	–	66.06	50.36	131.18
11.	Lord Krishna Bank	0.62	0.76	2.32	2.85	3.10	3.81	6.04	7.42	–	–	75.39	92.58	81.43
12.	Nainital Bank Ltd.	3.02	19.34	1.68	10.78	5.31	34.05	10.01	64.17	–	–	5.59	35.83	15.60
13.	Ratnakar Bank Ltd.	2.98	7.83	10.19	26.79	12.28	32.28	25.46	66.90	–	–	12.60	33.10	38.05
14.	SBI Commercial and International Bank Ltd.	9.00	80.57	–	–	0.45	4.05	9.45	84.62	–	–	1.72	15.38	11.17
15.	Sangli Bank Ltd.	19.05	24.80	13.20	17.18	5.43	7.07	37.69	49.06	–	–	39.14	50.94	76.82
16.	South Indian Bank Ltd.	16.26	5.06	44.58	13.88	87.98	27.39	148.83	46.33	–	–	172.39	53.67	321.22
17.	Tamilnad Mercantile Bank Ltd.	13.18	6.92	38.84	20.38	25.89	13.58	77.91	40.88	–	–	112.69	59.12	190.60
	New Private Sector Banks	**611.54**	**9.75**	**154.62**	**2.47**	**701.87**	**11.19**	**1468.03**	**23.41**	**2.79**	**0.04**	**4800.15**	**76.55**	**6270.97**
18.	Axis Bank Ltd.	82.95	20.20	27.06	6.59	–	–	110.01	26.79	–	–	300.59	73.21	410.60
19.	Centurion Bank of Punjab Ltd.	31.66	9.96	8.50	2.67	0.88	0.28	41.04	12.91	–	–	276.84	87.09	317.88
20.	Development Credit Bank Ltd.	0.11	0.08	56.98	38.98	7.51	5.14	64.60	44.20	2.78	1.90	78.79	53.90	146.17
21.	HDFC Bank Ltd.	32.89	5.10	57.48	8.91	76.17	11.80	166.54	25.80	–	–	478.85	74.20	645.39
22.	ICICI Bank Ltd.	403.83	9.79	1.04	0.03	578.95	14.03	983.83	23.84	0.01	–	3142.22	76.16	4126.06
23.	IndusInd Bank Ltd.	55.47	16.18	3.56	1.04	24.38	7.11	83.41	24.34	–	–	259.33	75.66	342.74
24.	Kotak Mahindra Bank Ltd.	4.63	1.64	–	–	13.97	4.95	18.60	6.59	–	–	263.53	93.41	282.13
25.	Yes Bank Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–

Appendix Table III.29(C): Non-Performing Assets of Foreign Banks – Sector-wise

(As at end-March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Foreign Bank	**–**	**–**	**54**	**2.2**	**277**	**11.3**	**331**	**13.5**	–	–	**2,120**	**86.5**	**2,452**
1.	ABN-AMRO Bank N.V.	–	–	–	–	1	1.5	1	1.5	–	–	99	98.5	101
2.	Abu Dhabi Commercial Bank Ltd.	–	–	8	19.3	–	–	8	19.3	–	–	32	80.7	40
3.	American Express Bank Ltd.	–	–	–	–	–	–	–	–	–	–	22	100.0	22
4.	Antwerp Diamond Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
7.	Bank Internasional Indonesia	–	–	–	–	–	–	–	–	–	–	–	–	–
8.	Bank of America NA	–	–	–	–	–	–	–	–	–	–	1	100.0	1
9.	Bank of Bahrain & Kuwait B.S.C.	–	–	–	0.6	24	34.5	24	35.0	–	–	45	65.0	69
10.	Bank of Ceylon	–	–	3	9.4	20	70.4	23	79.8	–	–	6	20.2	29
11.	Bank of Nova Scotia	–	–	–	–	–	–	–	–	–	–	18	100.0	18
12.	Bank of Tokyo-Mitsubishi Ltd.	–	–	–	–	–	–	–	–	–	–	–	100.0	–
13.	Barclays Bank PLC	–	–	–	–	–	–	–	–	–	–	–	–	–
14.	BNP Paribas	–	–	–	–	–	1.2	–	1.2	–	–	38	98.8	39
15.	Calyon Bank	–	–	–	–	–	–	–	–	–	–	3	100.0	3
16.	Chinatrust Commercial Bank	–	–	–	–	–	–	–	–	–	–	3	100.0	3
17.	Citibank N.A.	–	–	–	–	35	5.0	35	5.0	–	–	659	95.0	694
18.	Deutsche Bank AG	–	–	–	–	5	42.2	5	42.2	–	–	7	57.8	12
19.	Development Bank of Singapore Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
20.	HSBC Ltd.	–	–	–	0.1	42	10.5	42	10.6	–	–	353	89.4	395
21.	JPMorgan Chase Bank	–	–	–	–	–	–	–	–	–	–	62	100.0	**62**
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
23.	Mashreqbank psc	–	–	–	12.5	–	75.0	–	87.5	–	–	–	12.5	–
24.	Mizuho Corporate Bank Ltd.	–	–	–	–	7	100.0	7	100.0	–	–	–	–	7
25.	Oman International Bank S.A.O.G.	–	–	23	15.0	65	41.9	88	56.9	–	–	67	43.1	155
26.	Shinhan Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
27.	Societe Generale	–	–	–	–	–	–	–	–	–	–	3	100.0	3
28.	Sonali Bank	–	–	–	–	–	–	–	–	–	–	1	100.0	1
29.	Standard Chartered Bank	–	–	19	2.4	78	9.7	97	12.2	–	0.1	702	87.8	800
30.	State Bank of Mauritius Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–

– : Nil/Negligible.

Note : In case of sector-wise gross NPAs of foreign banks, export trade have been added to NPAs of other priority sectors and non priority sector NPAs have been adjusted accordingly.

Source : Off-site returns (domestic).

Appendix Table III.30(A) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Public Sector Banks

(As at end-March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Public Sector Banks	**78,844.69**	**5,181.15**	**6.57**
	Nationalised Banks	**51,599.75**	**3,456.75**	**6.70**
1.	Allahabad Bank	3,288.79	257.45	7.83
2.	Andhra Bank	2,688.00	54.00	2.01
3.	Bank of Baroda	4,103.48	193.80	4.72
4.	Bank of India	2,643.32	407.05	15.40
5.	Bank of Maharashtra	1,311.57	105.20	8.02
6.	Canara Bank	5,613.25	280.66	5.00
7.	Central Bank of India	2,468.59	652.20	26.42
8.	Corporation Bank	946.38	48.46	5.12
9.	Dena Bank	911.76	73.61	8.07
10.	Indian Bank	3,098.23	175.06	5.65
11.	Indian Overseas Bank	4,354.51	9.63	0.22
12.	Oriental Bank of Commerce	1,965.80	72.27	3.68
13.	Punjab and Sind Bank	653.40	30.96	4.74
14.	Punjab National Bank	7,419.34	310.15	4.18
15.	Syndicate Bank	4,666.58	296.88	6.36
16.	UCO Bank	1,719.00	176.07	10.24
17.	Union Bank of India	1,571.36	198.16	12.61
18.	United Bank of India	778.50	65.00	8.35
19.	Vijaya Bank	1,397.89	50.14	3.59
	State Bank Group	**27,244.93**	**1,724.40**	**6.33**
20.	State Bank of Bikaner and Jaipur	2,113.82	72.15	3.41
21.	State Bank of Hyderabad	1,778.98	120.51	6.77
22.	State Bank of India	18,339.96	1,341.01	7.31
23.	State Bank of Indore	1,540.09	75.23	4.88
24.	State Bank of Mysore	1,475.74	59.18	4.01
25.	State Bank of Patiala	67.58	6.61	9.78
26.	State Bank of Saurashtra	727.11	14.49	1.99
27.	State Bank of Travancore	1,201.65	35.22	2.93
	Other Public Sector Bank			
28.	IDBI Ltd.	193.07	56.83	29.43

– : Nil/Negligible.

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

Appendix Table III.30(B) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Private Sector Banks

(As at end March 2007)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Private Sector Banks	**3,862.18**	**149.31**	**3.87**
	Old Private Sector Banks	**2,416.93**	**149.30**	**6.18**
1.	Bank of Rajasthan Ltd.	64.17	10.08	15.71
2.	Catholic Syrian Bank Ltd.	29.45	9.45	32.09
3.	City Union Bank Ltd.	52.82	1.69	3.20
4.	Dhanalakshmi Bank Ltd.	104.08	–	–
5.	Federal Bank Ltd.	926.68	42.61	4.60
6.	ING Vysya Bank Ltd.	62.41	4.33	6.94
7.	Jammu and Kashmir Bank Ltd.	362.14	48.25	13.32
8.	Karnataka Bank Ltd.	143.64	7.29	5.07
9.	Karur Vysya Bank Ltd.	297.82	11.17	3.75
10.	Lakshmi Vilas Bank Ltd.	227.70	0.56	0.24
11.	Lord Krishna Bank Ltd.	–	–	–
12.	Nainital Bank Ltd.	15.64	–	–
13.	Ratnakar Bank Ltd.	10.30	1.51	14.68
14.	SBI Commercial and International Bank Ltd.	–	–	–
15.	Sangli Bank Ltd.	19.59	3.35	17.10
16.	South Indian Bank Ltd.	96.53	9.02	9.34
17.	Tamilnad Mercantile Bank Ltd.	3.96	–	–
	New Private Sector Banks	**1,445.25**	**0.01**	–
18.	Axis Bank	377.41	–	–
19.	Centurion Bank of Punjab Ltd.	57.45	–	–
20.	Development Credit Bank Ltd.	89.73	0.01	0.01
21.	HDFC Bank Ltd.	863.20	–	–
22.	ICICI Bank Ltd.	48.01	–	–
23.	IndusInd Bank Ltd.	9.45	–	–
24.	Kotak Mahindra Bank Ltd.	–	–	–
25.	Yes Bank Ltd.	–	–	–

– : Nil/Negligible.

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

Appendix Table III.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**11.40**	**12.00**	**12.70**	**12.90**	**12.80**	**12.32**	**12.28**
	Public Sector Banks	**11.20**	**11.80**	**12.60**	**13.20**	**12.90**	**12.17**	**12.36**
	Nationalised Banks	**10.20**	**10.90**	**12.20**	**13.10**	**13.20**	**12.27**	**12.37**
1.	Allahabad Bank	10.50	10.62	11.15	12.52	12.53	13.37	12.52
2.	Andhra Bank	13.40	12.59	13.62	13.71	12.11	14.00	11.33
3.	Bank of Baroda	12.80	11.32	12.65	13.91	12.61	13.65	11.80
4.	Bank of India	12.23	10.68	12.02	13.01	11.52	10.75	11.58
5.	Bank of Maharashtra	10.64	11.16	12.05	11.88	12.68	11.27	12.06
6.	Canara Bank	9.84	11.88	12.50	12.66	12.78	11.22	13.50
7.	Central Bank of India	10.02	9.58	10.51	12.43	12.15	11.03	10.40
8.	Corporation Bank	13.30	17.90	18.50	20.12	16.23	13.92	12.76
9.	Dena Bank	7.73	7.64	6.02	9.48	11.91	10.62	11.52
10.	Indian Bank	Negative	1.70	10.85	12.82	14.14	13.19	14.14
11.	Indian Overseas Bank	10.24	10.82	11.30	12.49	14.20	13.04	13.27
12.	Oriental Bank of Commerce	11.81	10.99	14.04	14.47	9.21	11.04	12.51
13.	Punjab & Sind Bank	11.42	10.70	10.43	11.06	9.46	12.83	12.88
14.	Punjab National Bank	10.24	10.70	12.02	13.10	14.78	11.95	12.29
15.	Syndicate Bank	11.72	12.12	11.03	11.49	10.70	11.73	11.74
16.	UCO Bank	9.05	9.64	10.04	11.88	11.26	11.12	11.56
17.	Union Bank of India	10.86	11.07	12.41	12.32	12.09	11.41	12.80
18.	United Bank of India	10.40	12.02	15.17	17.04	18.16	13.12	12.02
19.	Vijaya Bank	11.50	12.25	12.66	14.11	12.92	11.94	11.21
	State Bank Group	**12.70**	**13.30**	**13.40**	**13.40**	**12.40**	**11.95**	**12.32**
20.	State Bank of India	12.79	13.35	13.50	13.53	12.45	11.88	12.34
21.	State Bank of Bikaner & Jaipur	12.39	13.42	13.18	12.93	12.60	12.08	12.89
22.	State Bank of Hyderabad	12.28	14.03	14.91	14.29	11.74	12.08	12.51
23.	State Bank of Indore	12.73	12.78	13.09	12.39	11.61	11.40	11.77
24.	State Bank of Mysore	11.16	11.81	11.62	11.53	12.08	11.37	11.47
25.	State Bank of Patiala	12.37	12.55	13.57	13.56	14.21	13.67	12.38
26.	State Bank of Saurashtra	13.89	13.20	13.68	14.53	11.45	12.03	12.78
27.	State Bank of Travancore	11.79	12.54	11.30	11.36	11.05	11.15	11.68
	Other Public Sector Bank							
28.	IDBI Ltd.	–	–	–	–	15.51	14.80	13.73

Appendix Table III.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Old Private Sector Banks	**11.90**	**12.50**	**12.80**	**13.70**	**12.50**	**11.69**	**12.08**
1.	Bank of Rajasthan Ltd.	10.57	12.07	11.29	11.18	12.75	10.60	11.32
2.	Bharat Overseas Bank Ltd.	14.43	15.09	13.87	16.25	14.95	11.24	–
3.	Catholic Syrian Bank Ltd.	6.08	9.57	10.58	11.23	11.35	11.26	9.58
4.	City Union Bank Ltd.	13.59	13.97	13.95	13.36	12.18	12.33	12.58
5.	Dhanalakshmi Bank Ltd.	9.69	11.23	10.45	13.56	10.16	9.75	9.77
6.	Federal Bank Ltd.	10.29	10.63	11.23	11.48	11.27	13.75	13.43
7.	Ganesh Bank of Kurundwad Ltd.	9.11	10.08	10.44	11.94	3.99	3.99	–
8.	ING Vysya Bank Ltd.	12.05	11.57	9.81	11.05	9.09	10.67	10.56
9.	Jammu & Kashmir Bank Ltd.	17.44	15.46	16.48	16.88	15.15	13.52	13.24
10.	Karnataka Bank Ltd.	11.37	12.96	13.44	13.03	14.16	11.78	11.03
11.	Karur Vysya Bank Ltd.	15.56	16.90	17.01	17.11	16.07	14.79	14.51
12.	Lakshmi Vilas Bank Ltd.	10.21	11.54	11.35	13.79	11.32	10.79	12.43
13.	Lord Krishna Bank Ltd.	12.90	16.50	12.82	16.68	11.74	10.11	11.61
14.	Nainital Bank Ltd.	15.81	14.88	20.93	18.54	14.85	13.88	12.89
15.	Ratnakar Bank Ltd.	10.00	13.60	14.05	16.65	12.03	10.77	34.34
16.	Sangli Bank Ltd.	11.47	11.64	14.94	13.68	9.30	1.64	–
17.	SBI Commercial and International Bank Ltd.	19.85	22.10	21.19	30.43	23.56	22.29	20.93
18.	South Indian Bank Ltd.	11.17	11.20	10.75	11.32	9.89	13.02	11.08
19.	Tamilnad Mercantile Bank Ltd.	17.59	18.02	18.54	21.07	19.74	18.33	16.77
20.	United Western Bank Ltd.	9.59	9.79	10.17	10.13	4.86	0.99	–
	New Private Sector Banks	**11.50**	**12.30**	**11.30**	**10.20**	**12.10**	**12.60**	**11.99**
21.	Axis Bank	9.00	10.65	10.90	11.21	12.66	11.08	11.57
22.	Bank of Punjab Ltd.	11.02	12.82	13.59	12.64	9.23	–	–
23.	Centurion Bank of Punjab Ltd.	9.61	4.16	1.95	4.41	21.42	12.52	11.05
24.	Development Credit Bank Ltd.	11.28	11.49	10.08	14.14	9.88	9.66	11.34
25.	HDFC Bank	11.09	13.93	11.12	11.66	12.16	11.41	13.08
26.	ICICI Bank	11.57	11.44	11.10	10.36	11.78	13.35	11.69
27.	IndusInd Bank Ltd.	15.00	12.51	12.13	12.75	11.62	10.54	12.54
28.	Kotak Mahindra Bank Ltd.	–	–	25.97	15.25	12.80	11.27	13.46
29.	Yes Bank Ltd.	–	–	–	–	18.81	16.40	13.60

Appendix Table III.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Concluded)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**12.60**	**12.90**	**15.20**	**15.00**	**14.00**	**13.02**	**12.39**
1.	ABN-AMRO Bank N.V.	11.42	13.17	12.57	13.48	10.55	10.44	11.34
2.	Abu Dhabi Commercial Bank Ltd.	10.05	10.42	10.14	14.22	14.38	36.98	27.66
3.	American Express Bank Ltd.	9.59	10.71	10.93	10.74	10.87	10.26	13.00
4.	Antwerp Diamond Bank	–	–	92.69	53.22	39.99	39.67	46.48
5.	Arab Bangladesh Bank Ltd.	96.34	138.51	105.64	111.34	109.39	86.21	100.37
6.	Bank Internasional Indonesia	103.78	123.07	103.99	133.94	92.26	108.87	141.24
7.	Bank of America NA	13.03	21.07	21.08	22.92	30.07	23.40	13.33
8.	Bank of Bahrain and Kuwait B.S.C.	11.83	17.03	17.19	21.06	11.66	20.01	22.00
9.	Bank of Ceylon	36.49	30.94	32.29	45.26	49.40	56.37	63.21
10.	Bank of Nova Scotia	9.97	10.12	13.38	13.78	15.27	13.71	23.26
11.	Bank of Tokyo-Mitsubishi Ltd.	15.51	15.36	30.40	32.78	32.10	33.38	30.71
12.	Barclays Bank PLC	26.97	63.56	45.68	37.16	20.85	22.92	13.68
13.	BNP Paribas	9.92	9.66	10.74	21.70	9.41	11.61	10.76
14.	Calyon Bank	11.60	11.23	20.04	24.51	14.40	19.80	15.10
15.	Chinatrust Commercial Bank	28.27	40.11	36.96	39.98	59.94	38.01	22.14
16.	Citibank N.A.	11.24	11.04	11.30	11.11	10.78	11.33	11.06
17.	Deutsche Bank AG	12.67	14.55	17.35	14.42	16.22	12.74	10.62
18.	Development Bank of Singapore Ltd.	15.93	13.31	15.98	55.49	35.06	31.33	29.24
19.	HSBC Ltd.	12.37	10.92	18.10	14.54	14.03	10.61	11.06
20.	ING Bank N.V.	15.00	12.47	20.72	56.91	74.97	–	–
21.	JPMorgan Chase Bank	43.79	85.88	72.95	34.83	10.19	11.76	16.14
22.	Krung Thai Bank Public Co. Ltd.	148.99	167.65	119.88	115.98	99.59	133.53	121.73
23.	Mashreqbank psc	10.54	20.54	39.38	54.71	60.14	136.92	97.06
24.	Mizuho Corporate Bank Ltd.	18.38	11.14	18.50	36.09	28.76	65.76	34.40
25.	Oman International Bank S.A.O.G.	14.21	18.86	14.62	16.48	13.52	9.58	10.99
26.	Shinhan Bank	35.00	27.65	37.17	54.43	55.31	81.71	89.26
27.	Societe Generale	13.93	12.85	32.63	32.71	64.81	37.40	31.82
28.	Sonali Bank	88.14	113.64	46.86	60.55	105.81	93.78	71.42
29.	Standard Chartered Bank	9.60	9.28	10.56	10.87	10.46	9.93	10.44
30.	State Bank of Mauritius Ltd.	30.78	46.78	31.74	35.08	31.06	35.42	38.99
31.	UFJ Bank Ltd.	34.91	29.44	67.68	121.69	121.60	–	–

Source : 1. Balance sheets of respective banks.
2. Off-site Returns (domestic).

Appendix Table III.32: Shareholding Pattern of Scheduled Commercial Banks *(Continued)*
(As at end-March 2007)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI-Resident	Financial Institutions-Resident	Financial Institutions-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks									
1.	Allahabad Bank	55.2	7.4	19.4	2.5	–	15.3	0.2	80.5	19.6
2.	Andhra Bank	51.6	7.8	19.1	5.3	–	16.2	0.1	0.1	19.2
3.	Bank of Baroda	53.8	14.7	20.1	2.1	–	8.5	0.7	79.2	20.9
4.	Bank of India	69.5	5.6	15.4	1.0	0.1	7.8	0.7	83.8	16.2
5.	Bank of Maharashtra	76.8	4.6	7.1	1.1	–	10.3	0.1	92.7	7.3
6.	Canara Bank	73.2	2.6	17.2	0.8	–	6.2	–	82.8	17.2
7.	Central Bank of India	100.0	–	–	–	–	–	–	100.0	–
8.	Corporation Bank	57.2	27.4	9.9	2.9	–	2.5	0.2	89.9	10.1
9.	Dena Bank	51.2	8.5	–	6.6	–	20.9	12.8	87.2	12.8
10.	IDBI Ltd.	52.7	28.3	–	3.6	–	14.6	0.7	99.3	0.7
11.	Indian Bank	80.0	1.7	11.4	1.1	–	5.8	0.1	88.6	11.4
12.	Indian Overseas Bank	61.2	5.6	18.0	1.2	–	13.2	0.7	81.3	18.8
13.	Oriental Bank of Commerce	51.1	20.9	19.0	3.2	–	5.7	0.1	80.9	19.1
14.	Punjab & Sind Bank	100.0	–	–	–	–	–	–	100.0	–
15.	Punjab National Bank	57.8	15.9	20.1	1.0	–	5.3	–	79.9	20.1
16.	Syndicate Bank	66.5	5.7	12.0	1.6	–	14.2	–	88.0	12.0
17.	UCO Bank	75.0	5.1	–	2.6	2.5	14.5	0.3	97.3	2.8
18.	Union Bank of India	55.4	9.0	19.7	2.4	–	13.5	0.1	80.3	19.7
19.	United Bank of India	100.0	–	–	–	–	–	–	100.0	–
20.	Vijaya Bank	53.9	5.3	17.8	2.6	–	19.9	0.5	81.7	18.3
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	–	75.3	–	4.6	2.4	14.7	3.0	94.7	5.3
22.	State Bank of Hyderabad	–	100.0	–	–	–	–	–	100.0	–
23.	State Bank of India	59.7	12.1	19.8	2.4	–	6.0	0.1	80.2	19.8
24.	State Bank of Indore	–	98.1	–	0.7	–	1.2	–	100.0	–
25.	State Bank of Mysore	–	94.0	–	0.4	–	5.6	–	100.0	–
26.	State Bank of Patiala	–	100.0	–	–	–	–	–	100.0	–
27.	State Bank of Saurashtra	–	–	–	–	–	100.0	–	100.0	–
28.	State Bank of Travancore	1.1	76.2	2.6	3.8	–	12.5	3.9	93.6	6.5

Appendix Table III.32: Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2007)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI-Resident	Financial Institution-Resident	Financial Institution-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Old Private Sector Banks									
1.	Bank of Rajasthan Ltd.	–	2.7	0.6	55.4	–	41.0	0.4	99.0	1.0
2.	Catholic Syrian Bank Ltd.	–	–	–	4.0	–	95.5	0.5	99.6	0.5
3.	City Union Bank Ltd.	–	3.4	6.9	22.5	–	66.2	0.9	92.2	7.9
4.	Dhanalakshmi Bank Ltd.	–	1.5	0.7	13.9	–	82.8	1.1	98.2	1.8
5.	Federal Bank Ltd.	–	15.2	49.4	2.5	7.8	25.1	–	42.8	57.2
6.	ING Vysya Bank Ltd.	–	11.3	24.3	2.0	43.9	13.5	5.1	26.7	73.3
7.	Jammu & Kashmir Bank Ltd.	53.2	1.3	34.6	0.4	–	10.3	0.3	65.1	34.9
8.	Karnataka Bank Ltd.	–	34.8	–	12.9	–	52.1	0.2	99.8	0.2
9.	Karur Vysya Bank Ltd.	–	6.1	18.2	10.8	–	60.2	4.8	77.0	23.0
10.	Lakshmi Vilas Bank Ltd.	–	9.2	–	18.9	1.8	70.0	0.1	98.0	2.0
11.	Lord Krishna Bank Ltd.	–	–	–	56.8	0.1	43.2	–	99.9	0.1
12.	Nainital Bank Ltd.	–	98.4	–	–	–	1.6	–	100.0	–
13.	Ratnakar Bank Ltd.	–	3.2	–	10.3	–	86.6	–	100.0	–
14.	SBI Commercial & International Bank Ltd.	–	100.0	–	–	–	–	–	100.0	–
15.	Sangli Bank Ltd.	0.4	–	–	31.5	–	68.1	–	100.0	–
16.	South Indian Bank Ltd.	–	6.7	–	47.2	–	42.5	3.6	96.4	3.6
17.	Tamilnad Mercantile Bank Ltd.	–	–	–	9.3	–	90.4	0.4	99.6	0.4
	New Private Sector Banks									
18.	Axis Bank	–	50.0	–	2.5	41.8	5.6	0.1	58.1	41.9
19.	Centurion Bank of Punjab Ltd.	–	3.2	18.2	14.1	50.9	12.8	0.9	30.1	69.9
20.	Development Credit Bank Ltd	–	0.7	–	10.3	63.1	24.9	1.0	35.9	64.1
21.	HDFC Bank Ltd.	–	6.4	–	29.5	51.3	12.7	0.2	48.5	51.5
22.	ICICI Bank Ltd.	–	16.3	71.6	5.2	–	6.4	0.5	28.0	72.0
23.	IndusInd Bank Ltd.	–	3.2	25.3	16.2	30.6	21.3	3.4	40.7	59.3
24.	Kotak Mahindra Bank Ltd.	–	4.4	23.8	6.7	0.7	63.8	0.7	74.9	25.1
25.	Yes Bank Ltd.	–	1.2	35.1	20.6	14.3	27.3	1.5	49.2	50.8

– : Nil/Negligible.

Source : Off-site Returns (unaudited and provisional).

Appendix III.33: Expenditure Incurred on Computerisation and Development of Communication Networks by Public Sector Banks

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Expenditure incurred during half year ended March 2007	Expenditure incurred between September 1999 and March 2007
1	2	3	4
	Public Sector Banks	**1,257.17**	**12,825.82**
	Nationalised Banks	**898.10**	**8,122.34**
1.	Allahabad Bank	11.66	194.17
2.	Andhra Bank	33.37	369.13
3.	Bank of Baroda	146.46	750.66
4.	Bank of India	45.95	1,146.34
5.	Bank of Maharashtra	29.14	272.30
6.	Canara Bank	125.25	858.40
7.	Central Bank of India	19.67	406.98
8.	Corporation Bank	38.25	333.63
9.	Dena Bank	17.48	167.75
10.	Indian Bank	48.43	385.49
11.	Indian Overseas Bank	49.74	236.06
12.	Oriental Bank of Commerce	42.91	311.46
13.	Punjab and Sind Bank	79.72	919.58
14.	Punjab National Bank	1.66	53.60
15.	Syndicate Bank	64.92	374.05
16.	UCO Bank	68.31	334.49
17.	Union Bank of India	40.07	404.05
18.	United Bank of India	19.11	154.38
19.	Vijaya Bank	16.00	449.82
	State Bank Group	**359.07**	**4,703.48**
20.	State Bank of India	263.27	3,306.21
21.	State Bank of Bikaner and Jaipur	27.87	290.40
22.	State Bank of Hyderabad	8.80	258.89
23.	State Bank of Indore	2.96	107.68
24.	State Bank of Mysore	12.63	149.37
25.	State Bank of Patiala	14.49	206.53
26.	State Bank of Saurashtra	24.54	174.00
27.	State Bank of Travancore	4.51	210.40

Appendix Table III.34: Computerisation in Public Sector Banks
(As on March 31, 2007)

(Per cent)

Sr. No.	Name of the Bank	Branches Under Core Banking Solution	Branches Already Fully Computerised#	Fully Computerised Branches (3+4)	Branches Partially Computerised
1	2	3	4	5	6
	Public Sector Banks	**44.4**	**41.2**	**85.6**	**13.4**
	Nationalised Bank	**35.4**	**44.5**	**79.9**	**18.8**
1.	Allahabad Bank	0.6	91.9	92.6	5.9
2.	Andhra Bank	78.0	22.0	100.0	–
3.	Bank of Baroda	38.2	61.8	100.0	–
4.	Bank of India	38.3	61.7	100.0	–
5.	Bank of Maharashtra	4.9	95.1	100.0	–
6.	Canara Bank	12.8	68.0	80.8	19.2
7.	Central Bank of India	10.1	70.4	80.6	5.0
8.	Corporation Bank	99.9	0.1	100.0	–
9.	Dena Bank	1.1	98.6	99.7	0.3
10.	Indian Bank	71.4	9.1	80.5	19.5
11.	Indian Overseas Bank	13.4	47.1	60.5	39.5
12.	Oriental Bank of Commerce	81.2	1.5	82.7	17.3
13.	Punjab National Bank	61.2	38.8	100.0	–
14.	Punjab and Sind Bank	–	10.1	10.1	89.9
15.	Syndicate Bank	69.6	1.0	70.6	29.4
16.	UCO Bank	9.7	27.5	37.2	62.8
17.	Union Bank of India	42.7	0.0	42.7	57.3
18.	United Bank of India	1.4	26.9	28.2	71.8
19.	Vijaya Bank	44.2	55.8	100.0	–
	State Bank Group	**67.2**	**32.8**	**100.0**	**–**
20.	State Bank of India	50.5	49.5	100.0	–
21.	State Bank of Bikaner and Jaipur	100.0	–	100.0	–
22.	State Bank of Hyderabad	100.0	–	100.0	–
23.	State Bank of Indore	100.0	–	100.0	–
24.	State Bank of Mysore	100.0	–	100.0	–
25.	State Bank of Patiala	100.0	–	100.0	–
26.	State Bank of Saurashtra	100.0	–	100.0	–
27.	State Bank of Travancore	100.0	–	100.0	–

– : Nil/Negligible.

: Other than branches under Core Banking Solution.

Appendix Table III.35: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2007)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Perceent ATMs of Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**19,097**	**13,794**	**12,330**	**11,821**	**57,042**	**14,796**	**12,292**	**27,088**	**45.4**	**47.5**
	Public Sector Banks	**18,112**	**11,728**	**10,168**	**9,658**	**49,666**	**10,289**	**6,040**	**16,329**	**37.0**	**32.9**
	Nationalised Banks	**12,986**	**7,573**	**7,612**	**7,465**	**35,636**	**6,634**	**3,254**	**9,888**	**32.9**	**27.7**
1.	Allahabad Bank	932	327	402	345	2,006	114	94	208	45.2	10.4
2.	Andhra Bank	370	339	285	200	1,194	134	388	522	74.3	43.7
3.	Bank of Baroda	1,087	576	479	585	2,727	603	397	1,000	39.7	36.7
4.	Bank of India	1,190	501	447	497	2,635	203	134	337	39.8	12.8
5.	Bank of Maharashtra	515	244	246	326	1,331	234	68	302	22.5	22.7
6.	Canara Bank	717	658	596	617	2,588	932	200	1,132	17.7	43.7
7.	Central Bank of India	1,314	762	578	530	3,184	215	46	261	17.6	8.2
8.	Corporation Bank	173	161	256	294	884	366	563	929	60.6	105.1
9.	Dena Bank	349	216	188	281	1,034	216	53	269	19.7	26.0
10.	Indian Bank	447	360	355	276	1,438	331	95	426	22.3	29.6
11.	Indian Overseas Bank	507	387	390	367	1,651	307	52	359	14.5	21.7
12.	Oriental Bank of Commerce	246	276	370	332	1,224	436	230	666	34.5	54.4
13.	Punjab and Sind Bank	282	123	218	204	827	5	–	5	–	0.6
14.	Punjab National Bank	1,827	806	765	641	4,039	754	255	1,009	25.3	25.0
15.	Syndicate Bank	635	479	501	457	2,072	619	82	701	11.7	33.8
16.	UCO Bank	752	355	381	369	1,857	145	13	158	8.2	8.5
17.	Union Bank of India	739	511	495	465	2,210	520	249	769	32.4	34.8
18.	United Bank of India	609	219	248	248	1,324	102	42	144	29.2	10.9
19.	Vijaya Bank	247	192	287	252	978	141	30	171	17.5	17.5
20.	IDBI Ltd.	48	81	125	179	433	257	263	520	50.6	120.1
	State Bank Group	**5,126**	**4,155**	**2,556**	**2,193**	**14,030**	**3,655**	**2,786**	**6,441**	**43.3**	**45.9**
21.	State Bank of India	3,825	2,561	1,561	1,323	9,270	2,287	2,120	4,407	48.1	47.5
22.	State Bank of Bikaner and Jaipur	286	239	147	158	830	189	124	313	39.6	37.7
23.	State Bank of Hyderabad	254	299	219	167	939	306	94	400	23.5	42.6
24.	State Bank of Indore	116	129	77	115	437	135	100	235	42.6	53.8
25.	State Bank of Mysore	207	131	143	156	637	200	47	247	19.0	38.8
26.	State Bank of Patiala	253	208	193	112	766	268	85	353	24.1	46.1
27.	State Bank of Saurashtra	135	135	72	102	444	100	90	190	47.4	42.8
28.	State Bank of Travancore	50	453	144	60	707	170	126	296	42.6	41.9

– : Nil/Negligible.

Appendix Table III.35: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2007)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Perceent ATMs of Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**985**	**2,064**	**2,118**	**1,936**	**7,103**	**4,258**	**5,541**	**9,799**	**56.5**	**138.0**
	Old Private Sector Banks	**855**	**1,510**	**1,294**	**947**	**4,606**	**1,104**	**503**	**1,607**	**31.3**	**34.9**
1.	Bank of Rajasthan Ltd.	99	84	133	122	438	61	15	76	19.7	17.4
2.	Bharat Overseas Bank Ltd.	6	8	46	43	103	–	–	–	–	–
3.	Catholic Syrian Bank Ltd.	17	185	86	42	330	60	22	82	26.8	24.8
4.	City Union Bank Ltd.	31	49	54	29	163	56	2	58	3.4	35.6
5.	Dhanalakshmi Bank Ltd.	21	80	52	28	181	54	13	67	19.4	37.0
6.	Federal Bank Ltd.	38	289	119	85	531	206	185	391	47.3	73.6
7.	ING Vysya Bank	78	76	130	108	392	105	53	158	33.5	40.3
8.	Jammu and Kashmir Bank Ltd.	198	79	110	58	445	121	54	175	30.9	39.3
9.	Karnataka Bank Ltd.	87	88	124	116	415	84	22	106	20.8	25.5
10	Karur Vysya Bank Ltd.	30	79	97	62	268	193	49	242	20.2	90.3
11.	Lakshmi Vilas Bank Ltd.	32	82	75	42	231	16	–	16	–	6.9
12.	Lord Krishna Bank Ltd.	12	42	29	29	112	–	–	–	–	–
13.	Nainital Bank Ltd.	17	19	22	22	80	–	–	–	–	–
14.	Ratnakar Bank Ltd.	24	23	16	15	78	8	1	9	11.1	11.5
15.	Sangli Bank Ltd.	47	50	44	46	187	–	–	–	–	–
16.	SBI Commercial and International Bank Ltd.	–	–	–	2	2	2	–	2	–	100.0
17.	South Indian Bank Ltd.	68	219	107	72	466	111	64	175	36.6	37.6
18.	Tamilnad Mercantile Bank Ltd.	50	58	50	26	184	27	23	50	46.0	27.2
	New Private Sector Banks	**130**	**554**	**824**	**989**	**2,497**	**3,154**	**5,038**	**8,192**	**61.5**	**328.1**
19.	Axis Bank	11	103	196	181	491	586	1,755	2,341	75.0	476.8
20.	Centurion Bank of Punjab Ltd.	4	58	97	116	275	253	153	406	37.7	147.6
21.	Development Credit Bank Ltd.	2	10	10	46	68	60	42	102	41.2	150.0
22.	HDFC Bank Ltd.	30	136	202	271	639	833	772	1,605	48.1	251.2
23.	ICICI Bank Ltd.	75	187	203	238	703	1,150	2,185	3,335	65.5	474.4
24.	IndusInd Bank Ltd.	2	35	83	52	172	144	97	241	40.2	140.1
25.	Kotak Mahindra Ltd.	2	18	26	63	109	102	33	135	24.4	123.9
26.	Yes bank Ltd.	4	7	7	22	40	26	1	27	3.7	67.5

Appendix Table III.35: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2007)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Perceent ATMs of Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks	**–**	**2**	**44**	**227**	**273**	**249**	**711**	**960**	**74.1**	**351.6**
1.	ABN-AMRO Bank N.V.	–	–	9	19	28	30	80	110	72.7	392.9
2.	Abu Dhabi Commercial Bank Ltd.	–	–	–	2	2	–	–	–	–	–
3.	American Express Bank Ltd.	–	–	–	8	8	9	1	10	10.0	125.0
4.	Antwerp Bank Ltd.	–	–	–	1	1	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	–	–	–	1	1	–	–	–	–	–
6.	Bank Internasional Indonesia	–	–	–	1	1	–	–	–	–	–
7.	Bank of America NA	–	–	–	4	4	–	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	–	–	–	2	2	–	–	–	–	–
9.	Bank of Ceylon	–	–	–	1	1	–	–	–	–	–
10.	Bank of Nova Scotia	–	–	1	4	5	–	–	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	–	–	–	3	3	–	–	–	–	–
12.	Barclays Bank PLC	–	1	1	1	3	–	–	–	–	–
13.	BNP Paribas	–	–	–	9	9	–	–	–	–	–
14.	Calyon Bank	–	–	–	6	6	–	–	–	–	–
15.	Chinatrust Commercial Bank	–	–	–	1	1	–	–	–	–	–
16.	Citibank N.A.	–	1	10	28	39	52	400	452	88.5	1,159.0
17.	Development Bank of Singapore Ltd.	–	–	–	2	2	–	–	–	–	–
18.	Deutsche Bank AG	–	–	2	6	8	8	17	25	68.0	312.5
19.	HSBC Ltd.	–	–	9	38	47	68	103	171	60.2	363.8
20.	JPMorgan Chase Bank	–	–	–	1	1	–	–	–	–	–
21.	Krung Thai Bank Public Co. Ltd.	–	–	–	1	1	–	–	–	–	–
22.	Mashreqbank psc	–	–	–	2	2	–	–	–	–	–
23.	Mizuho Corporate Bank Ltd.	–	–	–	2	2	–	–	–	–	–
24.	Oman International Bank S.A.O.G.	–	–	1	1	2	1	–	1	–	50.0
25.	Shinhan Bank	–	–	–	2	2	–	–	–	–	–
26.	Societe Generale	–	–	–	2	2	–	–	–	–	–
27.	Sonali Bank	–	–	1	1	2	–	–	–	–	–
28.	Standard Chartered Bank	–	–	10	75	85	81	110	191	57.6	224.7
29.	State Bank of Mauritius Ltd.	–	–	–	3	3	–	–	–	–	–

– : Nil/Negligible.

Source : Master office file (latest updated version) on commercial Banks.

Appendix Table III.36: Distribution of Commercial Bank Branches in India – Bank Group and Population Group-wise

Bank Group	No. of Banks#	Number of Branches									
		As on June 30, 2006@					As on June 30, 2007@				
		Rural	Semi-urban	Urban	Metro-politan	Total	Rural	Semi-urban	Urban	Metro-politan	Total
1	2	3	4	5	6	7	8	9	10	11	12
1. State Bank of India and Associates	8	5,143 (37.1)	4,103 (29.6)	2,491 (17.9)	2,142 (15.4)	13,879 (100.0)	5,159 (36.7)	4,150 (29.5)	2,564 (18.2)	2,185 (15.5)	14,058 (100.0)
2. Nationalised Banks	19	12,903 (37.6)	7,211 (21.0)	7,135 (20.8)	7,050 (20.6)	34,299 (100.0)	12,990 (36.7)	7,504 (21.2)	7,557 (21.3)	7,361 (20.8)	35,412 (100.0)
3. Other Public Sector Banks	1	2 (1.1)	18 (9.9)	66 (36.5)	95 (52.5)	181 (100.0)	48 (11.0)	82 (18.8)	126 (28.9)	180 (41.3)	436 (100.0)
4. Old Private Sector Bank	16	897 (19.3)	1,503 (32.3)	1,281 (27.5)	977 (21.0)	4,658 (100.0)	804 (18.5)	1,460 (33.6)	1,218 (28.1)	859 (19.8)	4,341 (100.0)
5. New Private Sector Banks	8	95 (4.8)	325 (16.3)	682 (34.1)	898 (44.9)	2,000 (100.0)	183 (6.7)	617 (22.6)	884 (32.4)	1,042 (38.2)	2,726 (100.0)
6. Foreign Banks in India	29	– –	1 (0.4)	37 (14.1)	224 (85.5)	262 (100.0)	– –	2 (0.7)	43 (15.8)	227 (83.5)	272 (100.0)
7. Regional Rural Banks**	96	11,456 (79.0)	2,471 (17.0)	514 (3.5)	55 (0.4)	14,496 (100.0)	11,444 (78.9)	2,481 (17.1)	522 (3.6)	59 (0.4)	14,506 (100.0)
8. Non-Scheduled Commercial Banks (Local Area Banks)	4	4 (15.4)	12 (46.2)	10 (38.5)	– –	26 (100.0)	5 (16.7)	14 (46.7)	11 (36.7)	– –	30 (100.0)
Total	**181**	**30,500** **(43.7)**	**15,644** **(22.4)**	**12,216** **(17.5)**	**11,441** **(16.4)**	**69,801** **(100.0)**	**30,633** **(42.7)**	**16,310** **(22.7)**	**12,925** **(18.0)**	**11,913** **(16.6)**	**71,781** **(100.0)**

– : Nil/Negligible.
: as on June 30, 2007.
@ : Population group wise classification of branches is based on 2001 Census.
** : No. of Regional Rural Banks as on June 30, 2007 was 96, after effecting the amalgamation of RRBs, that have taken place.
Note : 1. Number of branches data exclude administrative offices.
2. Data for June 2006 are revised and that for June 2007 are provisional.
3. Figures in brackets indicate percentages to the total in each group.
Source: Master office file (latest updated version) on commercial banks.

Appendix Table III.37: Distribution of Commercial Bank Branches – Region/State/Union Territory-wise@

Sr. No.	Region/State/ Union Territory	Number of branches as on June 30,		Number of branches opened during				Average population (in '000) per bank branch as at end-June	
		2006	2007	July 2005 to June 2006	*of which:* at unbanked centres	July 2006 to June 2007	*of which:* at unbanked centres	2006	2007
1	2	3	4	5	6	7	8	9	10
	ALL INDIA	**69,801**	**71,781**	**1,331**	**2**	**2,366**	**36**	**16**	**16**
1	**NORTHERN REGION**	**11,728**	**12,149**	**385**	**–**	**446**	**–**	**13**	**12**
	Chandigarh	216	221	16	–	9	–	5	5
	Delhi	1,759	1,838	105	–	89	–	9	9
	Haryana	1,770	1,849	79	–	79	–	13	13
	Himachal Pradesh	827	862	20	–	34	–	8	8
	Jammu and Kashmir	881	893	16	–	12	–	13	14
	Punjab	2,801	2,914	85	–	123	–	9	9
	Rajasthan	3,474	3,572	64	–	100	–	18	18
2	**NORTH-EARSTERN REGION**	**1,921**	**1,963**	**24**	**–**	**47**	**–**	**22**	**22**
	Arunachal Pradesh	69	71	2	–	2	–	17	17
	Assam	1,247	1,280	13	–	32	–	23	23
	Manipur	77	76	–	–	1	–	33	34
	Meghalaya	189	191	4	–	1	–	13	13
	Mizoram	80	79	–	–	4	–	12	12
	Nagaland	75	78	2	–	3	–	29	28
	Tripura	184	188	3	–	4	–	19	19
3	**EASTERN REGION**	**12,118**	**12,361**	**136**	**–**	**256**	**–**	**20**	**20**
	Andaman and Nicobar Islands	34	37	1	–	3	–	12	11
	Bihar	3,592	3,621	15	–	37	–	25	26
	Jharkhand	1,511	1,544	17	–	31	–	19	19
	Orissa	2,330	2,406	44	–	77	–	17	16
	Sikkim	58	62	2	–	4	–	10	10
	West Bengal	4,593	4,691	57	–	104	–	19	19
4	**CENTRAL REGION**	**13,952**	**14,265**	**204**	**–**	**345**	**–**	**20**	**20**
	Chhatisgarh	1,049	1,080	11	–	33	–	22	22
	Madhya Pradesh	3,514	3,578	35	–	81	–	19	19
	Uttar Pradesh	8,474	8,672	131	–	208	–	22	22
	Uttarakhand	915	935	27	–	23	–	10	10
5	**WESTERN REGION**	**10,761**	**11,121**	**191**	**–**	**606**	**30**	**15**	**15**
	Dadar and Nagar Haveli	13	20	1	–	7	–	19	13
	Daman and Diu	17	18	1	–	1	–	11	10
	Goa	355	370	11	–	16	–	4	4
	Gujarat	3,784	3,927	69	–	152	–	15	14
	Maharashtra	6,592	6,786	109	–	430	30	16	16
6	**SOUTHERN REGION**	**19,321**	**19,922**	**391**	**2**	**666**	**6**	**12**	**12**
	Andhra Pradesh	5,541	5,692	99	–	160	–	15	14
	Karnataka	5,095	5,229	112	–	150	1	11	11
	Kerala	3,615	3,734	84	2	126	–	9	9
	Lakshadweep	10	10	0	–	–	–	7	7
	Puducherry	91	95	1	–	3	–	12	11
	Tamil Nadu	4,969	5,162	95	–	227	5	13	13

– : Nil/Negligible.

@ : Including the branches of non-scheduled commercial banks (Local Area Banks).

Note : 1. Average population per bank branch is based on estimated mid-year population of respective year received from the Office of Registrar General and Census Commissioner. Government of India.
2. Bank branches exclude administrative offices.
3. Data for June 2006 are revised.
4. Data for June 2007 are provisional.

Source: Master Office File on commercial banks (latest updated version).

Appendix Table III.38: Credit-Deposit Ratio and Investment plus Credit-Deposit Ratio of Scheduled Commercial Banks – Region/State-wise

(Per cent)

Sr. No.	Region/State/Union Territory	Credit-Deposit Ratio							Investment plus Credit-Deposit Ratio @			
		March 2004		March 2005		March 2006		March 2007	March 2005		March 2006	
		As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation
1	2	3	4	5	6	7	8	9	10	11	12	13
	ALL INDIA	**58.2**	**58.2**	**66.0**	**66.0**	**72.4**	**72.4**	**75.0**	**73.4**	**73.4**	**78.3**	**78.3**
1	**NORTHERN REGION**	**54.8**	**56.8**	**59.5**	**62.2**	**64.6**	**67.9**	**68.6**	**64.7**	**67.4**	**68.7**	**72.0**
	Haryana	47.6	59.6	51.4	63.2	57.4	69.6	57.6	60.4	72.1	63.8	75.9
	Himachal Pradesh	29.7	42.7	36.3	50.9	41.0	53.0	41.5	56.5	71.1	58.1	70.0
	Jammu & Kashmir	37.4	41.7	46.7	50.9	47.2	52.7	47.3	55.9	60.0	55.1	60.6
	Punjab	43.1	45.7	50.1	49.7	56.8	56.3	62.4	57.6	57.2	63.4	63.0
	Rajasthan	55.8	62.9	68.7	76.5	77.3	86.0	82.5	89.6	97.4	94.1	102.9
	Chandigarh	105.3	107.0	88.9	97.0	76.8	85.8	94.7	88.9	97.0	76.8	85.8
	Delhi	59.9	57.9	62.4	62.5	67.4	68.0	70.9	62.5	62.6	67.4	68.0
2	**NORTH-EASTERN REGION**	**29.8**	**33.7**	**35.0**	**44.6**	**40.7**	**52.3**	**40.8**	**53.1**	**62.7**	**55.2**	**66.7**
	Arunachal Pradesh	16.1	25.2	22.0	30.0	26.5	41.6	26.8	34.3	42.4	36.8	52.0
	Assam	31.8	35.7	35.3	41.9	42.6	49.1	43.3	50.2	56.9	54.6	61.1
	Manipur	31.6	31.8	42.4	42.6	50.1	51.8	53.5	76.6	76.8	78.4	80.1
	Meghalaya	34.6	42.6	43.6	85.7	48.1	113.9	35.8	59.4	101.5	62.6	128.4
	Mizoram	34.8	39.7	47.8	59.1	51.2	53.7	53.8	83.0	94.3	79.7	82.2
	Nagaland	15.0	15.2	22.9	23.2	22.3	23.2	28.9	71.8	72.1	52.6	53.5
	Tripura	25.2	24.7	28.6	29.0	32.8	33.9	34.0	46.6	46.9	46.2	47.2
3	**EASTERN REGION**	**41.8**	**45.2**	**45.5**	**50.4**	**49.2**	**55.6**	**52.5**	**57.5**	**62.4**	**59.1**	**65.5**
	Bihar	24.9	26.9	27.7	31.4	30.3	40.0	30.1	42.7	46.3	42.4	52.1
	Jharkhand	26.3	26.9	29.6	30.6	31.2	31.6	34.0	34.8	35.8	35.7	36.1
	Orissa	53.7	58.6	61.8	74.7	66.0	78.7	64.0	80.2	93.2	80.3	92.9
	Sikkim	22.4	23.0	29.5	29.3	45.3	44.8	52.4	44.3	44.1	59.2	58.6
	West Bengal	49.5	53.8	52.3	56.8	56.3	61.4	62.6	63.4	67.8	65.7	70.8
	Andaman & Nicobar Islands	26.1	42.2	26.8	43.8	29.0	49.2	28.1	26.8	43.8	29.0	49.2
4	**CENTRAL REGION**	**35.6**	**39.9**	**40.8**	**45.8**	**44.2**	**50.0**	**47.7**	**52.6**	**57.5**	**54.2**	**59.9**
	Chhattisgarh	40.0	44.9	43.6	49.9	45.5	52.5	53.0	50.2	56.6	50.7	57.7
	Madhya Pradesh	46.8	50.1	54.7	61.2	60.5	67.2	62.2	68.2	74.8	71.9	78.6
	Uttar Pradesh	33.1	38.0	37.9	42.2	41.0	46.3	45.1	49.9	54.2	51.3	56.7
	Uttarakhand	21.1	23.4	24.3	29.1	25.8	30.9	27.0	34.3	39.0	34.3	39.4
5	**WESTERN REGION**	**72.0**	**63.2**	**83.5**	**71.8**	**92.0**	**78.9**	**91.2**	**87.6**	**75.9**	**95.0**	**82.0**
	Goa	21.7	27.3	25.1	30.3	23.2	27.6	26.3	30.6	35.8	27.0	31.4
	Gujarat	42.2	54.8	46.5	60.9	55.6	75.3	64.5	55.2	69.6	63.0	82.7
	Maharashtra	81.8	66.5	94.9	75.9	102.2	81.3	98.0	97.8	78.8	104.4	83.5
	Dadra & Nagar Haveli	15.6	118.8	34.8	110.8	49.3	136.7	19.8	34.8	110.8	49.3	136.7
	Daman & Diu	11.6	49.8	11.5	48.3	11.4	45.7	13.8	11.5	48.3	11.4	45.7
6	**SOUTHERN REGION**	**68.5**	**72.7**	**78.1**	**83.9**	**84.4**	**90.8**	**87.3**	**86.3**	**92.1**	**91.1**	**97.5**
	Andhra Pradesh	65.9	70.9	74.8	83.3	81.3	86.2	87.6	85.8	94.4	90.5	95.3
	Karnataka	63.1	69.0	73.8	80.5	75.9	93.4	77.5	80.3	86.9	80.8	98.3
	Kerala	45.5	47.8	54.6	57.5	61.4	64.3	63.6	63.6	66.5	69.1	72.1
	Tamil Nadu	93.1	96.1	101.2	105.4	110.5	109.3	112.3	108.4	112.7	116.6	115.4
	Lakshadweep	8.0	10.0	9.7	23.7	11.5	41.6	10.1	9.7	23.7	11.5	41.6
	Puducherry	34.5	42.6	38.3	43.9	45.0	48.7	47.2	38.6	44.2	45.3	49.0

@ : Bank's State-wise investment represent their holdings of state-level securities, such as, state Government loans and shares, bonds, debentures, *etc.* of regional rural banks, co-operative institutions, state electricity boards, municipal corporations, municipalities and port trusts, state financial corporations, housing boards, state industrial development corporations, road transport corporations and other government and quasi-government bodies. All-India investment plus credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

Note : 1. Deposits and Credit (as per place of sanction and utilisation) data for 2004, 2005 and 2006 are based on BSR-1 and 2 Surveys as on March 31.

2. The investment data are based on BSR-5 Survey as on March 31, 2005 and 2006.

3. C-D ratio for 2007 are based on BSR 7 Survey as on March 31, 2007.

Appendix Table III.39: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2006-07)

Sr. No.	Name of the bank	Total No. of Complaints Received	Number of Complaints other than credit card Complaints/ 1000 accounts *	Number of credit card Complaints/ 1000 credit card accounts @	Category-wise break up complaints										
					Deposit Account	Remitt-ances	Credit Cards	Loans/Advances		Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents	Notes and Coins	Others
								General	Housing						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Scheduled Commercial Banks	**34,499**	**N.A.**	**N.A.**	**5,578**	**3,919**	**7,669**	**4,169**	**649**	**2,527**	**1,056**	**1,402**	**1,026**	**126**	**6,378**
	Public Sector Banks	**21,660**	**N.A.**	**N.A.**	**3,664**	**2,918**	**3,265**	**2,842**	**366**	**1,434**	**1,039**	**1,006**	**628**	**104**	**4,394**
	Nationalised Banks	**10,543**	**N.A.**	**N.A.**	**2,126**	**1,408**	**611**	**1,621**	**205**	**662**	**523**	**567**	**330**	**69**	**2,421**
1.	Allahabad Bank	410	0.03	N.A.	65	107	17	75	3	16	15	28	15	2	67
2.	Andhra Bank	411	0.04	0.49	60	44	79	44	1	26	20	24	6	20	87
3.	Bank of Baroda	837	0.04	0.57	128	122	79	103	34	89	20	58	11	4	189
4.	Bank of India	698	0.04	0.36	166	77	40	82	10	30	47	42	20	5	179
5.	Bank of Maharashtra	202	0.03	0.34	45	22	13	20	–	6	7	11	4	2	72
6.	Canara Bank	929	0.05	0.86	179	152	74	167	9	43	46	43	34	2	180
7.	Central Bank of India	908	0.06	0.96	163	131	38	144	15	35	84	32	23	10	233
8.	Corporation Bank	223	0.04	6.77	55	29	20	35	3	12	5	13	1	1	49
9.	Dena Bank	251	0.05	0.46	44	20	3	45	5	18	17	19	11	2	67
10.	Indian Bank	391	0.04	2.90	48	21	38	145	5	13	21	16	10	4	70
11.	Indian Overseas Bank	392	0.05	2.10	65	25	31	114	4	9	16	20	20	1	87
12.	Oriental Bank of Commerce	411	0.07	N.A.	117	46	19	47	6	27	4	20	4	–	121
13.	Punjab National Bank	1,837	0.07	N.A.	366	295	61	159	52	185	141	92	76	6	404
14.	Punjab and Sind Bank	191	0.05	N.A.	55	21	1	21	3	7	7	10	9	–	57
15.	Syndicate Bank	451	0.04	0.61	86	60	29	96	6	19	19	25	18	1	92
16.	UCO Bank	432	0.05	N.A.	95	53	7	87	1	19	16	21	9	1	123
17.	Union Bank of India	671	0.06	0.82	159	67	18	128	15	44	16	59	13	1	151
18.	United Bank of India	180	0.03	N.A.	65	28	5	33	2	4	5	6	4	1	27
19.	Vijaya Bank	179	0.04	0.23	26	33	15	28	1	10	4	10	19	3	30
20.	IDBI Bank	539	0.60	N.A.	139	55	24	48	30	50	13	18	23	3	136
	State Bank Group	**11,117**	**N.A.**	**N.A.**	**1,538**	**1,510**	**2,654**	**1,221**	**161**	**772**	**516**	**439**	**298**	**35**	**1,973**
21.	State Bank of India	8,579	0.11	0.73	1,143	1,170	2,476	840	127	431	384	329	232	31	1,416
22.	State Bank of Bikaner and Jaipur	986	0.20	N.A.	98	154	71	86	1	148	57	68	15	1	287
23.	State Bank of Hyderabad	262	0.05	N.A.	25	47	46	34	–	13	15	8	13	–	61
24.	State Bank of Indore	343	0.17	N.A.	63	42	11	29	4	90	9	9	1	1	84
25.	State Bank of Mysore	127	0.05	N.A.	19	15	10	22	1	2	8	9	32	–	9
26.	State Bank of Patiala	288	0.07	N.A.	81	25	21	17	13	40	7	7	3	–	74
27.	State Bank of Saurashtra	147	0.06	N.A.	22	17	12	25	4	31	8	4	–	1	23
28.	State Bank of Travancore	385	0.11	N.A.	87	40	7	168	11	17	28	5	2	1	19

Appendix Table III.39: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period from 2006-07)

Sr. No.	Name of the bank	Total No. of Complaints Received	Number of Complaints other than credit card Complaints/ 1000 accounts *	Number of credit card Complaints/ 1000 credit card accounts @	Category-wise break up complaints: Deposit Account	Remitt-ances	Credit Cards	Loans/Advances: General	Loans/Advances: Housing	Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents	Notes and Coins	Others
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Private Sector Banks	**9,036**	**N.A.**	**N.A.**	**1,591**	**813**	**2,217**	**1,046**	**233**	**915**	**14**	**314**	**357**	**20**	**1,516**
	Old Private Sector Banks	**825**	**N.A.**	**N.A.**	**182**	**94**	**54**	**159**	**13**	**47**	**6**	**41**	**40**	**2**	**187**
1.	Bank of Rajasthan Ltd.	175	0.11	0.59	15	35	9	15	4	24	–	14	5	1	53
2.	Bharat Overseas Bank Ltd.	13	0.05	N.A.	9	–	–	–	–	–	–	–	–	–	4
3.	Catholic Syrian Bank Ltd.	39	0.04	N.A.	15	4	1	15	1	–	–	–	1	–	2
4.	City Union Bank Ltd.	11	0.03	N.A.	5	1	1	1	–	–	–	–	1	–	2
5.	Dhanalakshmi Bank Ltd.	22	0.04	N.A.	2	2	1	12	–	–	–	–	1	–	4
6.	Federal Bank Ltd.	133	0.05	N.A.	29	15	1	43	6	3	2	6	3	–	25
7.	ING Vysya Bank Ltd.	162	0.15	N.A.	32	15	20	19	1	10	1	13	23	1	27
8.	Jammu and Kashmir Bank Ltd.	44	0.02	–	17	4	–	3	1	–	–	3	–	–	16
9.	Karnataka Bank Ltd.	28	0.02	N.A.	8	5	2	3	–	–	–	–	2	–	8
10.	Karur Vysya Bank Ltd.	42	0.03	N.A.	14	6	5	4	–	5	–	2	1	–	5
11.	Laxmi Vilas Bank Ltd.	18	0.02	N.A.	4	1	2	7	–	1	–	–	2	–	1
12.	Lord Krishna Bank Ltd.	22	0.11	N.A.	7	–	–	7	–	2	–	–	–	–	6
13.	Nainital Bank Ltd.	15	0.07	N.A.	1	1	–	1	–	–	3	1	1	–	7
14.	Ratnakar Bank Ltd.	3	0.01	N.A.	1	–	–	–	–	–	–	–	–	–	2
15.	Sangli Bank Ltd.	25	0.05	N.A.	8	1	–	–	–	–	–	1	–	–	15
16.	SBI Commercial and International Bank Ltd.	2	0.35	N.A.	–	–	–	–	–	–	–	–	–	–	2
17.	South Indian Bank Ltd.	47	0.04	N.A.	9	4	7	21	–	2	–	1	–	–	3
18.	Tamilnad Mercantile Bank Ltd.	24	0.02	0.91	6	–	5	8	–	–	–	–	–	–	5
	New Private Sector Banks	**8,211**	**N.A.**	**N.A.**	**1,409**	**719**	**2,163**	**887**	**220**	**868**	**8**	**273**	**317**	**18**	**1,329**
19.	Axis Bank	456	0.11	0.62	104	53	51	35	5	103	–	14	14	1	76
20.	Centurian Bank of Punjab Ltd.	435	0.41	N.A.	84	34	31	64	4	112	2	23	5	1	75
21.	Development Credit Bank Ltd.	47	0.15	N.A.	7	8	2	6	–	6	–	–	4	–	14
22.	HDFC Bank Ltd.	2,048	0.25	0.21	347	182	621	165	37	203	5	55	74	5	354
23.	ICICI Bank Ltd.	5,048	0.49	0.19	829	432	1,451	584	166	412	1	177	214	8	774
24.	Indus Ind Bank Ltd.	63	0.16	N.A.	18	2	2	11	1	7	–	2	4	2	14
25.	Kotak Mahindra Bank Ltd.	113	0.91	N.A.	19	8	5	22	7	25	–	2	2	1	22
26.	Yes Bank Ltd.	1	0.02	N.A.	1	–	–	–	–	–	–	–	–	–	–

Appendix Table III.39: Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the period from July 1, 2006 to June 30, 2007)

Sr. No.	Name of the bank	Total No. of Complaints Received	Number of Complaints other than credit card Complaints/ 1000 accounts *	Number of credit card Complaints/ 1000 credit card accounts @	Category-wise break up complaints: Deposit Account	Remitt-ances	Credit Cards	Loans/Advances: General	Loans/Advances: Housing	Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents	Notes and Coins	Others
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Foreign Banks	**3,803**	**N.A.**	**N.A.**	**323**	**188**	**2,187**	**281**	**50**	**178**	**3**	**82**	**41**	**2**	**468**
1.	ABN Amro Bank Ltd	842	0.72	0.56	64	41	520	43	12	35	1	17	7	–	102
2.	Abu Dhabi Commercial Bank Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
3.	American Express Bank Ltd.	83	1.20	0.15	3	5	56	4	–	1	–	–	1	–	13
4.	Antwerp Bank Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
6.	Bank of America NA	5	24.04	N.A.	1	1	–	–	–	1	–	–	–	–	2
7.	Bank of International Indonesia	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
8.	Bank of Bahrain & Kuwait B.S.C.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
9.	Bank of Ceylon	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
10.	Bank of Nova Scotia	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	1	0.14	N.A.	1	–	–	–	–	–	–	–	–	–	–
12.	Barclays Bank PLC	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
13.	BNP Paribas	3	0.79	N.A.	1	–	–	–	–	–	–	–	–	–	2
14.	Calyon Bank	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
15.	Chinatrust Commercial Bank	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
16.	Citibank N.A.	1,182	0.69	0.19	111	53	636	112	13	51	2	24	15	–	165
17.	Development Bank of Singapore Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
18.	Deutsche Bank AG	41	0.98	0.11	5	5	19	2	–	–	–	2	1	–	7
19.	HSBC Ltd.	676	0.44	0.20	61	35	427	28	8	28	–	11	7	1	70
20.	J P Morgan Chase Bank	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
21.	Krung Thai Bank Public Co. Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
22.	Mashreqbank PSC	1	3.61	N.A.	–	–	–	–	–	–	–	–	–	–	1
23.	Mauritious Bank	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
24.	Mizuhho Corporate Bank Ltd.	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
25.	Oman International Bank S.A.O.G.	1	0.12	N.A.	–	–	–	–	–	–	–	–	–	–	1
26.	Shinhan Bank	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
27.	Societe Generale	–	–	N.A.	–	–	–	–	–	–	–	–	–	–	–
28.	Sonali Bank	1	0.62	N.A.	–	1	–	–	–	–	–	–	–	–	–
29.	Standard Chartered Bank Ltd.	967	0.63	0.38	76	47	529	92	17	62	–	28	10	1	105

* The number of accounts as on March 31, 2006.

@ The number of credit card accounts as on March 31, 2007.

– : Nil/Negligible.

N.A.: Not Available.

Appendix Table IV.1: Progress of Co-operative Credit Movement in India

(Amount in Rs. crore, ratio in per cent)

Sr. No.	Type of Institution	Item	2003-04	2004-05	2005-06 P	2006-07P
1	2	3	4	5	6	7
1.	Urban Co-operative Banks (UCBs)	Number	1,926	1,872	1,853	1,813
		Owned Funds	12,348	13,604	13,973	14,751
		Deposits	1,10,256	1,05,021	1,14,060	1,20,983
		Borrowings	1,484	1,782	1,781	2,602
		Working Capital	N.A.	N.A.		
		Loans Outstanding	67,930	66,874	71,641	78,660
		C-D Ratio	62	64	63	65
2.	State Co-operative Banks (StCBs)	Number	31	31	31	N.A.
		Owned Funds	8,288	9,500	10,545	N.A.
		Deposits	44,335	44,326	45,405	N.A.
		Borrowings	12,457	14,602	16,989	N.A.
		Working Capital	57,936	65,399	69,140	N.A.
		Loans Issued	33,961	46,234	48,260	N.A.
		Loans Outstanding	35,105	37,353	39,684	N.A.
		Recovery Performance (as per cent to demand)	83	86	87	N.A.
		C-D Ratio	79	84	88	N.A.
3.	District Central Co-operative Banks (DCCBs)	Number	365	367	366	N.A.
		Owned Funds	17,052	20,499	23,450	N.A.
		Deposits	79,153	82,129	87,532	N.A.
		Borrowings	20,256	22,575	24,217	N.A.
		Working Capital	1,14,702	1,07,241	1,13,472	N.A.
		Loans Issued	58,708	67,899	73,583	N.A.
		Loans Outstanding	67,152	73,125	79,202	N.A.
		Recovery Performance (as per cent to demand)	63	72	69	N.A.
		C-D Ratio	85	89	91	N.A.
4.	State Co-operative Agriculture and Rural Development Banks (SCARDBs)	Number	20	20	20	N.A.
		Owned Funds	4,403	3,376	3,352	N.A.
		Deposits #	524	636	636	N.A.
		Borrowings	16,933	17,182	17,075	N.A.
		Working Capital	22,038	23,229	23,655	N.A.
		Loans Issued	2,837	3,291	2,907	N.A.
		Loans Outstanding	16,263	17,403	17,713	N.A.
		Recovery Performance (as per cent to demand)	44	44	47	N.A.
5.	Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)	Number	768	727	696	N.A.
		Owned Funds	3,856	3,116	3,380	N.A.
		Deposits #	395	364	382	N.A.
		Borrowings	11,879	12,750	13,066	N.A.
		Working Capital	15,812	16,689	16,856	N.A.
		Loans Issued	2,164	2,506	2,254	N.A.
		Loans Outstanding	11,311	12,622	12,740	N.A.
		Recovery Performance (as per cent to demand)	44	54	48	N.A.

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

: Deposit of SCARDBs and PCARDBs include advance repayment received by the PCARDBs.

Source : The Reserve Bank for UCBs and NABARD for rural co-operatative banks.

Appendix Table IV.2: Urban Co-operative Banks Working Under Direction of the Reserve Bank *(Continued)*
(As on March 31, 2007)

Sr. No.	Name of the Bank – Centre-wise	Date of Imposition	Whether Bar Placed on Repayment of Deposits (Yes/No)	Whether Bar Placed on Collection of Deposits (Yes/No)
1	2	3	4	5
I.	**AHMEDABAD**			
1.	Bhavnagar Mercantile Co-operative Bank Ltd.*	21.08.2004	Yes	Yes
2.	Kuber Co-operative Bank Ltd.*	13.04.2004	No Cap	Yes
		25.09.2004	Yes ~	-
3.	Shree Janta Sahakari Bank Ltd., Radhanpur	08.04.2003	No Cap	Yes
		25.01.2005	Yes ~	-
4.	Talod Janta Sahakari Bank Ltd., Talod	05.02.2003	Yes	Yes
5.	United Mercantile Co-operative Bank Ltd., Nadiad***	10.10.2002	Yes =	Yes
		12.12.2004	Yes •	-
6.	Ankleshwar Nagrik Sahakari Bank Ltd.*	03.12.2005	Yes	Yes
7.	Borsad Nagrik Sahakari Bank Ltd.*	18.05.2006	Yes	Yes
8.	Bharuch Nagrik Sahakari Bank Ltd.	12.07.2006	Yes	Yes
9.	Shree Vardhaman Co-operative Bank Ltd.	21.11.2006	Yes	Yes
10.	Dakor Nagrik Sahakari Bank Ltd., Dakor	11.01.2007	Yes	Yes
II.	**BANGALORE**			
1.	Bedkihal Urban Co-operative Bank Ltd., Bedkihal	30.04.2002	Yes	Yes
2.	Hiriyur Urban Co-operative Bank Ltd., Hiriyur	28.06.2003	Yes	Yes
3.	Mahalingpur Urban Co-operative Bank Ltd., Mahalingpur	31.10.2003	Yes	Yes
4.	S.S.K. Co-operative Bank Ltd., Hubli	24.12.2003	Yes	Yes
5.	Maratha Co-operative Bank Ltd., Hubli	03.02.2004	Yes	Yes
6.	The Urban Co-operative Bank Ltd, Siddapur (North Kanara)	12.01.2005	Yes	Yes
7.	Vardhman Co-operative Bank Ltd, Hubli	12.02.2005	Yes	Yes
8.	Hirekerur Urban Co-operative Bank Ltd., Hirekerur	26.02.2005	Yes	Yes
9.	Rabkavi Urban Co-operative Bank Ltd., Rabkavi	05.03.2005	Yes	Yes
10.	Raichur Urban Co-operative Bank Ltd., Raichur	14.07.2005	Yes	Yes
11.	Laxmeshwar Urban Co-operative Bank Ltd., Laxmeshwar	16.11.2005	Yes	Yes
12.	Kittur Rani Chennamma Urban Co-operative Bank Ltd., Hubli	22.07.2006	Yes	Yes
13.	Katkol Urban Co-operative Bank Ltd., Katkol	09.08.2006	Yes	Yes
14.	Mahalakshmi Urban Co-operative Bank Ltd., Dharwad	13.10.2006	Yes	Yes
III.	**BHOPAL**			
1.	Citizen Co-operative Bank Ltd., Burhanpur		Yes	Yes
2.	Hindu NSB, Indore		Yes	Yes
3.	NSB Chhindwara		Yes	Yes
4.	Suvidha Mahila NSB, Hoshangabad		Yes	Yes
IV.	**BHUBANESWAR**			
1.	UCB Ltd., Bhubaneswar	22.01.2004	Yes	Yes
2.	Chatrapur Co-operative Bank	06.07.2004	No	Yes (Term Deposit)
V.	**CHANDIGARH**			
1.	Mandi Urban Co-operative Bank Ltd.	27.10.2004	Yes	Yes
VI.	**CHENNAI**	**Nil**		
VII.	**DEHRADUN**	**Nil**		
VIII.	**GUWAHATI**			
1.	Mizoram Urban Co-operative Development Bank Ltd.	18.11.2004	Yes	Yes
IX.	**HYDERABAD**			
1.	Vasavi Urban Co-operative Bank Ltd.	07.03.2003	Yes	Yes
2.	Bobbili Urban Co-operative Bank Ltd.	27.01.2004	Yes	Yes
3.	Sri Kalahasti Co-operative Town Bank Ltd.	29.01.2004	Yes	Yes
4.	Palakol Urban Co-operative Bank Ltd.	12.02.2004	Yes	Yes
5.	Chittoor Co-operative Town Bank Ltd.	23.09.2004	Yes	Yes
6.	Bhimavaram Urban Co-operative Bank Ltd.	12.03.2005	Yes	Yes
7.	Balaji Urban Co-operative Bank Ltd.	01.06.2006	Yes	Yes
8.	Veerashaiva Urban Co-operative Bank Ltd. £	13.07.2006	No	Yes
X.	**JAIPUR**			
1.	Rajasthan Urban Co-operative Bank Ltd.	30.08.2005	Yes	Yes
XI.	**JAMMU**	**Nil**		
XII.	**KOLKATA**			
1.	The Bantra Co-operative Bank Ltd.	12.11.2001	No #	Yes (except Savings and Current)
2.	The Rahuta Union Co-operative Bank Ltd.	04.05.2002	No	Yes (except Savings and Current)
		modified on 04.10.2006	Yes	Yes

Appendix Table IV.2: Urban Co-operative Banks Working Under Direction of the Reserve Bank *(Concluded)*

(As on March 31, 2007)

Sr. No.	Name of the Bank – Centre-wise	Date of Imposition	Whether Bar Placed on Repayment of Deposits (Yes/No)	Whether Bar Placed on Collection of Deposits (Yes/No)
1	2	3	4	5
3.	Bally Co-operative Bank Ltd.	14.11.2006	Yes ~	Yes
4.	Kasundia Co-operative Bank Ltd.	17.01.2007	No #	Yes
XIII.	**LUCKNOW**			
1.	Mansrovar Urban Co-operative Bank Ltd., Lucknow	24.12.1997	No	Yes
2.	Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad	16.06.2004	Yes	Yes
3.	Mercantile Urban Co-operative Bank Ltd., Meerut	14.02.2005	Yes	Yes
XIV.	**MUMBAI**			
1.	Bombay Mercantile Co-operative Bank Ltd., Mumbai	26.09.2002	No	No
		12.11.2002	-	-
2.	Mapusa Urban Co-operative Bank Ltd., Goa	16.08.2002	Yes	Yes
3.	The South Indian Co-operative Bank Ltd., Mumbai	09.08.2004	Yes	Yes
4.	Care Co-operative Bank Ltd., Mumbai	14.03.2005	Yes	Yes
5.	Krishna valley Co-operative Bank Ltd., Sangali	20.12.2003	Yes	Yes
6.	Devayani Sahakari Bank Ltd., Kopergaon	21.04.2006	Yes	Yes
7.	Shri Balasaheb Satbhai Merchant Co-operative Bank Ltd. Kopergaon Ahmadnagar	06.10.2004	Yes	Yes
8.	Nashik Peoples Co-operative Bank Ltd., Nashik	04.06.2004	Yes	Yes
		23.06.2004	Yes	Yes
9.	Yashwant Sahakari Bank Ltd Phaltan, Satara.	01.04.2001	No	No
10.	Laxmi Vishnu Sahakari Bank Ltd., Ichalkaranji	27.03.2006	Yes	Yes
11.	Shahupuri Sahakari Bank Ltd., Satara	03.11.2005	Yes	Yes
12.	Annasaheb Karale Janata Sahakari Bank Ltd., Sangali	06.10.2006	Yes	Yes
13.	Miraj Urban Sahakari Bank Ltd.	28.10.2006	Yes	Yes
14.	Parivartan Co-operative Bank Ltd., Mumbai	27.10.2006	Yes	Yes
15.	Shri Suverna Sahakari Bank Ltd., Pune	14.09.2006	Yes	Yes
XV.	**NAGPUR**			
1.	The Nagpur Mahila Nagari Sahakari bank Ltd, Nagpur	20.09.2004	Yes ~	Yes
2.	Sinhagad Urban Cooperative Bank Ltd., Pathri (^ ^)	01.11.2004	Yes + +	Yes
3.	Sant Janabai Nagri Sahakari Bank Ltd., Gangakhed	09.03.2005	Yes ~	Yes
4.	Sanjivani Urban Cooperative Bank Ltd., Parbhani	30.12.2005	Yes ~	Yes
5.	Suvarna Nagari Sahakari Ltd., Parbhani	26.04.2006	Yes ~	Yes
6.	Priyadarshini Mahila Sahakari Bank Ltd., Latur	05.05.2006	Yes + +	Yes
7.	Jijamata Mahila Nagari Sahakari Bank Ltd., Sailu	11.05.2006	Yes + +	Yes
8.	Chetak Urban Cooperative Bank Ltd., Parbhani ($$)	27.07.2006	Yes ~	Yes
9.	The Samata Sahakari Bank Ltd, Nagpur	04.08.2006	Yes ~	Yes
XVI.	**NEW DELHI**	**NIL**		
XVII.	**PATNA**	**NIL**		
XVIII.	**RAIPUR**			
1.	Bhilai Nagrik Sahkari Bank, Bhilai	05.09.2006	Yes	Yes
XIX.	**THIRUVANANTHAPURAM**	**NIL**		

* : Under Administrator

** : Directions have been withdrawn and Operational Instructions under Section 36(1) has been issued with effect from the close of business on 19.09.2006

*** : Direction revised by Central Office

$$: The UCB has been delicensed in May 2007.

^ ^ : The UCB has been merged with the Vaidyanath UCB, Parli Vaijnath in July 2007

£ : Veerashaiva Urban co-operative Bank Ltd., has been merged with Agrasen Urban Co-operative Bank Ltd., effective from July 18, 2007.

: Restriction on premature withdrawal of deposits has been imposed.

\+ : Above Rs. 100.

++ : Above Rs. 500.

~ : Above Rs. 1,000.

= : Above Rs. 10,000.

• : Above Rs. 20,000.

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
I.	**AHMEDABAD**			
1.	Apexa Co-operative Bank Ltd. Ahmedabad			
2.	Bharuch Taluka Teachers & District School Board, Bank Ltd. Jhadeshwar	#		
3.	Bhiloda Nagarik Sahakari Bank Ltd. Bhiloda	#		
4.	Harisiddha Co-operative Bank Ltd. Ahmedabad		License application rejected vide C.O. letter dated 11.05.1999	29.04.2000
5.	Palana Co-operative Bank Ltd. Palana	21.02.2003		28.02.2003
6.	Palitana Nagarik Sahakari Bank Ltd. Palitana.		Liquidation process completed in 1983.	
7.	Rajkot Mercantile Co-operative Bank Ltd.	Revival proposal forwarded to C.O. License Cancelled on 01.11.2004.		19.09.2005
8.	Relief Mercantile Co-operative Bank Ltd. Ahmedabad		License application rejected vide C.O. letter dated 06.05.1999	22.05.2000
9.	Sami Taluka Nagarik Sahakari Bank Ltd. Sami	21.07.1999		20.08.1999
10.	Santram Co-operative Bank Ltd., Nadiad		02.06.2003	02.06.2003
11.	Sardar Nagrik Sahakari Bank Ltd.			07.05.2001
12.	Shree Bhagyalaxmi Co-operative Bank Ltd. Ahmedabad.	09.11.2000		05.02.2001
13.	Shree Laxmi Co-operative Bank Ltd. Ahmedabad		Unlicensed Bank under liquidation (18.10.2001)	18.10.2001
14.	Shree Veraval Vibhagiya Nagarik Sahakari Bank Ltd. Veraval	01.08.2000		
15.	Shri Dhrangadhra Nagarik Sahakari Bank Ltd. Dhrangadhra		Registration Cancelled	
16.	Shri Jamnagar Nagarik Sahakari Bank Ltd., Jamnagar		License application rejected (27.12.2002)	21.07.2004
17.	Shri Sarvodaya Co-operative Bank Ltd., Ahmedabad.		License rejected vide C.O. letter dated 10.04.1999	15.04.1999
18.	Shri Wadhwan Vibhagiya Nagarik Sahakari Bank Ltd., Wadhwan		Registration Cancelled	
19.	Suprabhat Co-operative Bank Ltd. Ahmedabad.		License applications refused vide C.O. letter dated 27.02.1999.	27.02.1999
20.	The Ahmedabad Mahila Nagarik Sahakari Bank Ltd.. Ahmedabad	05.03.2002		05.03.2002
21.	The Ahmedabad Urban Co-operative Bank Ltd. Ahmedabad	27.12.2001		
22.	The Bhavnagar Welfare Co-operative Bank Ltd., Bhavnagar		02.06.2003	02.06.2003
23.	The Charotar Nagarik Sahakari Bank Ltd., Anand.		28.07.2003	28.07.2003
24.	The Ellisbridge Co-operative Bank Ltd., Ahmedabad.		29.04.2000	26.04.1999
25.	The General Co-operative Bank Ltd., Ahmedabad.		02.06.2003	02.06.2003
26.	The Janta Commercial Co-operative Bank Ltd., Dholka.		02.06.2003	02.06.2003
27.	The Majoor Sahakari Bank Ltd. Ahmedabad.		License application rejected. (06.02.2002)	11.02.2002

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
28.	The Nayaka Mercantile Co-operative Bank Ltd.		14.08.2003	14.08.2003
29.	The Sahyog Co-operative Bank Ltd. Ahmedabad	20.10.2000		05.03.2001
30.	The Vikas Co-operative Bank Ltd. Ahmedabad	26.04.2001		11.05.2001
31.	The Visnagar Nagarik Sahakari Bank Ltd., Visnagar		11.7.2003	11.07.2003
32.	United Mercantile Co-operative Bank Ltd. Ahmedabad		Revival proposal under correspondence. Court case- GHC SCA No.2162 / 2001 for issue of licence	
33.	Veraval Ratnakar Co-operative Bank Ltd. Veraval.	29.01.2000		10.04.2000
34.	Petlad Nagrik Sahakari Bank Ltd., Petlad.	13.03.2004		28.10.2004
35.	Baroda Peoples Co-operative Bank Ltd., Baroda.	22.05.2004		27.05.2004
36.	Ujjavar Co-operative Bank Ltd., Ahmedabad.	04.06.2004		04.06.2004
37.	Classic Co-operative Bank Ltd., Ahmedabad.	21.06.2004		21.06.2004
38.	Co-operative Bank of Umreth Ltd., Umreth.	21.06.2004		21.06.2004
39.	Diamond Jubilee Co-operative Bank Ltd., Surat.	23.06.2004		23.06.2004
40.	Matar Nagrik Sahakari Bank Ltd., Matar, Dist : Kheda.	21.06.2004		21.06.2004
41.	Patni Co-operative Bank Ltd., Baroda	27.07.2004		02.08.2004
42.	Suryapur Co-operative Bank Ltd., Surat.	17.08.2004		19.08.2004
43.	Petlad Commercial Co-operative Bank Ltd. Petlad.	24.08.2004		26.08.2004
44.	Shri Vikas Co-operative Bank Ltd. Surat.	01.09.2004		01.09.2004
45.	Sabarmati Co-operative Bank Ltd. Ahmedabad.	01.09.2004		03.09.2004
46.	Nadiad Mercantile Co-operative Bank Ltd. Nadiad.	15.09.2004		16.09.2004
47.	Shree Vitthal Co-operative Bank Ltd. Dehgam.	21.09.2004		22.09.2004
48.	Pragati Co-operative Bank Ltd. Ahmedabad.	21.09.2004		21.09.2004
49.	Sunav Nagrik Sahkari Bank Ltd. Sunav.	29.09.2004		29.09.2004
50.	Textile Processors Co-operative Bank Ltd., Ahmedabad.		08.11.2004	16.11.2004
51.	Navsari People's Co-operative Bank Ltd., Navasari.	08.11.2004		04.08.2005
52.	Sheth B.B.Shroff Bulsar Peoples Co-operative Bank Ltd., Valsad	11.11.2004		17.08.2005
53.	Shreenathji Co-operative Bank Ltd., Nadiad.	06.12.2004		06.12.2004
54.	Royale Co-operative Bank Ltd., Surat	02.06.2005		08.06.2005
55.	Shree Swaminarayan Co-operative Bank Ltd., Vadoadara	02.06.2005		08.06.2005
56.	Century Co-operative Bank Ltd., Surat	07.06.2005		10.06.2005
57.	Shri Vitrag Co-operative Bank Ltd.	06.09.2005		07.09.2005
58.	Metro Co-operative Bank Ltd.	16.09.2005		19.09.2005
59.	Anand Peoples Co-operative Bank Ltd.	26.10.2005		27.10.2005
60.	Natpur Co-operative Bank Ltd.	22.11.2005		23.11.2005
61.	Janata Co-operative Bank Ltd., Nadiad	09.12.2005		12.12.2005
62.	Dhansura Peoples Co-operative Bank Ltd., Dhansura	15.02.2006		16.02.2006
63.	Dabhoi Nagarik Sahakari Bank Ltd.	08.03.2006		08.03.2006
64.	Baroda Mercantile Co-operative Bank Ltd.	16.05.2006		

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*
(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
65.	Sindh Mercantile Co-operative Bank Ltd.	29.11.2006		
66.	Karamsad Urban Co-operative Bank Ltd.	09.12.2006		
67.	Rajkot Mahila Nagarik Sahakari Bank Ltd.	31.01.2007		
68.	Sarvoday Nagarik Sahakari Bank Ltd.	06.02.2007		
69.	Adarsh Mahila Co-operative Bank Ltd.	15.02.2007		
70.	Umreth Peoples Co-operative Bank Ltd., Umreth		License application rejected by Central Office order dated 28.02.2007 and served on the bank on 06.03.2007	
71.	Anand Urban Co-operative Bank Ltd.	License Cancelled on 27.03.2007 vide speaking order dated 20.03.2007		
II.	**BANGALORE**			
1.	Robertsonpet Co-operative.Society Ltd.; Robertsonpet	Unlicensed	10.01.1972	10.01.1972
2.	Hubli Muslim Co-operative Bank Ltd., Hubli	14.05.1976	N.A.	11.10.1976
3.	Ron Urban Co-operative Bank Ltd., Ron	Unlicensed	27.11.1976	27.11.1976
4.	Ramdurga Urban Co-operative Bank Ltd. Ramdurga	22.04.1981	N.A.	22.04.1981
5.	Adarsha Co-operative Bank Ltd., Mysore	Unlicensed	28.01.1985	28.01.1985
6.	Gadag Urban Co-operative Bank Ltd., Gadag	27.05.1985	N.A.	27.05.1985
7.	Shri Fakereshwara Urban Co-operative Bank Ltd., Shirhatti	Unlicensed	18.04.1988	18.04.1988
8.	Manihal Urban Co-operative Bank Ltd., Manlhal	19.11.1987	N.A.	24.07.1987
9.	Mundargi Urban Co-operative Bank Ltd. Mundagi	18.04.1988	N.A.	18.04.1988
10.	Manoli Shri Panchalingeshwara Urban Co-operative Bank Ltd.,	28.05.1991	N.A.	28.05.1981
11.	Bellatti Urban Co-operative Bank Ltd., Bellatti	Unlicensed	28.05.1991	05.10.1993
12.	Bijapur Industrial Co-operative Bank Ltd., Bagalkot	Unlicensed	08.02.1994	30.08.1994
13.	Dharwad Industrial Co-operative Bank Ltd., Hubli	Unlicensed	31.08.1994	31.08.1994
14.	Sri Chamaraja Co-operative Bank Ltd., Chamaraja	25.03.1994	N.A.	16.05.1995
15.	Karnataka Kurubara Co-operative Bank Ltd. Gadag	Unlicensed	17.06.1995	17.06.1995
16.	Bannikop Urban Co-operative Bank Ltd., Bannikop	Unlicensed	19.06.1995	19.06.1995
17.	Srirampura Co-operative Bank Ltd., Bangalore	Unlicensed	26.03.1996	26.03.1996
18.	Hubli Dharwad Urban Co-operative Bank Ltd., Hubli	24.11.1999	N.A.	04.12.1999
19.	Navodaya Sahakara Bank Ltd; Bangalore	16.03.2000	N.A.	18.03.2000
20.	Jyothirlinga Sahakari Bank Niyamitha Jalageri	12.09.2000	N.A.	28.09.2000
21.	Gulbarga Urban Co-operative Bank Ltd.,	Unlicensed	01.11.2002	01.11.2002
22.	Sri Mouneshwar Co-operative Bank Ltd.,	23.04.2003	N.A.	23.04.2003
23.	Raibag Urban Co-operative Bank Ltd.;	Unlicensed	24.09.2003	14.07.2004
24.	Cauvery Urban Co-operative Bank Ltd.	11.02.2004	N.A.	11.02.2004
25.	Karnataka Contractors Co-operative Bank Ltd. Bangalore	12.02.2004	N.A.	02.06.2004
26.	Onake Obavva Mahila Co-operative Bank Ltd., Chitradurga	13.05.2006	N.A.	17.05.2006

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
27.	Bangalore Mercantile Co-operative Bank Ltd., Bangalore	23.06.2006	N.A.	30.06.2006
28.	Sri Sampige Siddeshwara Urban Co-operative Bank Ltd., Chitradurga	26.07.2006	N.A.	31.07.2006
29.	Challakere Urban Co-operative Bank Ltd., Challakere	01.08.2006	N.A.	07.08.2006
30.	Harugeri Urban Co-operative Bank Ltd., Harugeri	22.01.2007	N.A.	06.02.2007
31.	Sri Kalmeshwar Urban Co-operative Bank Ltd., Gadag	28.02.2007	N.A.	27.03.2007
32.	Sri Basavakalyan Urban Co-operative Bank Ltd., Bidar	05.03.2007	N.A.	22.03.2007
III.	**BHOPAL**			
1.	Citizen Co-operatie Bank Ltd. Damoh	16.09.2003	08.12.2003	05.12.2003
2.	Citizen Urban Co-operative Bank Ltd. Indore.	23.04.1993	26.04.1993	26.04.1993
3.	Datia Nagarik Sahakari Bank Mydt Datia	15.05.2002	26.06.2002	26.06.2002
4.	Jabalpur Nagarik Sahakari Bank Ltd. Jabalpur	09.12.1999	05.06.2000	05.06.2000
5.	Janata Sahakari Bank Mydt. Dewas	14.03.2004	30.04.2002	30.04.2002
6.	Maharashtra Brahman Sahakari Bank Ltd. Indore	21.09.2004	14.07.2005	06.10.2004
7.	Mahila Nagarik Sahakari Bank Mydt. Khargone	24.04.2006	25.05.2006	25.05.2006
8.	Mandsaur Commercial Co-operative Bank Maryadit Mandsaur	12.12.2002	21.03.2003	21.03.2003
9.	Mitra Mandal Sahakari Bank Ltd. Indore	18.06.2004	11.10.2004	03.07.2004
10.	Nagarik Sahakari Bank Ltd. Jhabua	–	28.11.1973	10.06.1971
11.	Sagar Nagarik Sahakari Bank Ltd. Sagar	07.07.99	21.12.1999	21.12.1999
12.	Nagarik Sahakari Bank Mydt. Ratlam	25.11.05	24.01.2006	24.01.2006
13.	Sanskardhani Mahila Nagarik Sahakari Bank Mydt. Jabalpur	27.08.04	01.12.2004	17.09.2004
14.	Sarvodaya Mahila Cooperative Bank Ltd. Burhanpur	09.11.05	20.12.2006	20.12.2006
15.	Shree Co-operative Bank Ltd. Indore	10.02.04	28.02.2004	28.02.2004
IV.	**BHUBANESWAR**			
1.	The Rourkela Urban Co-operative Bank Ltd.	Not issued	–	Sep. 1969
2.	The Bhanjanagar Urban Co-operative Bank Ltd.	16.07.1999	–	20.05.2003
3.	The Aska Co-operative Urban Bank Ltd.	13.03.2000	–	06.03.2002
4.	The Rayagada Urban Co-operative Bank Ltd.	Not issued	–	07.03.1983
5.	The Bhubaneswar Urban Co-operative Bank Ltd.	05.11.1969	–	05.11.1969
6.	The Cuttack Urban Co-operative Bank Ltd.	Not issued	–	23.10.1989
V.	**CHANDIGARH**			
1.	Yamuna Nagar UCB Ltd.	Unlicensed Bank	13.08.2002	14.08.2002
VI.	**CHENNAI**			
1.	Theni Urban Co-operative Bank Ltd.	Unlicenced	23.05.2002	24.12.2002
2.	Thiruvanaikoil Co-operative Urban Bank Ltd.	Unlicenced	20.05.2002	24.12.2002
3.	Madurai Urban Co-operative Bank Ltd.	22.08.2003	License Cancelled	07.01.2005
4.	Kotagiri Co-operative Urban Bank Ltd.	Unlicenced	09.11.2005	18.11.2005
VII.	**Dehradun**			
1.	Urban Co-operative Bank Ltd., Tehri	30.03.2002	N.A	19.04.2002

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
VIII.	**GUWAHATI**			
1.	Manipur Industrial Co-operative Bankl Ltd., Imphal	25.09.1999	Nil	Nil
2.	Guwahati Co-operative Town Bank Ltd., Guwahati	08.12.1999	Nil	07.06.2000
3.	Urban Industrial Co-operative Bank Ltd., Dibrugarh	07.02.2000	Nil	21.03.2006
4.	Silchar Co-operative Urban Bank Ltd., Silchar	Nil	16.02.2000	Nil
5.	Lamka Urban Co-operative Bank Ltd., CC Pur	25.02.2003	Nil	18.05.2005
6.	Nagaon Urban Co-operative Bank Ltd., Nagaon	24.06.2004	Nil	17.02.2006
7.	Urban Co-operative Bank Ltd., Dimapur	07.11.2006	Nil	28.03.2007
IX.	**HYDERABAD**			
1.	Bhagyanagar Urban Co-operative Bank Ltd.	18.07.2000	18.07.2000	
2.	Krushi Urban Co-operative Bank Ltd.	16.10.2001	16.11.2001	
3.	First City Urban Co-operative Bank Ltd.	05.04.2002	18.04.2002	
4.	Sravya Urban Co-operative Bank Ltd.	30.05.2002	30.05.2002	
5.	Aryan Urban Co-operative Bank Ltd.	15.01.2002	05.09.2002	
6.	Mega City Urban Co-operative Bank Ltd.	02.08.2002	13.09.2002	
7.	Sitara Urban Co-operative Bank Ltd.	06.09.2001	24.10.2002	
8.	Mother Theresa Urban Co-operative Bank Ltd.	14.10.2002	19.12.2002	
9.	Manikanta Urban Co-operative Bank Ltd.	07.07.2003	30.04.2003	
10.	Vijaya Mahila Urban Co-operative Bank Ltd.	20.01.2004	28.01.2004	
11.	Kalyan Urban Co-operative Bank Ltd.	13.01.2001	16.02.2004	
12.	Sai Urban Co-operative Bank Ltd.	01.06.2004	14.06.2004	
13.	Sri Satya Sai Urban Co-operative Bank Ltd.	19.06.2004	07.01.2005	
14.	Prudential Urban Co-operative Bank Ltd.	03.11.2004	07.12.2004	
15.	Narsa Raopeta Urban Co-operative Bank Ltd.	24.05.2003	16.09.2003	
16.	Kolluru Parvathi Urban Co-operative Bank Ltd.	–	16.04.1980	
17.	Guduru Urban Co-operative Bank Ltd.	–	28.12.1998	
18.	Sri Lakshmi Mahila Urban Co-operative Bank Ltd.	01.07.2000	09.10.2000	
19.	Praja Urban Co-operative Bank Ltd.	01.07.2002	28.08.2002	
20.	Jawahar Urban Co-operative Bank Ltd.	08.05.2002	23.10.2002	
21.	Star Urban Co-operative Bank Ltd.	27.12.2002	19.04.2003	
22.	Vasundhara Mahila Urban Co-operative Bank Ltd.	09.02.2003	24.10.2003	
23.	Trinity Urban Co-operative Bank Ltd.	05.12.2003	18.12.2003	
24.	Mahalakshmi Urban Co-operative Bank Ltd.	12.01.2004	19.01.2004	
25.	Neelagiri Urban Co-operative Bank Ltd.	26.09.2003	06.10.2003	
26.	Nizamabad Urban Co-operative Bank Ltd.	16.09.1999	25.07.2002	
27.	Nizamabad Mahila Urban Co-operative Bank Ltd.	–	24.01.2005	
28.	Armoor Urban Co-operative Bank Ltd.	26.08.2002	01.10.2002	
29.	Greater Telangana Urban Co-operative Bank Ltd.	No objection was issued on 09.11.2004	03.12.2004	

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation on March 31, 2007 *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
30.	Bellmpally Urban Co-operative Bank Ltd.	04.08.2004	10.08.2004	
31.	Vasundhara Mahila Urban Co-operative Bank Ltd.	No objection was issued	07.05.2005	
32.	Rajampeta Urban Co-operative Bank Ltd.	Application was rejected on 03.07.2002	30.07.2002	
33.	Kurnool Urban Co-operative Bank Ltd.	08.03.2001	27.02.2002	
34.	Sri Swamy Gyananda Yogeswara Mahila Urban Co-operative Bank Ltd.	23.02.2004	06.03.2004	
35.	Hindupur Urban Co-operative Bank Ltd. ***	09.06.1981 ***	31.05.1989 ***	
36.	Chodavaram Urban Co-operative Bank Ltd.	Request for restoration of license was rejected on 22.06.2001	24.09.2001	
37.	Pithapuram Urban Co-operative Bank Ltd.	11.11.2002	01.07.2003	
38.	Dhana Urban Co-operative Bank Ltd.	08.04.2003	16.04.2003	
39.	Yellamanchili Urban Co-operative Bank Ltd.	Finally closed	08.04.2002	
40.	Chirala Urban Co-operative Bank Ltd.	Finally closed		
41.	Chipurypalli Urban Co-operative Bank Ltd.	Finally closed	11.12.1991	
42.	Ankapalli Urban Co-operative Bank Ltd.	Finally closed	15.12.1997	
43.	Gurajala Vasavi Urban Co-operative Bank Ltd.	Finally closed	29.07.1987	
44.	Sri Krishna Urban Co-operative Bank Ltd.	Closed		
45.	Kanyaka Parameshwari Mutually aided Co-operative Bank Ltd.		16.08.2006	
46.	Bharat Mercantile Co-operative Bank Ltd.		17.10.2006	
47.	Hyderabad Urban Co-operative Bank Ltd.*	*	Mar. 2006	
X.	**JAIPUR**			
1.	Union Corporation Urban Co-operative Bank Ltd., Jaipur	08.10.1976	Nil	08.10.1976
2.	Banswara Urban Co-operative Bank Ltd., Banswara	08.10.1976	Nil	08.10.1976
3.	Sriganganagar Urban Co-operative Bank Ltd., Sriganganagar	28.08.2004	Nil	08.09.2004
4.	Lok Vikas Urban Co-operative Bank Ltd., Jaipur	28.09.2004	Nil	11.10.2004
XI.	**JAMMU**		NIL	
XII.	**KOLKATA**			
1.	Pranabananda Co-operative Bank Ltd.		25.01.2001	06.08.2002
2.	Assansol Peoples' Co-operative Bank Ltd.		12.08.1999	16.03.2004
3.	Jhargram Peoples' Co-operative Bank Ltd.		05.08.2002	Liquidation order not issued by the RCS
XIII.	**LUCKNOW**			
1.	Hind Urban Co-operative Bank Ltd., Lucknow	Unlicensed	N.A.	29.10.1986
2.	Firozabad Urban Co-operative Bank Ltd., Firozabad	License not Cancelled	N.A.	06.01.2000
3.	Oudh Sahkari Bank Ltd., Lucknow	Unlicensed	01.07.1999	15.02.2003
4.	Federal Co-operative Bank Ltd., Ghatampur	25.08.2000	N.A.	28.06.2002
5.	Urban Co-operative Bank Ltd., Allahabad	19.12.2001	N.A.	24.08.2002

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation on March 31, 2007 *(Continued)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
6.	Indian Co-operative Development Bank Ltd., Meerut	08.06.2004	N.A.	12.06.2004
7.	Nagariya Sahkari Bank Ltd., Varanasi	11.06.2004	N.A.	28.06.2004
8.	City Co-operative Bank Ltd., Lucknow	23.10.2004	N.A.	04.10.2006
XIV.	**MUMBAI**			
1.	Metropolitan Co-operative Bank Ltd., Mumbai	19.06.1992	19.06.1992	20.06.1992
2.	Chetna Co-operative Bank Ltd., Mumbai	15.11.1994	15.11.1994	01.12.1994
3.	Swastik Janata Sahakari Bank Ltd., Mumbai	30.09.1994	30.09.1994	14.12.1994
4.	Peoples Co-operative Bank Ltd., Ichalkaranji	22.09.1994	22.09.1994	19.12.1994
5.	Kolhapur Zilla Janata Sahakari Bank Ltd., Mumbai	20.10.1997	20.10.1997	20.12.1997
6.	Mafatlal Engg.Emp. Co-operative Bank Ltd., Mumbai	05.03.2002	05.03.2002	31.03.2002
7.	Trimoorti Sahakari Bank Ltd., Pune	07.08.1998	07.08.1998	09.09.1998
8.	Vinkar Sahakari Bank Ltd., Mumbai	18.08.1998	18.08.1998	24.08.1998
9.	Awami Mercantile Co-operative Bank Ltd., Mumbai	17.10.1998	17.10.1998	06.01.1999
10.	Ravikiran Urban Co-operative Bank Ltd., Mumbai	27.11.1998	27.11.1998	15.01.1999
11.	Indira Sahakari Bank Ltd., Mumbai	23.06.1999	23.06.1999	29.06.1999
12.	Nandgaon Merchants' Co-operative Bank Ltd., Nashik	20.02.1999	20.02.1999	09.06.1999
13.	Siddharth Sahakari Bank Ltd., Jalgaon	04.08.1999	04.08.1999	27.09.1999
14.	Solapur Zilla Mahila Sahakari Bank Ltd., Solapur	13.09.1999	13.09.1999	04.06.2000
15.	Dadar Janta Sahakari Bank Ltd., Mumbai	16.12.1997	16.12.1997	26.02.1998
16.	Ichalkaranji Kamgar Nagrik Sahakari Bank Ltd., Kolhapur	29.12.1999	29.12.1999	22.05.2000
17.	Khed Urban Co-operative Bank Ltd., Ratnagiri	21.06.2000	21.06.2000	13.10.2000
18.	Maratha Market Peoples Co-operative Bank Ltd., Mumbai	15.05.2000	15.05.2000	14.08.2000
19.	Mira Bhayander Co-operative Bank Ltd., Thane	01.02.2001	01.02.2001	28.02.2002
20.	Friends Co-operative Bank Ltd., Mumbai	20.07.2001	20.07.2001	08.08.2001
21.	Western Co-operative Bank Ltd., Mumbai	30.10.2001	30.10.2001	20.12.2001
22.	Shri Adinath Co-operative Bank Ltd., Pune	22.06.2002	22.06.2002	28.06.2002
23.	Shree Labh Co-operative Bank Ltd., Mumbai	06.08.2002	06.08.2002	13.08.2002
24.	Kalwa Belapur Sahakari Bank Ltd., Navi Mumbai	10.08.2002	10.08.2002	22.08.2002
25.	Sevalal Urban Co-operative Bank Ltd., Solapur	04.12.2002	04.12.2002	12.12.2002
26.	Pratibha Mahila Sahakari Bank Ltd., Jalgaon	25.02.2003	25.02.2003	04.03.2003
27.	Yeswant Sahakari Bank Ltd., Mumbai	04.02.2003	04.02.2003	07.03.2003
28.	Solapur Merchants Co-operative Bank Ltd., Solapur	20.06.2003	20.06.2003	03.07.2003
29.	Lord Balaji Co-operative Bank Ltd., Sangali	03.09.2004	03.09.2004	09.09.2004
30.	Samastnagar Co-operative Bank Ltd., Mumbai	09.09.2004	09.09.2004	15.09.2004
31.	Jai Hind Co-operative Bank Ltd., Mumbai	28.10.2004	28.10.2004	03.01.2005
32.	Raghuvanshi Co-operative Bank Ltd., Mumbai	17.03.2005	17.03.2005	19.03.2005
33.	Ichalkaranji Jiveshwar Sahakari Bank Ltd., Ichalkaranji	29.05.2006	29.05.2006	02.06.2006
34.	Shreeram Sahakari Bank Maryadit, Nashik	12.06.2006	12.06.2006	21.07.2006

Appendix Table IV.3: Urban Co-operative Banks Under Liquidation on March 31, 2007 *(Concluded)*

(As on March 31, 2007)

Sr. No.	Name of the UCB – Centre-wise	Date of cancellation of license by RBI	Date of rejection of license application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
XV.	**NAGPUR**			
1.	Ahilyadevi Mahila Nagari Sahakari Bank Ltd. Kalamnuri, Hingoli	14.01.2000	–	27.04.2000
2.	Indira Sahakari Bank Ltd., Aurangabad	24.05.2000	–	08.06.2000
3.	Latur People Co-operative Bank Ltd. Latur	20.09.2000	–	23.11.2000
4.	Maa Sharda Mahila Nagari Sahakari Bank Ltd. Akola	21.08.2002	–	30.10.2002
5.	The Patur Peoples' Co-operative Bank Ltd., Patur, Jalana	02.12.2004	–	06.12.2004
6.	The Aurangabad Peoples' Co-operative Bank Ltd., Aurangabad	13.01.2005	–	15.01.2005
7.	The Parbhani People Co-operative Bank Ltd., Parbhani	16.06.2006	–	17.06.2006
8.	Purna Nagari Sahakari Bank Ltd., Purna, Parbhani	01.07.2006	–	16.07.2006
XVI.	**NEW DELHI**			
1.	The Parishad Co-operative Bank Ltd.	29.7.1999	–	16.08.1999
2.	The Farmers' Co-operative Bank Ltd.	–	07.02.2000	08.03.2000
3.	Jai Laxmi Co-operative Bank Ltd.	15.10.2004	–	01.11.2004
XVII.	**PATNA**			
1.	Patna Urban Co-operative Bank Ltd.	15.04.1976	–	19.04.1976
2.	Peoples Urban Co-operative Bank Ltd., Muzaffarpur	22.04.2002	–	27.05.2002
3.	The Begusarai Urban Dev.Co-operative Bank Ltd.	22.04.2002	–	27.05.2002
4.	Madhepura Urban Dev. Bank Ltd.	22.04.2002	–	27.05.2002
5.	Nalanda Urban Co-operative Bank Ltd.	10.06.2002	–	22.07.2002
XVIII.	**RAIPUR**			
1.	Nagrik Shakari Bank, Dhamtari	15.07.2004	N.A.	19.07.2004
2.	Nagrik Commercial Co-operative Bank, Bilaspur	25.09.2000	N.A.	15.11.2000
XIX.	**THIRUVANANTAHPURAM**			
1.	Kundara Urban Co-operative Bank Ltd.	29.11.1990	–	28.04.1991
2.	Panur Urban Co-operative Bank Ltd.	26.09.1975	–	29.07.1976
3.	Punalur Urban Co-operative Bank Ltd.	26.09.1975	–	30.12.1976

N.A. : Not available.
: Registration Cancelled.
*** : Converted into Cooperative Credit Society.
* : The High Court of Andhra Pradesh has given a stay order regarding the closure.

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Profit		Net Profit		Interest Income	
		2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8
1.	Abhyudaya Co-operative Bank Ltd.	3.43	1.79	2.87	0.52	7.98	5.94
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	2.06	2.85	0.55	0.61	6.34	7.26
3.	Amanath Co-operative Bank Ltd.	-1.22	-9.84	-1.22	-9.84	4.79	3.99
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	1.50	2.06	0.95	0.87	8.67	8.62
5.	Bassein Catholic Co-operative Bank Ltd.	2.22	2.56	1.98	1.67	8.00	8.07
6.	Bharat Co-operative Bank (Mumbai) Ltd.	1.56	1.84	1.15	1.20	8.19	8.10
7.	Bharati Sahakari Bank Ltd.	1.25	1.56	–	0.43	7.43	7.45
8.	Bombay Mercantile Co-operative Bank Ltd.	0.21	–	0.03	–	3.27	3.34
9.	Charminar Co-operative Urban Bank Ltd.	-2.66	4.47	-2.66	4.47	0.21	9.39
10.	Citizen Credit Co-operative Bank Ltd.	1.50	1.94	1.45	1.35	6.82	7.63
11.	Cosmos Co-operative Urban Bank Ltd.	1.94	4.92	1.16	1.17	7.09	6.73
12.	Dombivli Nagari Sahakari Bank Ltd.	1.87	2.44	0.83	0.85	6.93	6.85
13.	Goa Urban Co-operative Bank Ltd.	0.70	0.74	0.63	0.43	7.53	7.24
14.	Greater Bombay Co-operative Bank Ltd.	0.98	1.30	0.09	0.45	6.56	6.66
15.	Ichalkaranji Janata Sahakari Bank Ltd.	0.52	0.61	–	0.17	7.78	7.67
16.	Indian Mercantile Co-operative Bank Ltd.	1.37	0.24	1.37	0.24	5.94	6.11
17.	Jalgaon Janata Sahakari Bank Ltd.	0.73	0.81	–	0.03	7.08	7.47
18.	Janakalyan Sahakari Bank Ltd.	-0.98	0.16	–	0.26	7.82	6.65
19.	Janalaxmi Co-operative Bank Ltd.	1.42	1.49	0.25	0.13	8.15	7.46
20.	Janata Sahakari Bank Ltd.	2.40	0.95	1.57	0.35	6.64	7.03
21.	Kalupur Commercial Co-operative Bank Ltd.	2.64	1.87	–	1.25	5.35	5.94
22.	Kalyan Janata Sahakari Bank Ltd.	1.59	1.93	1.05	0.76	6.95	7.13
23.	Kapole Co-operative Bank Ltd.	0.53	0.58	0.20	0.24	6.63	6.81
24.	Karad Urban Co-operative Bank Ltd.	0.46	1.16	0.26	0.27	7.36	7.86
25.	Madhavpura Mercantile Co-operative Bank Ltd.	5.02	3.58	4.99	3.57	1.52	1.57
26.	Mahanagar Co-operative Bank Ltd.	1.09	0.87	–	0.41	7.48	7.38
27.	Mandvi Co-operative Bank Ltd.*	0.73	–	0.26	–	7.57	–
28.	Mapusa Urban Co-operative Bank of Goa Ltd.	0.65	2.35	0.65	3.44	6.11	9.86
29.	Mehsana Urban Co-operative Bank Ltd.	1.63	0.98	0.69	0.85	9.27	7.76
30.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	2.75	0.98	0.59	0.66	9.82	7.91
31.	Nagpur Nagrik Sahakari Bank Ltd.	1.71	1.07	0.31	0.34	7.30	7.50
32.	Nasik Merchant's Co-operative Bank Ltd.	3.04	1.91	1.07	0.69	7.87	7.31
33.	New India Co-operative Bank Ltd.	1.74	1.79	–	0.98	8.14	6.68
34.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	1.65	1.92	0.96	1.01	7.55	7.96
35.	Nutan Nagarik Sahakari Bank Ltd.	3.37	2.44	1.19	0.71	6.52	6.86
36.	Parsik Janata Sahakari Bank Ltd.	2.18	1.71	1.37	0.54	7.26	7.00
37.	Pravara Sahakari Bank Ltd.	0.83	0.72	0.11	0.13	13.79	8.59
38.	Punjab & Maharashtra Co-operative Bank Ltd.	1.22	1.42	–	0.72	8.82	8.21
39.	Rajkot Nagrik Sahakari Bank Ltd.	0.66	0.85	0.56	0.56	5.43	5.70
40.	Rupee Co-operative Bank Ltd.	-0.77	0.11	-1.20	-1.33	4.52	4.72
41.	Sangli Urban Co-operative Bank Ltd.	-0.32	-0.28	–	–	7.22	8.32
42.	Saraswat Co-operative Bank Ltd.	0.40	1.44	0.01	1.11	1.33	4.69
43.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	1.50	1.50	0.26	0.44	6.84	6.35
44.	Shamrao Vithal Co-operative Bank Ltd.	1.48	1.35	0.71	0.59	7.82	7.73
45.	Shikshak Sahakari Bank Ltd.	0.31	0.29	-0.95	-2.11	7.36	6.77
46.	Solapur Janata Sahakari Bank Ltd.	0.60	0.89	–	–	8.78	8.81
47.	Surat Peoples Co-operative Bank Ltd.	2.91	1.56	0.96	0.55	7.91	7.61
48.	Thane Bharat Sahakari Bank Ltd.	1.23	1.14	0.42	0.27	7.80	7.41
49.	Thane Janata Sahakari Bank Ltd.	2.06	2.69	1.91	2.57	8.02	7.77
50.	The Akola Janata Commercial Co-operative Bank Ltd.	0.81	1.14	0.29	0.12	7.71	7.36
51.	The Akola Urban Co-operative Bank Ltd.	0.58	0.59	–	0.20	7.39	7.45
52.	The Khamgaon Urban Co-operative Bank Ltd.	0.15	0.03	–	-0.63	7.51	7.39
53.	Vasavi Co-operative Urban Bank Ltd.	10.28	7.73	-4.20	7.68	14.50	10.43
54.	Zoroastrian Co-operative Bank Ltd.	1.81	1.38	0.65	0.33	7.60	7.54

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Interest Expended		Provisions & Contingencies	
		2005-06	2006-07	2005-06	2006-07
1	2	9	10	11	12
1.	Abhyudaya Co-operative Bank Ltd.	3.34	2.46	0.52	0.67
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	2.90	2.82	1.51	1.38
3.	Amanath Co-operative Bank Ltd.	3.74	3.39	–	–
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	4.50	4.14	0.55	0.76
5.	Bassein Catholic Co-operative Bank Ltd.	4.50	4.03	0.24	0.89
6.	Bharat Co-operative Bank (Mumbai) Ltd.	4.33	4.14	0.40	0.16
7.	Bharati Sahakari Bank Ltd.	5.30	4.65	0.77	1.13
8.	Bombay Mercantile Co-operative Bank Ltd.	2.30	2.17	0.18	–
9.	Charminar Co-operativeUrban Bank Ltd.	3.99	4.47	–	–
10.	Citizen Credit Co-operative Bank Ltd.	4.03	3.93	0.05	0.05
11.	Cosmos Co-operative Urban Bank Ltd.	4.50	4.31	0.77	1.26
12.	Dombivli Nagari Sahakari Bank Ltd.	3.93	3.55	1.04	1.11
13.	Goa Urban Co-operative Bank Ltd.	4.25	4.12	0.07	0.31
14.	Greater Bombay Co-operative Bank Ltd.	4.68	4.58	0.89	0.83
15.	Ichalkaranji Janata Sahakari Bank Ltd.	5.55	5.30	0.23	0.33
16.	Indian Mercantile Co-operative Bank Ltd.	3.31	4.35	–	–
17.	Jalgaon Janata Sahakari Bank Ltd.	4.99	5.09	0.61	0.64
18.	Janakalyan Sahakari Bank Ltd.	6.26	4.95	4.02	0.24
19.	Janalaxmi Co-operative Bank Ltd.	5.52	4.85	1.17	1.36
20.	Janata Sahakari Bank Ltd.	4.88	4.95	0.29	–
21.	Kalupur Commercial Co-operative Bank Ltd.	2.86	3.16	0.84	0.14
22.	Kalyan Janata Sahakari Bank Ltd.	3.81	3.77	0.54	0.64
23.	Kapole Co-operative Bank Ltd.	4.42	4.70	0.33	0.34
24.	Karad Urban Co-operative Bank Ltd.	4.95	4.90	0.19	0.88
25.	Madhavpura Mercantile Co-operative Bank Ltd.	2.00	1.82	–	–
26.	Mahanagar Co-operative Bank Ltd.	3.92	3.89	0.14	0.46
27.	Mandvi Co-operative Bank Ltd.*	4.98	–	0.45	–
28.	Mapusa Urban Co-operative Bank of Goa Ltd.	4.29	5.73	–	–
29.	Mehsana Urban Co-operative Bank Ltd.	6.73	5.07	0.93	–
30.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.65	4.88	2.16	0.32
31.	Nagpur Nagrik Sahakari Bank Ltd.	4.53	4.48	1.40	0.61
32.	Nasik Merchant's Co-operative Bank Ltd.	3.72	3.48	1.97	1.21
33.	New India Co-operative Bank Ltd.	3.88	3.45	0.25	0.56
34.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	4.89	4.74	0.47	0.19
35.	Nutan Nagarik Sahakari Bank Ltd.	3.65	3.72	2.18	1.35
36.	Parsik Janata Sahakari Bank Ltd.	3.33	3.06	0.48	1.00
37.	Pravara Sahakari Bank Ltd.	11.02	5.93	0.72	0.59
38.	Punjab & Maharashtra Co-operative Bank Ltd.	5.61	4.85	0.39	0.42
39.	Rajkot Nagrik Sahakari Bank Ltd.	4.00	3.85	0.09	0.30
40.	Rupee Co-operative Bank Ltd.	4.13	3.57	0.39	1.39
41.	Sangli Urban Co-operative Bank Ltd.	5.40	5.53	0.58	0.39
42.	Saraswat Co-operative Bank Ltd.	0.89	3.11	0.07	0.12
43.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	3.80	3.18	1.24	0.75
44.	Shamrao Vithal Co-operative Bank Ltd.	4.67	4.73	0.77	0.26
45.	Shikshak Sahakari Bank Ltd.	5.36	4.93	1.26	2.40
46.	Solapur Janata Sahakari Bank Ltd.	6.11	5.98	0.33	0.24
47.	Surat Peoples Coop Bank Ltd.	3.79	3.85	1.93	1.02
48.	Thane Bharat Sahakari Bank Ltd.	4.97	4.64	0.81	0.62
49.	Thane Janata Sahakari Bank Ltd.	4.46	3.87	–	–
50.	The Akola Janata Commercial Co-operative Bank Ltd.	5.64	5.10	0.53	0.84
51.	The Akola Urban Co-operative Bank Ltd.	5.77	5.81	0.12	0.18
52.	The Khamgaon Urban Co-operative Bank Ltd.	5.73	5.73	1.21	0.66
53.	Vasavi Coop Urban Bank Ltd.	2.70	1.70	14.40	–
54.	Zoroastrian Co-operative Bank Ltd.	4.57	4.49	1.15	1.05

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Concluded)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Expenses		Spread	
		2005-06	2006-07	2005-06	2006-07
1	2	13	14	15	16
1.	Abhyudaya Co-operative Bank Ltd.	5.60	4.47	4.64	3.47
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	4.71	4.75	3.44	4.44
3.	Amanath Co-operative Bank Ltd.	6.41	14.23	1.05	0.60
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	7.14	6.80	4.17	4.48
5.	Bassein Catholic Co-operative Bank Ltd.	6.11	5.84	3.51	4.04
6.	Bharat Co-operative Bank (Mumbai) Ltd.	7.17	6.79	3.86	3.96
7.	Bharati Sahakari Bank Ltd.	7.06	6.55	2.14	2.80
8.	Bombay Mercantile Co-operative Bank Ltd.	4.41	3.81	0.97	1.17
9.	Charminar Co-operative Urban Bank Ltd.	4.80	4.97	-3.79	4.91
10.	Citizen Credit Co-operative Bank Ltd.	5.67	5.90	2.79	3.69
11.	Cosmos Co-operative Urban Bank Ltd.	6.01	5.84	2.59	2.42
12.	Dombivli Nagari Sahakari Bank Ltd.	5.59	5.23	3.00	3.30
13.	Goa Urban Co-operative Bank Ltd.	6.99	7.15	3.28	3.12
14.	Greater Bombay Co-operative Bank Ltd.	6.98	6.79	1.88	2.08
15.	Ichalkaranji Janata Sahakari Bank Ltd.	7.78	7.32	2.23	2.38
16.	Indian Mercantile Co-operative Bank Ltd.	4.94	6.52	2.63	1.76
17.	Jalgaon Janata Sahakari Bank Ltd.	6.82	7.18	2.09	2.38
18.	Janakalyan Sahakari Bank Ltd.	9.05	7.30	1.56	1.69
19.	Janalaxmi Co-operative Bank Ltd.	7.03	6.19	2.63	2.62
20.	Janata Sahakari Bank Ltd.	6.73	6.67	1.76	2.08
21.	Kalupur Commercial Co-operative Bank Ltd.	3.81	4.41	2.49	2.78
22.	Kalyan Janata Sahakari Bank Ltd.	5.89	5.76	3.14	3.36
23.	Kapole Co-operative Bank Ltd.	7.40	7.77	2.21	2.11
24.	Karad Urban Co-operative Bank Ltd.	7.44	7.20	2.41	2.96
25.	Madhavpura Mercantile Co-operative Bank Ltd.	2.24	2.11	-0.48	-0.25
26.	Mahanagar Co-operative Bank Ltd.	6.72	6.94	3.56	3.49
27.	Mandvi Co-operative Bank Ltd.*	7.28	–	2.59	–
28.	Mapusa Urban Co-operative Bank of Goa Ltd.	6.20	10.20	1.82	4.13
29.	Mehsana Urban Co-operative Bank Ltd.	7.98	6.68	2.55	2.69
30.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	8.01	7.36	4.18	3.03
31.	Nagpur Nagrik Sahakari Bank Ltd.	7.10	7.19	2.77	3.02
32.	Nasik Merchant's Co-operative Bank Ltd.	5.84	5.75	4.16	3.82
33.	New India Co-operative Bank Ltd.	6.80	6.03	4.26	3.23
34.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	6.35	6.31	2.66	3.22
35.	Nutan Nagarik Sahakari Bank Ltd.	6.10	6.13	2.87	3.15
36.	Parsik Janata Sahakari Bank Ltd.	5.36	5.57	3.93	3.94
37.	Pravara Sahakari Bank Ltd.	13.17	8.15	2.78	2.66
38.	Punjab & Maharashtra Co-operative Bank Ltd.	7.92	7.13	3.21	3.37
39.	Rajkot Nagrik Sahakari Bank Ltd.	5.11	5.11	1.43	1.85
40.	Rupee Co-operative Bank Ltd.	5.49	4.80	0.39	1.15
41.	Sangli Urban Co-operative Bank Ltd.	8.24	8.86	1.82	2.79
42.	Saraswat Co-operative Bank Ltd.	1.44	4.70	0.44	1.58
43.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	5.63	5.12	3.04	3.17
44.	Shamrao Vithal Co-operative Bank Ltd.	6.89	6.82	3.15	3.00
45.	Shikshak Sahakari Bank Ltd.	7.09	6.84	1.99	1.85
46.	Solapur Janata Sahakari Bank Ltd.	8.45	8.38	2.67	2.84
47.	Surat Peoples Co-operative Bank Ltd.	5.96	6.40	4.11	3.76
48.	Thane Bharat Sahakari Bank Ltd.	7.03	6.73	2.83	2.77
49.	Thane Janata Sahakari Bank Ltd.	6.47	5.60	3.56	3.90
50.	The Akola Janata Commercial Co-operative Bank Ltd.	7.35	6.75	2.06	2.26
51.	The Akola Urban Co-operative Bank Ltd.	7.22	7.31	1.62	1.64
52.	The Khamgaon Urban Co-operative Bank Ltd.	7.81	7.69	1.78	1.66
53.	Vasavi Co-operative Urban Bank Ltd.	4.23	3.58	11.80	8.72
54.	Zoroastrian Co-operative Bank Ltd.	6.01	6.36	3.04	3.05

* : merged with Saraswat Co-operative Bank on March 30, 2007;
Data are provisional
– : Nil/Negligible

Appendix Table IV.5: Select Financial Parameters of Scheduled Urban Co-operative Banks
(At end March 2007)

Sr. No.	Bank Name	CRAR (per cent)	Net Interest Income to Working Funds (per cent)	Non Interest Income to Working Funds (per cent)	Operating Profit/ Working Funds (per cent)	Return on Assets (per cent)	Average Cost of Deposits (per cent per annum)	Business per Employee (Rs. Lakh)	Profit per Employee (Rs. Lakh)
1	2	3	4	5	6	7	8	9	10
1.	Abhyudaya Co-operative Bank Ltd.	24.00	3.58	0.49	1.84	0.52	1.06	241.73	1.14
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	78.25	4.69	0.35	3.01	0.61	5.13	164.68	1.30
3.	Amanath Co-operative Bank Ltd.	-19.16	0.70	0.46	-11.40	–	5.17	131.22	–
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	38.94	4.68	0.58	2.15	0.87	5.77	156.81	1.19
5.	Bassein Catholic Co-operative Bank Ltd.	30.11	4.04	0.32	2.56	1.67	5.02	443.07	5.74
6.	Bharat Co-operative Bank (Mumbai) Ltd.	17.42	4.09	0.46	1.91	1.20	5.05	374.20	3.25
7.	Bharati Sahakari Bank Ltd.	11.09	3.00	0.71	1.67	0.43	5.78	223.12	0.75
8.	Bombay Mercantile Co-operative Bank Ltd.	-14.68	2.04	0.71	–	–	4.14	114.06	–
9.	Charminar Co-operative.Urban Bank Ltd.	-73.24	–	–	–	4.47	9.25	464.43	20.01
10.	Citizen Credit Co-operative Bank Ltd.	17.87	3.79	0.39	1.99	1.35	4.37	308.84	3.46
11.	Cosmos Co-operative Urban Bank Ltd.	12.37	2.54	4.21	5.16	1.17	5.21	427.37	3.84
12.	Dombivli Nagari Sahakari Bank Ltd.	14.97	3.54	0.58	2.62	0.85	4.59	336.13	2.23
13.	Goa Urban Co-operative Bank Ltd.	17.15	3.31	0.69	0.79	0.43	5.19	219.93	0.81
14.	Greater Bombay Co-operative Bank Ltd.	18.85	2.25	0.89	1.40	0.45	6.05	263.75	1.08
15.	Ichalkaranji Janata Sahakari Bank Ltd.	12.74	2.47	0.30	0.64	0.17	6.20	204.15	0.26
16.	Indian Mercantile Co-operative Bank Ltd.	16.51	1.76	0.65	0.24	0.24	4.96	209.48	0.41
17.	Jalgaon Janata Sahakari Bank Ltd.	11.61	2.58	0.58	0.88	0.03	6.30	170.64	0.03
18.	Janakalyan Sahakari Bank Ltd.	-4.95	1.75	0.85	0.17	0.26	5.81	324.09	0.58
19.	Janalaxmi Co-operative Bank Ltd.	16.70	3.13	0.26	1.77	0.13	7.54	100.89	0.12
20.	Janata Sahakari Bank Ltd., Pune.	-3.61	2.12	0.58	0.96	0.35	5.57	311.79	0.74
21.	Kalupur Commercial Co-operative Bank Ltd.	56.17	2.79	0.34	1.88	1.25	5.92	289.07	4.59
22.	Kalyan Janata Sahakari Bank Ltd.	14.71	3.57	0.60	2.05	0.76	4.85	298.39	1.70
23.	Kapole Co-operative Bank Ltd.	10.94	2.13	1.53	0.59	0.24	5.03	185.14	0.38
24.	Karad Urban Co-operative Bank Ltd.	10.56	3.05	0.42	1.19	0.27	5.65	181.69	0.34
25.	Madhavpura Mercantile Co-operative Bank Ltd.	-1085.56	-0.30	4.98	4.33	3.57	3.70	2423.18	80.21
26.	Mahanagar Co-operative Bank Ltd.	15.56	3.78	0.47	0.95	0.41	4.95	211.21	0.70
27.	Mapusa Urban Co-operative Bank of Goa Ltd.	-125.01	5.23	3.40	2.97	3.44	5.93	118.35	3.36
28.	Mehsana Urban Co-operative Bank Ltd.	18.45	2.71	0.44	0.98	0.85	7.01	340.55	2.39
29.	Nagar Urban Co-operative Bank Ltd.	13.31	3.28	0.47	1.06	0.66	6.44	189.22	1.01
30.	Nagpur Nagrik Sahakari Bank Ltd.	13.62	3.10	0.70	1.10	0.34	5.40	171.65	0.43
31.	Nasik Merchant's Co-operative Bank Ltd.	35.95	4.24	0.39	2.12	0.69	5.43	106.54	0.79
32.	New India Co-operative Bank Ltd.	29.23	3.24	1.14	1.80	0.98	4.94	261.59	2.61
33.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	13.08	3.28	0.84	1.96	1.01	5.42	450.81	3.27
34.	Nutan Nagarik Sahakari Bank Ltd.	43.01	3.15	1.71	2.44	0.71	5.06	207.61	1.44
35.	Parsik Janata Sahakari Bank Ltd.	23.90	3.95	0.29	1.72	0.54	3.77	250.68	1.14
36.	Pravara Sahakari Bank Ltd.	11.74	2.80	0.29	0.76	0.13	7.17	155.89	0.15
37.	Punjab & Maharashtra Co-operative Bank Ltd.	15.77	3.43	0.27	1.45	0.72	5.68	336.10	1.67
38.	Rajkot Nagrik Sahakari Bank Ltd.	27.62	2.33	0.33	1.07	0.56	6.62	290.79	1.78
39.	Rupee Co-operative Bank Ltd.	-85.28	1.83	0.29	0.17	-1.33	6.00	208.47	-2.85
40.	Sangli Urban Co-operative Bank Ltd.	2.10	3.20	1.45	-0.32	–	7.05	75.23	–
41.	Saraswat Co-operative Bank Ltd.	11.37	1.84	0.63	1.69	1.11	4.21	683.78	6.19
42.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	37.61	3.63	0.31	1.72	0.44	5.11	193.75	0.92
43.	Shamrao Vithal Co-operative Bank Ltd.	11.61	3.45	0.43	1.55	0.59	5.68	553.90	2.34
44.	Shikshak Sahakari Bank Ltd.	-5.20	2.19	0.42	0.35	-2.11	6.48	178.98	-3.31
45.	Solapur Janata Sahakari Bank Ltd.	11.28	3.02	0.48	0.95	–	7.41	207.71	–
46.	Surat Peoples Co-operative Bank Ltd.	22.34	3.76	0.36	1.56	0.55	5.46	285.04	1.41
47.	Thane Bharat Sahakari Bank Ltd.	15.40	–	–	–	0.27	5.57	–	–
48.	Thane Janata Sahakari Bank Ltd.	17.32	4.62	0.70	3.18	2.57	4.69	525.04	10.09
49.	The Akola Janata Commercial Co-operative Bank Ltd.	9.82	2.36	0.55	1.19	0.12	6.14	194.28	0.16
50.	The Akola Urban Co-operative Bank Ltd.	10.21	1.72	0.46	0.61	0.20	6.47	296.69	0.40
51.	The Khamgaon Urban Co-operative Bank Ltd.	5.75	1.63	0.41	0.03	-0.63	7.04	153.06	-0.71
52.	Vasavi Co-operative Urban Bank Ltd.	-322.79	16.30	1.66	14.45	7.68	2.40	129.83	11.03
53.	Zoroastrian Co-operative Bank Ltd.	15.16	3.09	0.20	1.40	0.33	5.31	462.55	1.15

– : Nil/Negligible

Note : Data are provisional

Appendix Table IV.6: Working Results of State Co-operative Banks – State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	State	Profit/Loss		Total NPAs		NPAs as Percentage to Loans Outstanding		Recovery (per cent) As at end-June	
		2005	2006	2005	2006	2005	2006	2005	2006
1	2	3	4	5	6	7	8	9	10
	NORTHERN REGION	**131.61**	**147.12**	**210.87**	**232.21**	**2.99**	**2.97**	**97.93**	**98.35**
1.	Chandigarh	1.00	1.57	3.87	4.15	30.24	24.65	58.90	66.19
2.	Delhi	15.93	16.17	27.57	32.78	14.98	15.85	81.05	82.05
3.	Haryana	35.01	37.00	5.21	5.22	0.25	0.22	99.63	99.84
4.	Himachal Pradesh	28.91	44.11	71.95	91.07	9.34	11.59	79.08	76.83
5.	Jammu & Kashmir	1.84	0.88	15.89	18.67	21.87	24.92	41.08	32.55
6.	Punjab	29.58	26.24	60.01	58.47	2.51	2.18	98.61	99.05
7.	Rajasthan	19.34	21.15	26.37	21.85	1.73	1.31	97.01	98.03
	NORTH-EASTERN REGION	**-52.94**	**-13.73**	**441.64**	**452.41**	**52.76**	**51.19**	**46.06**	**48.14**
8.	Arunachal Pradesh	-28.43	-1.80	109.62	149.06	71.87	95.22	36.90	56.37
9.	Assam	-17.50	5.18	207.47	172.14	69.93	60.69	39.08	45.23
10.	Manipur	-1.23	0.22	14.16	16.00	54.19	28.16	28.82	20.57
11.	Meghalaya	0.82	1.07	23.04	26.56	23.58	24.89	59.05	39.55
12.	Mizoram	1.67	1.71	14.11	17.81	16.32	18.56	57.39	71.42
13.	Nagaland	-2.53	-4.11	22.28	22.48	50.30	51.34	59.05	59.78
14.	Sikkim	0.80	0.87	0.51	0.77	4.61	5.31	83.33	63.64
15.	Tripura	-6.54	-16.87	50.44	47.60	41.31	37.80	40.74	39.10
	EASTERN REGION	**96.09**	**86.05**	**387.93**	**386.56**	**10.74**	**9.06**	**77.90**	**78.74**
16.	Andaman & Nicobar Islands	1.22	1.53	17.74	7.75	25.72	9.97	83.29	97.99
17.	Bihar	68.41	50.78	161.23	164.02	28.67	30.33	43.27	51.31
18.	Orissa	17.44	19.69	121.14	116.71	9.47	6.94	89.84	87.71
19.	West Bengal	9.02	14.05	87.82	98.08	5.16	4.99	91.09	85.47
	CENTRAL REGION	**37.04**	**84.78**	**560.96**	**568.35**	**11.60**	**11.73**	**80.98**	**80.13**
20.	Chhattisgarh	-10.31	-7.07	41.83	43.38	32.39	36.63	70.60	86.99
21.	Madhya Pradesh	14.82	57.56	181.34	177.21	10.67	10.55	90.04	92.31
22.	Uttarakhand	2.75	2.88	–	12.27	–	14.22	100.00	100.00
23.	Uttar Pradesh	29.78	31.41	337.79	335.49	11.48	11.38	71.46	70.12
	WESTERN REGION	**30.06**	**7.87**	**3,048.21**	**3,080.29**	**30.70**	**30.68**	**73.95**	**71.85**
24.	Goa	0.28	1.08	112.37	108.93	32.05	28.82	61.36	69.29
25.	Gujarat	5.01	5.29	125.11	123.43	6.46	6.08	80.21	83.11
26.	Maharashtra	24.77	1.50	2,810.72	2,847.93	36.78	37.30	72.59	66.71
	SOUTHERN REGION	**42.40**	**66.48**	**1,428.31**	**1,640.57**	**12.86**	**13.72**	**88.55**	**88.83**
27.	Andhra Pradesh	4.84	5.70	762.31	868.01	14.77	15.39	80.85	78.06
28.	Karnataka	5.96	27.28	236.12	261.53	14.39	14.65	91.11	92.05
29.	Kerala	4.19	4.19	210.18	210.18	15.32	15.32	94.60	94.60
30.	Puducherry	2.03	1.30	13.72	13.14	13.00	11.03	73.94	87.35
31.	Tamil Nadu	25.38	28.02	205.98	287.71	7.30	9.46	93.81	95.15
	ALL-INDIA TOTAL	**284.26**	**378.57**	**6,077.91**	**6,360.39**	**16.27**	**15.97**	**85.86**	**86.62**

– : Nil/Negilible.

Note : Data are provisional.

Source : NABARD.

Appendix Table IV.7: Working Results of District Central Co-operative Banks – State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	State	2005					2006					2005			2006		
		DCCBs (No.)	Profit		Loss		DCCBs (No.)	Profit		Loss		Total NPAs	NPAs as Percent-age to Loans Outstan-ding	Recovery (Percent) As at end-June	Total NPAs	NPAs as Percent-age to Loans Outstan-ding	Recovery (Percent) As at end-June
			No.	Amount	No.	Amount		No.	Amount	No.	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	NORTHERN REGION	**70**	**66**	**262.89**	**4**	**11.48**	**69**	**64**	**213.64**	**5**	**15.40**	**962.94**	**7.7**	**83.90**	**1067.29**	**7.70**	**72.94**
1.	Haryana	19	19	50.98	–	–	19	17	25.16	2	7.00	213.73	5.42	80.69	248.19	5.16	57.58
2.	Himachal Pradesh	2	2	63.27	–	–	2	2	49.27	–	–	54.79	6.99	77.17	71.10	5.78	90.88
3.	Jammu and Kashmir	3	–	–	3	8.40	3	–	–	3	8.40	78.33	22.82	45.53	74.45	26.44	53.71
4.	Punjab	19	19	100.56	–	–	18	18	74.14	–	–	316.26	8.19	91.24	392.77	7.30	92.07
5.	Rajasthan	27	26	48.08	1	3.08	27	27	65.07	–	–	299.83	8.92	81.84	280.78	10.77	81.02
	EASTERN REGION	**64**	**54**	**123.60**	**10**	**16.23**	**64**	**52**	**92.72**	**12**	**27.99**	**1331.50**	**21.23**	**63.04**	**1128.80**	**27.84**	**64.95**
6.	Bihar	22	15	21.61	7	12.02	22	17	29.54	5	13.00	377.89	53.02	40.17	335.82	57.60	50.89
7.	Jharkhand	8	7	26.90	1	2.20	8	5	25.97	3	3.10	117.93	79.03	58.11	96.66	68.68	42.14
8.	Orissa	17	16	46.68	1	1.83	17	16	15.76	1	2.40	553.96	14.27	65.01	391.94	23.62	64.74
9.	West Bengal	17	16	28.41	1	0.18	17	14	21.45	3	9.49	281.72	16.77	71.23	304.38	17.50	76.73
	CENTRAL REGION	**104**	**70**	**121.03**	**34**	**155.78**	**104**	**74**	**159.19**	**30**	**174.00**	**2561.44**	**29.10**	**60.06**	**2719.06**	**28.76**	**60.71**
10.	Chhattisgarh	6	6	7.76	–	–	6	6	17.11	–	–	199.06	27.56	57.73	200.15	29.72	59.17
11.	Madhya Pradesh	38	30	59.81	8	41.60	38	34	77.32	4	9.27	1087.99	28.52	67.36	1156.63	28.84	67.12
12.	Uttar Pradesh	50	25	35.58	25	112.85	50	24	44.50	26	164.73	1209.28	33.06	51.67	1277.33	31.38	51.76
13.	Uttarakhand	10	9	17.88	1	1.33	10	10	20.26	–	–	65.11	12.17	85.05	84.95	10.69	88.00
	WESTERN REGION	**49**	**35**	**295.39**	**14**	**169.49**	**49**	**34**	**244.23**	**15**	**245.81**	**5246.86**	**23.54**	**65.67**	**5834.28**	**23.40**	**62.47**
14.	Gujarat	18	14	85.27	4	39.04	18	11	49.08	7	41.49	850.46	16.88	74.95	898.74	16.65	71.57
15.	Maharashtra	31	21	210.12	10	130.45	31	23	195.15	8	204.32	4396.40	25.36	61.88	4935.54	25.39	58.83
	SOUTHERN REGION	**80**	**70**	**552.42**	**10**	**85.90**	**80**	**54**	**406.60**	**26**	**450.00**	**4631.11**	**18.81**	**77.36**	**4963.03**	**19.18**	**77.29**
16.	Andhra Pradesh	22	21	143.28	1	4.87	22	7	32.18	15	143.61	1143.48	13.41	64.68	1044.05	16.33	70.41
17.	Karnataka	21	14	33.16	7	61.34	21	21	226.14	–	–	1207.36	18.88	71.66	781.57	31.54	79.24
18.	Kerala	14	13	54.25	1	5.85	14	14	52.86	–	–	873.03	18.26	81.52	1043.77	16.81	80.75
19.	Tamil Nadu	23	22	321.73	1	13.84	23	12	95.42	11	306.39	1407.24	23.95	88.03	2093.64	17.32	80.11
	ALL INDIA	**367**	**295**	**1355.33**	**72**	**438.88**	**366**	**278**	**1116.38**	**88**	**913.20**	**14733.85**	**19.72**	**72.23**	**15712.46**	**20.25**	**69.23**

– : Nil/Negilible.

Note : Data for 2005 are provisional and based on the reporting banks.

Source : NABARD.

Appendix Table IV.8: Select Indicators of Primary Agricultural Credit Societies – State-wise *(Continued)*

(As at March 31, 2006)

Sr. No.	State/Region	No. of PACS	No. of Villages Covered	Ratio of Villages to PACS	Population (in '000)	Members (in '000)	Borrowing Members (in '000)	Total Staff	Deposits (Rs. lakh)	Borrowings (Rs. lakh)
1	2	3	4	5	6	7	8	9	10	11
	NORTHERN REGION	**13,480**	**74,988**	**6**	**97,659**	**10,033.79**	**5,094.00**	**28,294**	**177,355**	**802,169**
1.	Chandigarh	16	22	1	800	2.86	1.00	3	3	11
2.	Delhi	–	–	–	–	–	–	–	–	–
3.	Haryana	2,441	7,132	3	21,083	2,748.00	1,737.00	7,248	31,961	391210.00
4.	Himachal Pradesh	2,086	19,388	9	6,077	1,030.00	145.00	3,932	65,434	8,085
5.	Jammu & Kashmir	187	2,950	16	1,884	327.68	39.00	342	919	5,576
6.	Punjab	3,978	12,428	3	27,808	2,137.00	1,665.00	10,485	59,605	263063
7.	Rajasthan	4,772	33,068	7	40,007	3,788.25	1,507.00	6,284	19,433	134224
	NORTH-EASTERN REGION	**3,535**	**35,546**	**10**	**29,842**	**3,985.22**	**315.00**	**7,889**	**13,628**	**45,069**
8.	Arunachal Pradesh	31	3,649	118	435	18.00	–	597	–	411
9.	Assam	809	23,422	29	22,414	3,093.92	82.00	6,172	508	1,888
10.	Manipur	186	–	–	–	128.00	200.00	–	6,500	37,157
11.	Meghalaya	179	5,780	32	2,305	95.53	19.00	84	96	649
12.	Mizoram	175	660	4	–	120.02	–	85	16	29
13.	Nagaland	1,719	969	1	1,215	13.68	14.00	13	6,419	904
14.	Sikkim	166	166	1	41	30.07	–	145	–	–
15.	Tripura	270	900	3	3,432	486.00	–	793	89	4,031
	EASTERN REGION	**28,830**	**271,438**	**9**	**420,100**	**38,891.46**	**12,068.20**	**49,835**	**323,106**	**379,204**
16.	Andaman &Nicobar Island	46	204	4	280	11.10	8.20	20	20	569
17.	Bihar	5,936	45,098	8	82,999	3,671.00	211.00	2,538	5,986	49,975
18.	Jharkhand	208	5,185	25	10,050	121.11	22.00	587	1,268	349
19.	Orissa	3,860	43,303	11	63,799	17,215.99	6,441.00	10,417	226859	159120
20.	West Bengal	18,780	177648	9	262972	17,872.26	5,386.00	36,273	88,973	169191
	CENTRAL REGION	**15,381**	**193,562**	**13**	**216,061**	**9,905.67**	**7,718.00**	**30,455**	**69,060**	**370,612**
21.	Chhattisgarh	1,373	20,841	15	20,905	1,922.49	936.00	4,995	16,879	50,072
22.	Madhya Pradesh	4,633	54,017	12	52,564	5,108.18	2,533.00	16,477	42,436	217277
23.	Uttarakhand	446	5,900	13	3,480	127.00	171.00	938	2,925	6,187
24.	Uttar Pradesh	8,929	112804	13	139112	2,748.00	4,078.00	8,045	6,820	97,076
	WESTERN REGION	**29,607**	**54,701**	**2**	**144,028**	**13,397.20**	**5,083.00**	**51,349**	**33,651**	**1,153,175**
25.	Goa	75	242	3	1,344	82.00	4.00	331	2,170	1,071
26.	Gujarat	8,487	16,997	2	45,805	2,613.20	1,244.00	21,845	17,838	368668
27.	Maharashtra	21,045	37,462	2	96,879	10,702.00	3,835.00	29,173	13,643	783436
	SOUTHERN REGION	**15,543**	**84,938**	**5**	**5,017,906**	**46,350.57**	**15,797.00**	**73,784**	**1,339,319**	**1,351,531**
28.	Andhra Pradesh	4,491	30,715	7	4,876,884	22,009.57	2,836.00	14,036	77,040	565913
29.	Karnataka	4,911	34,069	7	49,222	4,715.10	1,107.00	12,157	102685	196363
30.	Kerala	1,600	1,556	1	33,039	11,054.40	7,844.00	17,754	900644	146,313
31.	Puducherry	52	287	6	1,040	116.20	21.00	394	4,714	1,706
32.	Tamil Nadu	4,489	18,311	4	57,721	8,455.30	3,989.00	29,443	254236	441236
	ALL-INDIA TOTAL	**106,376**	**715,173**	**7**	**5,925,596**	**122,563.91**	**46,075.20**	**241,606**	**1,956,119**	**4,101,760**

Appendix Table IV.8: Select Indicators of Primary Agricultural Co-operative Societies – State-wise *(Continued)*

(As at March 31, 2006)

Sr. No.	State	Working Capital (Rs. Lakh)	Loans and Advances Issued (Rs. Lakh)		Loans and Advances Outstanding (Rs. Lakh)		Average Deposits (Rs. Lakh)	Societies in Profit	
			Short-term	Medium-term	Agriculture	Non-Agriculture		No.	Amount (in '000)
1	2	12	13	14	15	16	17	18	19
	NORTHERN REGION	**1,234,264**	**1,040,243**	**57,673**	**786,874**	**43,541**	**13.16**	**8,398**	**2,008,551**
1.	Chandigarh	23	3	11	5	11	0.19	14	498
2.	Delhi	–	–	–	–	–	–	–	–
3.	Haryana	503,523	458,525	17,431	360,287	27,455	13.09	1,198	370,898
4.	Himachal Pradesh	93,743	967	15,507	26,493	–	31.37	1,701	93,744
5.	Jammu & Kashmir	9,976	1,103	2	1,645	–	4.91	22	1,470
6.	Punjab	416,652	440,896	14,295	265,723	10,697	14.98	2,403	359,486
7.	Rajasthan	210,347	138,749	10,427	132,722	5,379	4.07	3,060	1,182,455
	NORTH-EASTERN REGION	**640,096**	**34,563**	**2,514**	**46,431**	**1,431**	**3.86**	**600**	**784,110**
9.	Arunachal Pradesh	564,249	–	77	87	–	–	20	2,456
10.	Assam	7,533	278	350	1,086	464	0.63	309	763,889
11.	Manipur	45,904	33,859	2,078	41,639	–	34.95	–	–
12.	Meghalaya	1,283	138	9	330	–	0.54	60	2,688
13.	Mizoram	175	–	–	67	–	0.09	59	6,997
14.	Nagaland	11,246	157	–	197	357	3.73	–	–
15.	Sikkim	146	54	–	19	–	–	56	579
16.	Tripura	9,560	77	–	3,005	610	0.33	96	7,501
	EASTERN REGION	**910,708**	**369,068**	**80,914**	**370,967**	**31,820**	**11.21**	**10,971**	**351,712**
17.	Andaman &Nicobar Island	638	123	–	569	–	0.43	7	109
18.	Bihar	44,337	23,448	–	35,116	–	1.01	1,168	52,012
19.	Jharkhand	1,523	100	–	264	723	6.10	203	9,100
20.	Orissa	496,403	236,139	56,720	243,361	5,306	58.77	1,415	129,023
21.	West Bengal	367,807	109,258	24,193	91,657	25,791	4.74	8,178	161,468
	CENTRAL REGION	**572,972**	**262,705**	**17,555**	**271,352**	**16,771**	**4.49**	**7,401**	**904,093**
22.	Chhattisgarh	87,193	25,778	5,201	35,733	2,856	12.29	811	115,273
23.	Madhya Pradesh	348,022	153,651	10,583	154,289	13,499	9.16	1,792	600,771
24.	Uttarakhand	11,830	4,696	604	1,300	416	6.56	262	10,667
25.	Uttar Pradesh	125,927	78,580	1,167	80,031	–	0.76	4,536	177,382
	WESTERN REGION	**1,557,894**	**636,203**	**197,819**	**779,293**	**321,930**	**1.14**	**12,588**	**2,121,902**
26.	Goa	5,203	752	1,465	550	953	28.93	54	11,528
27.	Gujarat	529,421	322,813	34,235	372,631	8,172	2.10	5,027	376,251
28.	Maharashtra	1,023,270	312,638	162,119	406,112	312,805	0.65	7,507	1,734,123
	SOUTHERN REGION	**2,985,282**	**1,219,571**	**472,874**	**1,097,977**	**571,016**	**86.17**	**4,357**	**1,807,364**
29.	Andhra Pradesh	564,249	200,065	40,304	312,471	28,662	17.15	1,002	401,524
30.	Karnataka	470,393	190,716	40,134	169,519	47,301	20.91	1,732	462,110
31.	Kerala	1,131,095	533,308	225,109	250,241	313,077	562.90	772	480,739
32.	Puducherry	7,671	4,317	2,565	4,355	957	90.65	21	75
33.	Tamil Nadu	811,874	291,165	164,763	361,391	181,020	56.64	830	462,916
	ALL-INDIA TOTAL	**7,338,667**	**3,562,354**	**729,605**	**3,214,672**	**629,941**	**18.39**	**44,321**	**7,193,622**

Appendix Table IV.8: Select Indicators of Primary Agricultural Co-operative Societies – State-wise *(Concluded)*

(As at March 31, 2006)

Sr. No.	State	Societies in Loss		Overdues to Demand (%)	Viable	Potentially Viable	Dormant	Defunct	Others
		No.	Amount (in '000)						
1	2	20	21	22	23	24	25	26	27
	NORTHERN REGION	**4,198**	**900,934**		**9,417**	**3,196**	**589**	**52**	**226**
1.	Chandigarh	1	1,200	41	15	–	1	–	–
2.	Delhi	–	–	–	–	–	–	–	–
3.	Haryana	1,243	390,639	23	1,867	462	–	–	112
4.	Himachal Pradesh	318	8,358	34	442	1,593	22	–	29
5.	Jammu & Kashmir	165	13,000	37	160	22	–	5	–
6.	Punjab	1,171	157,395	12	3,228	261	467	19	3
7.	Rajasthan	1,300	330,342	31	3,705	858	99	28	82
	NORTH-EASTERN REGION	**867**	**1,025,294**		**1,868**	**449**	**707**	**419**	**92**
9.	Arunachal Pradesh	6	806	97	31	–	–	–	–
10.	Assam	419	990,860	98	583	170	5	39	12
11.	Manipur	108	20,100	43	186	–	–	–	–
12.	Meghalaya	119	3,282	74	161	12	5	1	–
13.	Mizoram	4	950	94	60	16	19	–	80
14.	Nagaland	–	–	91	457	228	655	379	–
15.	Sikkim	37	415	–	145	–	21	–	–
16.	Tripura	174	8,881	93	245	23	2	–	–
	EASTERN REGION	**16,455**	**774,246**		**16,756**	**8,885**	**1,469**	**676**	**1,044**
17.	Andaman &Nicobar Island	37	429	57	37	9	–	–	–
18.	Bihar	3,953	6,402	51	1,826	2,831	764	–	515
19.	Jharkhand	–	–	90	60	85	29	–	34
20.	Orissa	2,352	475,657	20	2,910	744	50	20	136
21.	West Bengal	10,113	291,758	48	11,923	5,216	626	656	359
	CENTRAL REGION	**5,080**	**1,471,773**		**10,783**	**2,912**	**412**	**177**	**1,097**
22.	Chhattisgarh	562	168,102	39	119	232	10	–	1,012
23.	Madhya Pradesh	2,450	1,284,704	42	3,338	1,219	5	–	71
24.	Uttarakhand	100	3,671	65	211	192	15	14	14
25.	Uttar Pradesh	1,968	15,296	42	7,115	1,269	382	163	–
	WESTERN REGION	**16,266**	**4,745,799**		**19,005**	**9,373**	**839**	**203**	**187**
26.	Goa	21	2,925	50	65	8	2	–	–
27.	Gujarat	2,880	348,735	38	5,584	1,799	795	147	162
28.	Maharashtra	13,365	4,394,139	37	13,356	7,566	42	56	25
	SOUTHERN REGION	**10,160**	**10,286,747**	**201**	**8,696**	**4,869**	**615**	**471**	**892**
29.	Andhra Pradesh	3,194	1,785,095	50	2,854	1,435	8	–	194
30.	Karnataka	2,811	823,911	90	3,026	1,345	167	302	71
31.	Kerala	762	822,427	17	1,236	290	53	10	11
32.	Puducherry	31	444	18	21	31	–	–	–
33.	Tamil Nadu	3,362	6,854,870	26	1,559	1,768	387	159	616
	ALL-INDIA TOTAL	**53,050**	**19,204,793**	**30**	**66,525**	**29,684**	**4,631**	**1,998**	**3,538**

– : Nil/Negilible.

Note : Total number of societies does not include 8 PACS of Dadara & Nagar Haveli.

Source : NAFSCOB.

Appendix Table IV.9: State-wise Working Results of SCARDBs

(As at end-March)

(Amount in Rs. crore)

Sr. No.	All India/State	Number of Branches 2006	Profit/Loss		Total NPAs		NPAs as percentage to Loans Outstanding		Recovery (per cent) as at end-June	
			2005	2006	2005	2006	2005	2006	2005	2006
	NORTHERN REGION	**85**	**36.62**	**-12.77**	**505.89**	**978.46**	**8.98**	**16.52**	**75.62**	**71.19**
1.	Haryana @	0	-2.92	-48.15	251.17	504.00	12.24	24.54	69.82	69.69
2.	Himachal Pradesh #	33	1.15	-4.39	61.80	85.72	25.30	31.41	53.00	48.66
3.	Jammu & Kashmir(2005)*	45	-3.64	-3.63	10.12	10.12	51.61	39.46	39.46	39.46
4.	Punjab @	0	30.87	33.08	0.00	0.00	0.00	0.00	100.00	94.12
5.	Rajasthan @	7	11.16	10.39	182.80	378.62	13.09	25.39	63.80	56.35
	NORTH-EASTERN REGION	**39**	**-0.26**	**18.86**	**19.43**	**18.57**	**71.15**	**64.10**	**26.04**	**19.73**
6.	Assam *	33	0.23	19.69	11.97	10.83	94.70	90.48	7.76	6.38
7.	Manipur(2005)*	1	0.00	0.00	0.61	0.61	100.00	100.00	0.00	0.00
8.	Tripura*	5	-0.49	-0.83	6.85	7.13	48.73	43.52	60.49	62.52
	EASTERN REGION	**159**	**-24.90**	**-186.51**	**266.67**	**271.82**	**30.60**	**30.11**	**37.05**	**24.82**
9.	Bihar*	151	-21.88	-186.45	97.33	74.82	84.53	73.35	27.52	1.87
10.	Orissa @	5	-3.73	-0.58	0.00	27.29	0.00	15.24	38.77	16.33
11.	West Bengal #	3	0.71	0.52	169.34	169.72	29.35	27.30	53.14	25.01
	CENTRAL REGION	**345**	**13.72**	**-0.48**	**1,281.58**	**1,606.65**	**25.21**	**30.95**	**39.51**	**40.85**
12.	Chhattisgarh **@	0	0.00	-2.24	31.10	24.64	13.96	10.63	53.98	38.86
13.	Madhya Pradesh **@	7	1.73	0.12	119.94	217.64	8.24	14.07	36.95	38.25
14.	Uttar Pradesh *	338	11.98	1.64	1,130.55	1,364.37	33.20	39.98	39.73	41.60
	WESTERN REGION	**181**	**-147.02**	**33.81**	**1,354.77**	**1,471.66**	**80.42**	**84.03**	**25.73**	**23.30**
15.	Gujarat *	181	10.60	18.67	320.07	327.29	53.02	53.99	34.25	36.26
16.	Maharashtra @	0	-157.62	15.14	1,034.70	1,144.38	95.72	99.93	16.38	15.90
	SOUTHERN REGION	**56**	**-40.39**	**235.16**	**1,869.23**	**1,438.89**	**45.53**	**36.74**	**37.90**	**61.46**
17.	Karnataka @	23	-0.04	206.61	810.12	330.69	57.98	27.45	33.29	56.97
18.	Kerala @	14	12.58	13.83	132.88	212.13	8.53	12.54	82.84	81.96
19.	Puducherry *	1	0.50	-0.81	3.07	3.31	27.14	27.50	71.79	70.15
20.	Tamil Nadu @	18	-53.43	15.53	923.17	892.75	81.01	88.53	24.56	52.01
	ALL INDIA	**865**	**-162.24**	**88.07**	**5,297.57**	**5,786.05**	**30.4**	**32.67**	**44.00**	**47.32**

* : Unitary Structure   @ : Federal Structure   # : Mixed Structure

Note : Data are provisional.

Source: NABARD.

Appendix Table IV.10: State-wise Working Results of PCARDBs

(As on March 31)

(Amount in Rs. crore)

Sr. No.	State/Region	2005				2006				2005			2006		
		Profit		Loss		Profit		Loss		Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery (percent) As at end-June	Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery (percent) As at end-June
		No.	Amount	No.	Amount	No.	Amount	No.	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	NORTHERN REGION	**131**	**83.90**	**41**	**69.50**	**101**	**39.98**	**42**	**107.36**	**1,457.68**	**26.00**	**53.70**	**1,701.75**	**29.10**	**47.10**
1.	Haryana	11	2.19	37	60.95	1	0.66	18	72.53	666.70	33.20	40.50	769.02	38.30	39.20
2.	Himachal Pradesh	1	1.28	–	–	–	–	1	0.79	22.44	32.00	65.10	28.08	37.90	62.90
3.	Punjab	87	37.31	–	–	70	24.00	17	25.73	389.29	18.90	71.30	465.64	21.10	58.20
4.	Rajasthan	32	43.12	4	8.55	30	15.33	6	8.31	379.25	25.90	48.50	439.01	28.30	44.70
	EASTERN REGION	**44**	**30.43**	**26**	**16.07**	**15**	**3.88**	**55**	**15.40**	**114.44**	**19.30**	**56.00**	**192.78**	**30.06**	**48.90**
5.	Orissa	37	26.46	9	3.33	5	1.57	41	8.07	–	–	60.30	48.41	48.00	41.50
6.	West Bengal	7	3.97	17	12.74	10	2.31	14	7.33	114.44	23.20	55.70	144.37	27.30	49.50
	CENTRAL REGION	**18**	**2.39**	**32**	**20.02**	**11**	**1.68**	**39**	**108.86**	**487.65**	**31.70**	**58.40**	**475.73**	**29.70**	**45.00**
7.	Chhattisgarh	4	0.38	8	3.06	4	0.91	8	2.37	248.81	122.10	60.40	50.07	23.70	59.60
8.	Madhya Pradesh	14	2.01	24	16.96	7	0.77	31	106.49	238.84	17.90	58.00	425.66	30.60	43.20
	WESTERN REGION	**27**	**518.34**	**2**	**0.45**	**–**	**–**	**29**	**159.70**	**169.28**	**15.50**	**27.20**	**490.46**	**46.60**	**14.70**
9.	Maharashtra	27	518.34	2	0.45	–	–	29	159.70	169.28	15.50	27.20	490.46	46.60	14.70
	SOUTHERN REGION	**45**	**21.82**	**357**	**221.53**	**204**	**282.33**	**29**	**19.22**	**1,986.80**	**52.50**	**58.80**	**1,692.99**	**45.10**	**58.70**
10.	Karnataka	6	0.37	171	109.48	169	267.63	8	2.54	749.93	67.70	60.30	374.67	36.20	63.40
11.	Kerala	29	20.40	15	14.04	30	11.82	16	15.66	573.43	36.50	56.60	602.16	35.50	50.80
12.	Tamil Nadu	10	1.05	171	98.01	5	2.88	5	1.02	663.44	60.10	60.40	716.16	69.90	63.60
	ALL INDIA	**265**	**656.88**	**458**	**327.56**	**331.00**	**327.87**	**194**	**410.54**	**4,215.85**	**33.42**	**54.14**	**4,553.72**	**35.36**	**47.85**

– : Nil/Negilible.

Note : Data are provisional and based on reporting banks.

Source: NABARD

Appendix Table IV.11: Sanctions and Disbursements Under Rural Infrastructure Development Fund – State-wise *(Continued)*

(At end-March 2007)

(Amount in Rs. crore)

Name of State	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI	
	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	**2,206.21**	**1,761.58**	**2,636.08**	**2,397.95**	**2,732.69**	**2,453.50**	**2,902.55**	**2,482.00**	**3,472.00**	**3,054.96**	**4,503.53**	**3,956.95**
Southern Region	**498.70**	**460.18**	**865.14**	**779.79**	**751.51**	**672.77**	**701.84**	**639.90**	**925.02**	**855.81**	**1279.92**	**1171.76**
Andhra Pradesh	227.09	215.13	337.23	307.71	281.53	251.61	286.82	272.78	379.21	358.50	559.43	511.14
Karnataka	175.68	158.79	195.21	180.08	171.29	161.74	172.34	167.37	173.18	164.57	292.34	274.64
Kerala	95.93	86.26	86.91	73.14	89.29	73.87	64.00	56.72	126.77	117.22	175.11	158.75
Tamil Nadu	–	–	245.79	218.86	209.40	185.55	178.68	143.03	245.86	215.52	253.04	227.23
Western Region	**344.74**	**322.90**	**358.66**	**318.81**	**408.05**	**380.82**	**425.83**	**380.08**	**572.31**	**511.36**	**964.05**	**800.14**
Goa	6.85	6.85	–	–	–	–	8.93	8.70	–	–	19.09	8.97
Gujarat	151.08	145.47	127.00	114.34	153.74	134.86	114.92	91.08	222.03	179.28	505.79	446.37
Maharashtra	186.81	169.87	231.66	204.47	254.31	245.96	301.98	280.30	350.28	332.08	439.17	344.80
Northern Region	**826.81**	**498.85**	**791.74**	**713.39**	**837.89**	**752.54**	**934.52**	**748.96**	**905.80**	**809.67**	**1084.85**	**1002.15**
Haryana	26.70	19.33	63.92	62.16	67.33	62.41	53.46	47.85	90.09	80.39	65.36	61.52
Himachal Pradesh	14.23	14.23	52.96	52.83	51.12	49.43	87.81	78.92	110.36	108.31	127.20	127.56
Jammu & Kashmir	6.15	6.04	–	–	35.95	24.37	107.47	103.43	110.88	109.42	161.52	154.09
Punjab	60.50	60.50	62.50	62.05	88.85	84.77	96.00	74.76	102.79	91.28	229.37	196.31
Rajasthan	123.51	116.86	151.50	129.23	158.48	139.98	64.01	48.86	131.82	119.91	253.75	245.07
Uttar Pradesh	275.72	281.89	460.86	407.12	414.48	389.15	474.97	388.67	354.98	300.36	247.65	217.60
Uttranchal	–	–	–	–	21.68	2.43	50.80	6.47	4.88	–	–	–
Central Region	**240.88**	**215.03**	**250.30**	**238.67**	**280.41**	**262.05**	**241.96**	**217.96**	**262.96**	**245.08**	**371.77**	**306.50**
Chhattisgarh	82.22	77.91	9.80	5.64	57.07	57.99	68.60	65.39	34.10	32.32	50.97	43.04
Madhya Pradesh	158.66	137.12	240.50	233.03	223.34	204.06	173.36	152.57	228.86	212.76	320.80	263.46
Eastern Region	**286.18**	**256.52**	**306.95**	**285.85**	**431.70**	**362.51**	**481.36**	**392.34**	**441.84**	**362.66**	**512.03**	**436.47**
Bihar	22.17	12.63	–	–	57.96	26.93	0.00	0.00	0.00	0.00	0.00	0.00
Jharkhand	–	–	–	–	4.35	2.48	118.50	81.72	91.42	81.73	0.00	0.00
Orissa	169.50	162.05	151.13	141.03	198.85	172.04	149.12	117.16	128.13	99.93	104.18	85.05
West Bengal	94.51	81.84	155.82	144.82	170.54	161.06	213.74	193.46	222.29	181.00	407.85	351.42
North Eastern Region	**8.90**	**8.10**	**63.29**	**61.44**	**23.13**	**22.81**	**117.04**	**102.76**	**364.47**	**270.38**	**290.91**	**239.93**
Arunachal Pradesh	–	–	–	–	–	–	–	–	25.10	22.94	102.55	90.84
Assam	–	–	63.29	61.44	16.07	15.75	64.72	51.60	185.77	117.49	49.57	44.61
Manipur	1.75	0.96	–	–	–	–	–	–	–	–	8.33	7.90
Meghalaya	3.39	3.39	–	–	7.06	7.06	9.33	9.26	30.89	30.89	30.49	28.60
Mizoram	2.38	2.37	–	–	–	–	–	–	54.17	54.19	3.76	3.76
Nagaland	1.38	1.38	–	–	–	–	–	–	15.88	14.40	56.26	41.11
Sikkim	–	–	–	–	–	–	21.29	20.63	8.72	8.73	4.55	4.54
Tripura	–	–	–	–	–	–	21.70	21.27	43.94	21.74	35.40	18.57

Appendix Table IV.11: Sanctions and Disbursements Under Rural Infrastructure Development Fund – State-wise *(Concluded)*

(At end-March 2007)

(Amount in Rs. crore)

Name of State	RIDF VII		RIDF VIII		RIDF IX		RIDF X		RIDF XI		RIDF XII		STATE TOTAL	
	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments	Sanc-tions	Disburse-ments
1	14	15	16	17	18	19	20	21	22	23	24	25	26	27
All India	**4,624.72**	**3,947.28**	**5,987.26**	**4.770.28**	**5,592.96**	**4,007.75**	**8.117.03**	**4,732.10**	**8,509.08**	**2,455.59**	**10,555.36**	**1,540.70**	**61,839.87**	**37,559.92**
Southern Region	**1390.02**	**1241.14**	**1718.71**	**1421.57**	**1797.32**	**1270.66**	**2861.46**	**1581.57**	**2623.12**	**636.71**	**2370.14**	**395.75**	**17782.90**	**11127.61**
Andhra Pradesh	610.59	553.96	907.54	715.82	864.96	564.77	1556.03	799.07	1362.40	275.87	787.72	154.98	8160.55	4981.34
Karnataka	234.56	210.39	226.99	192.21	291.13	228.28	412.48	251.85	450.95	102.92	497.64	0.57	3293.79	2093.41
Kerala	191.76	152.21	196.21	158.80	93.50	34.59	235.23	98.81	206.21	54.48	257.72	66.18	1818.64	1131.03
Tamil Nadu	353.11	324.58	387.97	354.74	547.73	443.02	657.72	431.84	603.56	203.44	827.06	174.02	4509.92	2921.83
Western Region	**586.42**	**438.03**	**743.01**	**627.73**	**966.24**	**841.20**	**1407.10**	**1066.51**	**1017.79**	**367.08**	**1597.08**	**128.08**	**9391.28**	**6182.02**
Goa	15.79	9.91	16.10	10.29	0.00	0.00	–	–	0.00	–	0.00	–	66.76	44.72
Gujarat	40.90	21.97	283.82	262.63	899.21	792.92	1311.69	1035.36	916.98	341.30	987.60	128.07	5714.76	3693.65
Maharashtra	529.73	406.15	443.09	354.81	67.03	48.28	95.41	31.15	100.81	25.78	609.48	–	3609.76	2443.65
Northern Region	**1479.07**	**1328.53**	**1544.44**	**1349.44**	**1317.88**	**979.21**	**1806.15**	**1213.73**	**2226.31**	**787.28**	**3205.20**	**471.94**	**16960.66**	**10655.69**
Haryana	149.92	137.69	252.77	213.18	152.77	119.02	171.48	99.34	196.81	51.64	257.11	85.57	1547.72	1040.10
Himachal Pradesh	168.37	172.18	169.60	144.29	141.70	87.82	91.64	55.02	224.67	64.55	273.99	39.79	1513.65	994.93
Jammu & Kashmir	216.80	200.61	175.64	153.72	153.82	104.27	49.36	12.10	79.55	12.80	461.05	111.97	1558.19	992.82
Punjab	231.52	202.53	206.55	190.90	288.18	206.73	312.63	253.08	286.85	110.50	552.66	98.63	2518.40	1632.04
Rajasthan	374.67	341.08	346.75	280.05	140.27	89.79	356.26	207.58	605.13	327.02	766.99	101.98	3473.14	2147.41
Uttar Pradesh	337.79	258.25	322.71	301.95	217.84	180.93	516.34	338.90	783.45	215.64	861.58	34.00	5268.37	3314.46
Uttranchal	–	16.19	70.42	65.35	223.30	190.65	308.44	247.71	49.85	5.13	31.82	–	761.19	533.93
Central Region	**395.64**	**315.46**	**856.53**	**630.00**	**709.33**	**481.51**	**596.04**	**329.06**	**560.08**	**156.04**	**779.72**	**239.7**	**5545.62**	**3637.06**
Chhattisgarh	84.59	68.52	281.30	205.52	432.88	295.77	62.53	27.04	116.84	30.53	51.00	0.92	1331.90	910.59
Madhya Pradesh	311.05	246.94	575.23	424.48	276.45	185.74	533.51	302.02	443.24	125.51	728.72	238.78	4213.72	2726.47
Eastern Region	**672.1**	**525.89**	**966.25**	**634.45**	**544.89**	**284.63**	**1368.31**	**489.34**	**1423.02**	**336.62**	**1932.12**	**243.93**	**9366.75**	**4611.21**
Bihar	58.20	32.98	198.69	140.76	97.24	46.82	290.91	25.00	459.41	88.11	589.80	77.12	1774.38	450.35
Jharkhand	0.00	0.00	–	0.00	49.13	21.90	174.78	80.04	107.44	64.74	331.03	56.98	876.65	389.59
Orissa	148.88	133.31	246.83	185.91	185.11	129.82	375.66	134.17	396.95	54.94	497.93	2.17	2752.27	1417.58
West Bengal	465.02	359.60	520.73	307.78	213.41	86.09	526.96	250.13	459.22	128.83	513.36	107.66	3936.45	2353.69
North Eastern Region	**101.47**	**98.23**	**158.32**	**107.09**	**257.30**	**150.54**	**77.97**	**51.89**	**658.76**	**171.86**	**671.10**	**61.30**	**2792.66**	**1346.33**
Arunachal Pradesh	69.41	68.13	–	–	15.12	14.70	20.14	11.52	136.00	11.90	139.21	13.62	507.53	233.65
Assam	–	–	76.23	48.43	189.75	87.72	13.77	6.75	402.44	131.88	282.74	10.09	1344.35	575.76
Manipur	–	–	–	–	–	–	0.53	0.28	27.59	–	6.89	1.37	45.09	10.51
Meghalaya	18.30	16.66	18.39	14.13	15.52	12.09	–	–	32.03	2.41	31.96	6.38	197.36	130.87
Mizoram	7.33	7.33	2.00	2.00	13.50	13.51	6.90	6.90	19.41	12.74	8.19	–	117.64	102.80
Nagaland	0.95	0.95	6.68	6.68	16.94	16.12	28.66	18.97	34.96	9.19	24.60	6.70	186.31	115.50
Sikkim	5.48	5.16	4.89	4.89	3.30	3.29	7.97	7.47	6.33	3.74	16.21	2.85	78.74	61.30
Tripura	–	–	50.13	30.96	3.17	3.11	–	–	–	–	161.30	20.29	315.64	115.94

– : Nil/Negligible.
Source: NABARD.

Appendix Table IV.12: Kisan Credit Card – State-wise Progress
(as on March 31, 2007)

(Amount in Rs. Lakh)

State/Union Teritory	Co-operative Banks			Regional Rural Banks			Commercial Banks		Total	
	No.	Card Issued	Amount Sanctioned	No.	Card Issued	Amount Sanctioned	Card Issued	Amount Sanctioned	Card Issued	Amount Sanctioned
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh**	22	37,650	96,056	5	1,76,531	37,190	11,64,184	4,98,528	13,78,365	6,31,774
Assam	1	837	48	2	10,928	1,619	22,352	4,431	34,117	6,098
Arunachal Pradesh #	1	–	–	1	67	5	1,342	473	1,409	478
Bihar**	22	–	–	5	1,50,054	55,517	129,322	43,750	279,376	99,267
Gujarat	18	65,000	331,488	3	25,931	28,629	125,827	85,339	216,758	445,456
Goa $	1	303	370	–	–	–	294	267	597	637
Haryana	19	4,799	31,929	2	30,030	30,718	75,918	90,456	110,747	153,103
Himachal Pradesh	3	8,221	436	2	5,128	274	15,559	9,242	28,908	9,952
Jammu & Kashmir	4	2,243	419	3	1,999	2,601	923	475	5,165	3,495
Karnataka	21	75,653	2,579	6	83,331	4,552	227,802	163,577	386,786	170,708
Kerala	14	185,565	57,166	2	31,788	10,547	100,170	42,665	317,523	110,378
Madhya Pradesh	38	157,446	72,739	10	58,623	37,713	157,488	120,451	373,557	230,903
Maharashtra	30	689,742	249,576	7	54,592	41,003	343,362	148,585	1,087,696	439,164
Meghalaya #	1	2,724	355	1	4,968	831	4,264	1,241	11,956	2,427
Mizoram #	1	–	–	1	3,986	1,410	460	137	4,446	1,547
Manipur #	1	12,984	3,303	1	–	–	1,662	394	14,646	3,697
Nagaland #	1	526	29	1	339	164	3,083	676	3,948	869
Orissa	17	181,443	124,622	6	64,627	19,882	102,656	21,806	348,726	166,310
Punjab	19	5,765	22,634	3	14,701	17,265	93,642	141,755	114,108	181,654
Rajasthan	28	97,511	45,611	6	34,591	31,273	132,629	110,461	264,731	187,345
Sikkim #$	1	149	15	–	–	–	536	167	685	182
Tamil Nadu	22	181,082	105,706	2	27,390	12,859	309,731	117,813	518,203	236,378
Tripura #	1	294	34	1	5,681	803	3,867	600	9,842	1,437
Uttar Pradesh	51	280,245	3,971	16	534,048	385,135	543,779	307,228	1,358,072	696,334
West Bengal	20	38,044	86,843	9	42,024	3,117	101,863	24,522	181,931	114,482
Andaman & Nicobar islands #$	1	247	43	–	–	–	219	68	466	111
Chandigarh #$	–	–	–	–	–	–	–	–	–	–
Daman & Diu @#	–	–	–	–	–	–	22	5	22	5
New Delhi #$	1	272	93	–	–	–	741	725	1,013	818
Dadra & Nagar Haveli @$	–	–	–	–	–	–	12	2	12	2
Lakshdweep @$	–	–	–	–	–	–	67	27	67	27
Puducherry #$	1	891	949	–	–	–	6,591	893	7,482	1,842
Jharkhand	8	161,502	39,389	2	1,184	493	38,371	7,884	201,057	47,766
Chhattisgarh	7	101,609	28,570	3	40,562	8,909	33,897	15,203	176,068	52,682
Uttarakhand	10	4,893	9,092	2	2,771	4,806	24,091	18,732	31,755	32,630
Total	**385**	**22,97,640**	**13,14,065**	**102**	**14,05,874**	**7,37,315**	**37,66,726**	**19,78,578**	**74,70,240**	**40,29,958**

– : Nil/Negligible
: SCB functions as CFA.
^ : Data relates to period upto December 31, 2006
@ : No Co-operative banks in these UTs.
$: No RRB in these States/UTs.
** : Co-operatives Data under reconciliation.

Source: NABARD

Appendix Table V.1: Financial Assistance Sanctioned and Disbursed by All-India Financial Institutions

(Amount in Rs. crore)

Institution	Loans*				Underwriting and Direct Subscription				Others				Total				Percentage variation over 2005-06	
	2005-06		2006-07		2005-06		2006-07		2005-06		2006-07		2005-06		2006-07			
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
A. All India Term-Lending Institutions (1 to 3)	**11,974.8**	**9,286.8**	**12,234.4**	**10,678.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,974.8**	**9,286.8**	**12,234.4**	**10,678.5**	**2.2**	**15.0**
1. IFCI	–	187.0	1,050.0	550.0	–	–	–	–	–	–	–	–	–	187.0	1,050.0	550.0	–	194.0
2. SIDBI	11,974.8	9,099.8	11,184.4	10,128.5	–	–	–	–	–	–	–	–	11,974.8	9,099.8	11,184.4	10,128.5	-6.6	11.3
3. IIBI #	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
B. Specialised Financial Institutions (4 to 6)	**100.2**	**65.2**	**214.0**	**88.8**	**–**	**–**	**–**	**–**	**32.8**	**22.8**	**31.4**	**31.4**	**133.0**	**88.0**	**245.4**	**120.2**	**84.5**	**36.6**
4. IVCF	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5. ICICI Venture	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
6. TFCI	100.2	65.2	214.0	88.8	–	–	–	–	32.8	22.8	31.4	31.4	133.0	88.0	245.4	120.2	84.5	36.7
C. Investment Institutions (7 to 8)	**1,342.5**	**2,036.9**	**3,635.0**	**2,946.1**	**14,211.1**	**9,620.8**	**15,116.0**	**24,799.6**	**4.0**	**113.0**	**8.2**	**111.4**	**15,557.6**	**11,770.7**	**18,759.2**	**27,857.1**	**20.6**	**136.7**
7. LIC	1,342.5	2,020.3	3,635.0	2,937.7	13,822.1	9,179.2	14,491.9	24,079.3	–	–	–	–	15,164.6	11,199.5	18,126.9	27,017.0	19.5	141.2
8. GIC @	–	16.6	–	8.4	389.0	441.6	624.1	720.3	4.0	113.0	8.2	111.4	393.0	571.2	632.3	840.1	60.9	47.1
D. Total Assistance by All-India Financial Institutions (A+B+C)	**13,417.5**	**11,388.9**	**16,083.4**	**13,713.4**	**14,211.1**	**9,620.8**	**15,116.0**	**24,799.6**	**36.8**	**135.8**	**39.6**	**142.8**	**27,665.4**	**21,145.5**	**31,239.0**	**38,655.8**	**12.9**	**82.8**

S : Sanctions. D : Disbursements. – : Nil .. : Not Available. # : IIBI is in the process of voluntary winding up

* : Loans include rupee loans, foreign currency loans and guarantees.

@ : Data include GIC and its former subsidiaries.

Note : Data are provisional.

Source : Respective Financial Institutions.

Appendix Table V.2: Resources Raised by Select All-India Financial Institutions*

(Amount in Rs. crore)

Institutions/Year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10
TFCI									
Resources Raised	158	104	124	112	93	172	23	66	–
Outstandings	711	753	676	667	632	546	429	390	331
EXIM Bank									
Resources Raised	500	1,281	565	1,098	4,923	6,881	5,301	7,446	10,620
Outstandings	1,275	3,842	4,068	5,303	9,154	12,752	11,771	15,836	21,137
SIDBI									
Resources Raised	580	635	1,076	1,557	1,547	2,972	2,434	3,489	2,176
Outstandings	10,324	10,756	10,442	10,074	9,607	10,535	9,346	11,030	10,928
NABARD									
Resources Raised	354	569	1,472	2,548	2,988	5,334	10,642	8,395	10,899
Outstandings	1,632	2,141	3,614	6,078	8,702	11,883	26,429	23,313	31,260
NHB									
Resources Raised	575	667	500	238	2,984	3,290	3,482	6,562	12,761
Outstandings	4,074	4,807	5,256	4,830	7,932	10,569	12,395	16,344	18,475
Total Resources Raised	**2,167**	**3,256**	**3,737**	**5,553**	**12,535**	**18,649**	**21,882**	**25,958**	**36,456**
Total Outstandings	**18,016**	**22,299**	**24,056**	**26,952**	**36,027**	**46,285**	**60,370**	**66,913**	**82,131**

– : Nil/Negligible.

* : Includes long-term (bonds and borrowings), short-term (CP, TDs, ICDs, CPs and Term Money) and foreign currecny resources (bonds and borrowings).

Note : Data are provisional.

Source : Respective FIs.

Appendix Table V.3: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/ Deployment of Funds	2005-06								Total		2006-07								Total	
	Quarter ended										Quarter ended									
	June		September		December		March				June		September		December		March			
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Sources of Funds (i+ii+iii)	**16,995**	**100.0**	**20,233**	**100.0**	**30,859**	**100.0**	**32,368**	**100.0**	**1,00,456**	**100.0**	**29,888**	**100.0**	**44,811**	**100.0**	**43,760**	**100.0**	**62,403**	**100.0**	**1,80,862**	**100.0**
i) Internal	13,359	78.6	14,001	69.2	20,222	65.5	15,975	49.4	63,557	63.3	18,192	60.9	22,487	50.2	16,823	38.4	24,939	40.0	82,441	45.6
ii) External	3,298	19.4	6,088	30.1	9,543	30.9	14,547	44.9	33,475	33.3	10,437	34.9	21,037	46.9	21,923	50.1	34,447	55.2	87,844	48.6
iii) Others	338	2.0	144	0.7	1,094	3.5	1,847	5.7	3,424	3.4	1,259	4.2	1,287	2.9	5,014	11.5	3,017	4.8	10,578	5.8
Deployment of Funds (i+ii+iii)	**16,995**	**100.0**	**20,233**	**100.0**	**30,859**	**100.0**	**32,368**	**100.0**	**1,00,456**	**100.0**	**29,888**	**100.0**	**44,811**	**100.0**	**43,760**	**100.0**	**62,403**	**100.0**	**1,80,862**	**100.0**
i) Fresh Deployments	10,725	63.1	13,925	68.8	25,307	82.0	22,316	68.9	72,273	71.9	20,128	67.3	28,318	63.2	23,276	53.2	34,574	55.4	1,06,295	58.8
ii) Repayment of past borrowings	3,474	20.4	3,978	19.7	1,916	6.2	5,034	15.6	14,402	14.3	4,803	16.1	13,170	29.4	15,161	34.6	23,301	37.3	56,436	31.2
iii) Other Deployments	2,796	16.5	2,330	11.5	3,636	11.8	5,018	15.5	13,781	13.7	4,957	16.6	3,323	7.4	5,323	12.2	4,528	7.3	18,132	10.0
of which : Interest Payment	1,147	6.7	1,007	5.0	1,120	3.6	1,229	3.8	4,502	4.5	1,275	4.3	1,294	2.9	1,439	3.3	1,559	2.5	5,567	3.1

* : Includes IFCI, TFCI, NABARD, NHB, SIDBI and EXIM Bank.

Source: Respective FIs.

Appendix Table V.4: Weighted Average cost/Maturity of Resources raised by way of Rupee bonds/ debentures* by select all-India FIs

(per cent)

Institutions/Year	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
IFCI										
Weighted Average Cost	13.0	13.9	12.9	12.5	11.1	9.6	8.2	–	7.8	7.6
Weighted Average Maturity	5.3	5.7	7.0	6.5	6.8	2.2	3.2	–	7.2	8.6
TFCI										
Weighted Average Cost	14.1	14.1	12.5	11.8	10.5	8.5	8.6	10.4	10.1	9.9
Weighted Average Maturity	4.6	5.7	5.2	9.0	5.9	10.1	10.0	4.8	5.2	4.3
EXIM Bank										
Weighted Average Cost	12.5	12.9	12.5	12.2	10.8	8.9	5.9	6.9	6.9	7.3
Weighted Average Maturity	6.4	5.6	4.2	3.6	6.4	6.1	6.7	5.1	4.6	4.9
SIDBI										
Weighted Average Cost	12.3	12.4	9.7	9.8	7.5	6.5	4.9	6.3	5.9	6.5
Weighted Average Maturity	10.0	10.0	2.6	1.3	1.0	2.3	2.8	7.0	3.9	4.5
NABARD										
Weighted Average Cost	9.8	11.2	10.6	9.5	8.0	6.1	5.4	6.6	5.8	8.7
Weighted Average Maturity	8.2	8.0	5.4	3.0	3.0	5.4	5.4	2.1	3.5	5.0
NHB										
Weighted Average Cost	10.5	11.2	11.1	10.2	8.7	6.4	5.4	6.5	6.4	7.5
Weighted Average Maturity	8.9	9.0	9.5	5.8	7.4	4.0	3.2	2.8	2.2	2.0

– : Nil/Negligible.

* : Includes only rupee resources and does not include foreign currency borrowings.

* : Data are provisional.

Source : Respective FIs.

Appendix Table V.5: Select Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of the Primary Dealer	Capital Funds (Tier I + Tier II + eligible Tier III)		CRAR (per cent)		Stock of Government Securities and Treasury bills (Book Value/MTM)		Total Assets (Net of current liabilities and provisions)	
		2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10
1.	Securities Trading Corporation of India Ltd.	860	610	75	32	1,712	1,409	2,981	3,404
2.	SBI DFHI Ltd.	959	1,009	148	80	1,493	627	1,603	1,289
3.	ICICI Securities Ltd.	415	556	26	23	613	531	1,428	1,523
4.	PNB Gilts Ltd.	483	493	40	34	1,730	1,872	2,192	2,306
5.	ABN AMRO Securities (India) Pvt. Ltd.	147	149	39	34	274	306	450	578
6.	DSP Merrill Lynch Ltd.	625	675	45	25	161	2,053	982	3,468
7.	Deutshce Securities (India) Pvt. Ltd.	182	192	41	66	271	591	426	626
8.	IDBI Capital Market Services Ltd.	557	341	46	22	392	23	687	363
	TOTAL	**4,229**	**4,026**	**53**	**33**	**6,646**	**7,412**	**10,749**	**13,557**

Source: Capital Funds and CRAR from PDR III of March 2007.

Appendix Table V.6: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of the Primary Dealer	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Net worth (per cent)
			Interest Income including Discount Income	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expenses	Total Expen-diture			
1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Securities Trading Corporation of India Ltd.	2005-06	176	-21	5	160	113	10	123	37	24	2.7
		2006-07	151	-61	9	99	105	17	121	-23	-14	-1.5
2.	SBI DFHI LTD.	2005-06	107	-58	3	51	42	7	49	3	2	0.3
		2006-07	90	-8	6	89	22	6	29	60	53	6.1
3.	ICICI Securities Ltd.	2005-06	167	106	134	406	109	82	192	214	148	35.6
		2006-07	197	106	122	425	149	86	235	190	133	32.3
4.	PNB Gilts Ltd.	2005-06	143	-23	6	127	92	7	99	29	30	5.7
		2006-07	157	-35	5	126	103	6	110	16	16	3.2
5.	ABN AMRO Securities (India) Pvt Ltd.	2005-06	47	-15	24	56	34	10	44	12	7	4.8
		2006-07	57	-12	67	112	41	25	66	46	31	18.1
6.	DSP Merrill Lynch Ltd.	2005-06	43	34	604	680	19	250	269	411	286	50.5
		2006-07	205	22	736	964	164	466	631	333	223	19.3
7.	Deutsche Securities (India) Pvt Ltd.	2005-06	43	8	2	53	27	6	32	21	13	7.7
		2006-07	80	9	4	94	56	8	64	30	20	11.0
8.	IDBI Capital Market Services Ltd.	2005-06	88	16	24	128	50	27	76	51	46	10.2
		2006-07	49	-39	31	41	27	31	58	-18	-18	-21.9
	TOTAL	**2005-06**	**814**	**46**	**802**	**1,661**	**485**	**398**	**884**	**778**	**557**	**13.6**
		2006-07	**986**	**-17**	**979**	**1,950**	**668**	**645**	**1,314**	**636**	**444**	**9.5**