Report on Trend and Progress of Banking in India for the year ended June 30, 2008 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 2007-08

RESERVE BANK OF INDIA

Sale Price:

In India	–	Rs. 425	(Normal)
	–	Rs. 475	(Inclusive of Postal Charges)
	–	Rs. 320	(Concessional)
	–	Rs. 370	(Concessional Inclusive of Postal Charges)
Abroad	–	US $ 38	(Inclusive of Air Mail Courier Charges)
		US $ 37	(Inclusive of Air Mail Book Post Charges)

Published by Rekha Misra for the Reserve Bank of India, Mumbai 400 001 and designed and printed by her at Jayant Printery, 352/54, Murlidhar Compound, Girgaum Road, Mumbai - 400 002.

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

गवर्नर
Governor

LETTER OF TRANSMITTAL

DEAP.DBD. 7515 / 13.01.01/ 2008-09

December 17, 2008
Agrahayana 26, 1930 (Saka)

The Finance Secretary
Government of India
Ministry of Finance
New Delhi - 110 001

Dear Mr. Secretary,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I have pleasure in transmitting herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 2008.

Yours faithfully,

(D. Subbarao)

केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, मुम्बई - 400 001. भारत
फोन : (022) 2266 0868 / 2266 1872 / 2266 2644 फैक्स : (022) 2266 1784 ई-मेल : rbigovr@bom3.vsnl.net.in

Central Office Building, Shahid Bhagat Singh Marg, Mumbai - 400 001. INDIA
Tel : (022) 2266 0868 / 2266 1872 / 2266 2644 Fax : (022) 2266 1784 E-mail : rbigovr@bom3.vsnl.net.in

Contents

List of Boxes

List of Tables

List of Charts

List of Appendix Tables

List of Select Abbreviations

AACS	As Applicable to Co-operative Societies
ABC	Adjusted Bank Credit
AD	Authorised Dealer
ADR	American Depository Receipt
ADS	Access Development Services
AEBC	American Express Banking Corporation
AEBL	American Express Bank Limited
AFC	Asset Finance Company
AFS	Available for Sale
AICCCA	Association of Independent Consumer Credit Counselling Agencies
AIFI	All-India Financial Institution
ALD	Aggregate Liability to Depositors
ALM	Asset-Liability Management
AMC	Asset Management Company
AML	Anti-Money Laundering
ANBC	Adjusted Net Bank Credit
APRACA	Asia Pacific Regional Agricultural Credit Association
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Ltd.
ASEAN	Association of South-east Asian Nations
ATM	Automated Teller Machine
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning Process
BCSBI	Banking Codes and Standards Boards of India
BF	Business Facilitator
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BG	Bank Guarantee
BLA	Bond Ledger Account
BO	Banking Ombudsman
BoP	Balance of Payments
BoS	Board of Supervision
BOS	Banking Ombudsman Scheme
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Regulation and Supervision of Payment and Settlement Systems
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange
BSR	Basic Statistical Return
CA	Chartered Accountant
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CAR	Capacity Assessment Rating
CAS	Common Accounting System
CBI	Central Bureau of Investigation
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CCCS	Consumer Credit Counselling Service

CCDM	Credit Counselling and Debt Management
CCF	Credit Conversion Factors
CCIL	Clearing Corporation of India Ltd.
CCP	Central Counter Party
CCS	Co-operative Credit Structure
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDBS	Committee of Direction on Banking Statistics
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CEM	Current Exposure Method
CEO	Chief Executive Officer
CEOBSE	Credit Equivalent Amount of Off-Balance Sheet Exposures
CFCAC	Committee on Fuller Capital Account Convertibility
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statements
CFSA	Committee on Financial Sector Assessment
CFT	Combating Financing of Terrorism
CGF	Credit Guarantee Fund
CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
CGTSI	Credit Guarantee Trust for Small Industries
CIBIL	Credit Information Bureau of India Limited
CIC	Credit Information Company
CLCC	Central Level Co-ordination Committee
CLCSS	Credit Linked Capital Subsidy Scheme
CLF	Collateralised Lending Facility
CMA	Credit Monitoring Arrangements
CMP	Conflict Management Policy
COBIT	Control Objectives for Information and related Technology
CoR	Certificate of Registration
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
CRA	Credit Rating Agency
CRAR	Capital to Risk-Weighted Assets Ratio
CRCS	Central Registrar of Co-operative Societies
CRISIL	Credit Rating Information Services of India Limited
CRR	Cash Reserve Ratio
CSA	Co-operative Societies Act
CSD	Customer Service Department
CSGL	Constituent Subsidiary General Ledger
CSO	Central Statistical Organisation
CSR	Corporate Social Responsibilsity
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
DCC	District Consultative Committee
DCCB	District Central Co-operative Banks
DCRR	Department for Co-operative Revival and Reforms
DER	Debt Equity Ratio
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DLIC	District Level Implementing and Monitoring Committee
DMA	Direct Marketing Agent
DNSS	Deferred Net Settlement Systems
DoT	Department of Telecommunications
DPSS	Department of Payment and Settlement Systems
DR	Disaster Recovery
DRI	Differential Rate of Interest
DRIP	District Rural Industries Project
DRT	Debt Recovery Tribunal
DSA	Direct Sales Agent
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
DvP	Delivery *versus* Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECM	Economic Capital Model
ECS	Electronic Clearing Services
EDC	Enterprise Development Centre
EDF	Expected Default Frequency
EEFC	Exchange Earners' Foreign Currency
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
ETF	Empowered Task Force
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FAQs	Frequently Asked Questions
FATF	Financial Action Task Force
FBT	Fringe Benefit Tax
FC	Financial Conglomerate
FCAC	Fuller Capital Account Convertibility
FCCB	Foreign Currency Convertible Bond
FCEB	Foreign Currency Exchangeable Bond
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 Fledged Money Changer
FI	Financial Institution
FIF	Financial Inclusion Fund
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
FITF	Financial Inclusion Technology Fund
FIU-IND	Financial Intelligence Unit - India
FMC	Forward Markets Commission
FMD	Financial Markets Department
FRA	Forward Rate Agreements
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System

FSA	Financial Services Authority
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSR	Financial Stability Report
FST	Financial Sector Technology
GB	*Grameen* Bank
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 Line of Credit
GSA	Graded Supervisory Action
GTS	*Grameen Tatkal* Scheme
HFC	Housing Finance Company
HFT	Held for Trading
HR	Human Resources
HRD	Human Resource Development
HTM	Held to Maturity
IADI	International Association of Deposit Insurers
IAS	International Accounting Standards
IBA	Indian Banks' Association
IBS	International Banking Statistics
ICAAP	Internal Capital Adequacy Assessment Process
ICAI	Institute of Chartered Accountants of India
I-CAT	Institutional Capacity Assessment Tool
ICCOMS	Integrated Currency Chest Operations and Management System
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company
IDL	Intra-Day Liquidity
IDR	Investment-Deposit Ratio
IDRBT	Institute for Development and Research in Banking Technology
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
IL & FS	Infrastructure Leasing and Financial Services Ltd.
IMD	India Millennium Deposit
IMF	International Monetary Fund
IMGC	Indian Mortgage Guarantee Company
INFINET	Indian Financial Network
IO	Inspecting Officers
IOSCO	International Organization of Securities Commissions
IPA	Issuing and Payment Agent
IPC	Irrevocable Payment Commitments
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offering
IRB	Internal Rating Based
IRDA	Insurance Regulatory and Development Authority
IRDP	Integrated Rural Development Programme
IRF	Interest Rate Futures
IRS	Interest Rate Swaps

IS	Information System
IT	Information Technology
ITE	Intra-Group Transactions and Exposure
ITGGSM	Internal Technical Group on Government Securities Market
ITGI	IT Governance Institute
ITIL	IT Infrastructure Library
IWG	Internal Working Group
JLG	Joint Liability Group
JPC	Joint Parliamentary Committee
KCC	*Kisan* Credit Card
KVIB	*Khadi* and Village Industries Board
KVK	*Krishi Vikas Kendras*
KYC	Know Your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LIBOR	London Inter-Bank Offered Rate
LC	Letter of Credit
LIC	Life Insurance Corporation of India
LME	London Metal Exchange
LoC	Letter of Comfort
LOLR	Lender of Last Resort
LTCCS	Long-Term Co-operative Credit Structure
LTV	Loan-to-Value
M3	Broad Money
MAP	Monitorable Action Plan
MCX	Multi Commodity Exchange of India Ltd.
MEDP	Micro Enterprise Development Programme
MF	Mutual Fund
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MGCS	Mortgage Guarantee Companies
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
ML	Money Laundering
MLRO	Money Laundering Reporting Office
MMBCS	Magnetic Media Based Clearing System
MMS	Multi-Modal Settlements
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MoU	Memorandum of Understanding
MPLS	Multi-Protocol Layer Switching
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprise
MSOE	Minimum Standard for Operational Efficiency
MSS	Market Stabilisation Scheme
MTSS	Money Transfer Service Scheme
NABARD	National Bank for Agriculture and Rural Development
NAFCUB	National Federation of Co-operative Urban Banks
NAFSCOB	National Federation of State Co-operative Banks
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NCDEX	National Commodity and Derivatives Exchange Ltd.
NCEUS	National Commission for Enterprises in the Unorganised Sector
NDC	No Dues Certificate
NDS	Negotiated Dealing System
NDS-OM	Negotiated Dealing System-Order Matching

NDTL	Net Demand and Time Liabilities
NECS	National Electronic Clearing Services
NEDFC	North Eastern Development Finance Corporation
NEFT	National Electronic Funds Transfer
NFCC	National Foundation for Credit Counselling
NFGBC	Non-food Gross Bank Credit
NFR	Non-Financial Reporting
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
NPV	Net Present Value
NRRDA	National Rural Roads Development Agency
NR(E)RA	Non-Resident (External) Rupee Account
NRE	Non-Resident External
NRI	Non-Resident Indian
NRO	Non-Resdident Rupee Ordinary (Account)
NSE	National Stock Exchange
NSLRS	National Scheme for Liberation and Rehabilitation of Scavengers
OBE	Off-Balance Sheet Exposure
OBS	Off-Balance Sheet
OBU	Off-Shore Banking Units
OECD	Organisation for Economic Corporation and Development
OLRR	On-line Reject Repair
OLTAS	On-line Tax Accounting System
OMO	Open Market Operations
ORFS	Online Returns Filing System
OSAO	Other than Seasonal Agricultural Operations
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
PAN	Permanent Account Number
PBR	Principles-based Regulation
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCPS	Perpetual Cumulative Preference Shares
PCR	Public Credit Registry
PD	Primary Dealer
PDO-NDS	Public Debt Office-Negotiated Dealing System
PDI	Perpetual Debt Instruments
PFM	Pension Fund Management
PFRDA	Pension Fund Regulatory and Development Authority
PIMC	Project Implementation Monitoring Committee
PIO	Principal Inspection Officer
PKI	Public Key Infrastructure
PLR	Prime Lending Rate

PMLA	Prevention of Money Laundering Act
PMRY	Prime Minister's *Rozgar Yojna*
PNCPS	Perpetual Non-Cumulative Preference Shares
POL	Petroleum, Oil and Lubricants
POS	Point of Sale
PPID	Pilot Project for Integrated Development
PRI	*Panchayati Raj* Institutions
PSB	Public Sector Bank
PSE	Public Sector Enterprise
QIS	Quantitative Impact Study
RBI	Reserve Bank of India
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RCPS	Redeemable Cumulative Preference Shares
RCS	Registrar of Co-operative Societies
REDP	Rural Entrepreneurship Development Programme
REGP	Rural Employment Generation Programme
RFA	Revolving Fund Assistance
RIDF	Rural Infrastructure Development Fund
RIF	Rural Innovation Fund
RML	Reverse Mortgage Loan
RNBC	Residuary Non-Banking Company
RNCPS	Redeemable Non-Cumulative Preference Shares
RoA	Return on Assets
ROC	Registrar of Companies
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement
RUDSETI	Rural Development and Self-Employed Training Institute
SAA	Service Area Approach
SAARC	South Asian Association for Regional Co-operation
SACP	Special Agricultural Credit Plan
SACRED	Scheme for Agricultural Credit Development
SAO	Seasonal Agricultural Operations
SAR	Self-Assessment Report
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SARS	Severe Acute Respiratory Syndrome
SBI	State Bank of India
SBLP	SHG-Bank Linkage Programme
SC	Scheduled Caste
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SCC	*Swarozgar* Credit Card
SD	Sustainable Development
SDL	State Development Loan
SDP	Skill Development Programme
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBs	Salary Earners' Banks
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
SFIO	Serious Frauds Investigation Office
SFMS	Structured Financial Messaging System
SGL	Subsidiary General Ledger
SGSY	*Swarnjayanti Gram Swarozgar 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
SLBC	State Level Bankers' Committee
SLEPCS	State Level Export Promotion Committees
SLIC	State Level Implementing and Monitoring Committee
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SMO	Special Market Operations
SPV	Special Purpose Vehicle
SR	Security Receipt
SRMS	Scheme for Rehabilitation of Manual Scavengers
SRP	Supervisory Review Process
SSC	Special Sub-Committees
SSI	Small Scale Industry
SSS	Securities Settlement System
ST	Scheduled Tribe
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
STCRE	Short-Term Co-operative Rural Credit
STP	Straight Through Processing
STR	Suspicious Transaction Report
STRIPS	Separate Trading for Registered Interest and Principal of Securities
SWIFT	Society for Worldwide Financial Telecommunication
TAC	Technical Advisory Committee
TACMP	Technical Advisory Committee on Monetary Policy
TAFCUB	Task Force for Co-operative Urban Banks
TDF	Tribal Development Fund
TF	Terrorist Financing
TFCI	Tourism Finance Corporation of India
TPC	Training-cum-Production Centre
TSPs	Technical Service Providers
UBB	Uniform Balance Book
UCB	Urban Co-operative Bank
UCC	Unsolicited Commercial Communication
UIA	United India Assurance Company Ltd.
UN	United Nations
USA	United States of America
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee
VCF	Venture Capital Fund
VDP	Village Development Programme
VKC	Village Knowledge Centre
VPN	Virtual Private Networks
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WDC	Women Development Cell
WDF	Watershed Development Fund
WEO	World Economic Outlook
WGRFIS	Working Group on Future Role of Financial Institutions
WPI	Wholesale Price Index
XBRL	eXtensible Business Reporting Language
XML	eXtensible Markup Language

Chapter I

OVERVIEW

Global Economy

Developments during 2007

1.1 The global economy, after a sustained period of expansion, is now entering into a phase of downturn on account of the global financial crisis. Global GDP rose on an average by 5 per cent a year for the four-year period spanning 2004-2007, its highest sustained rate since the early 1970s. Global GDP expanded by 5.0 per cent in 2007. About three-fourths of the global growth (measured on a purchasing power parity basis) was attributable to the broad-based growth in the emerging and developing economies, particularly China (11.9 per cent), India (9.3 per cent) and Russia (8.1 per cent). Advanced economies exhibited a growth rate of 2.6 per cent, with the US growing at 2.0 per cent, Euro Area 2.6 per cent and Japan 2.1 per cent.

1.2 Inflation remained generally contained, *albeit* with some upward drift. Headline inflation in major advanced countries, after showing some moderation up to August 2007, firmed up beginning September 2007. Amongst major economies, headline inflation in December 2007 was 4.1 per cent in the US, 2.1 per cent in the UK, 3.1 per cent in the Euro area, and 0.7 per cent in Japan as compared with 2.5 per cent, 3.0 per cent, 1.9 per cent and 0.3 per cent, respectively, in December 2006. The increased domestic demand combined with rising food, metal and energy prices also led to the build-up of inflationary pressures in a number of countries in emerging Asia.

1.3 International financial markets witnessed a turbulence beginning August 2007, triggered by the US sub-prime mortgage market, which then spread in subsequent months. Losses were recorded worldwide by financial institutions, which consequently undertook huge write-offs, with some of the largest international banks recording considerable decline in profits.

1.4 During the period from June 2007, concerns over losses on US sub-prime mortgage loans escalated into widespread financial stress, raising fears about the stability of banks and other financial institutions. Global credit markets experienced a large scale sell-off during the period, as broad-based deleveraging was combined with uncertainty about the size and valuation of credit exposures. In the process, credit spreads across markets widened markedly from the unusually tight levels observed in early 2007. Rising spreads coincided with a substantial increase in volatilities implied by credit default swap (CDS) index options. After a spike early during the turmoil, volatility has remained elevated relative to the levels observed since the inception of the index in 2002-03, indicating heightened uncertainty about short-run developments. Plummeting investor risk tolerance, in turn, resulted in sharply rising risk premia for credit products. The price of credit risk, as extracted from credit spread implied and empirical default probabilities of lower-quality borrowers, increased markedly in June and July 2008, and further in the

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

latter part of 2008. As the activity in asset backed commercial paper (ABCP) dwindled, concerns about banks being forced to take ABCP exposures on to their balance sheets generated apprehensions about an impending credit crunch. Inability of commercial paper issuing vehicles to finance at longer maturities induced them to seek liquidity needs from their sponsor banks, which, in turn, prompted banks to hoard liquidity. The uncertainty about the quality of counterparty assets also aggravated the situation. The disturbances, thus, spilled over into the short-term money markets, causing steep increases in overnight interest rates in major economies in August 2007 as banks sought to conserve their own liquidity in the face of pressures to absorb assets from off-balance sheet vehicles for which they were no longer able to obtain funding and uncertainty about the size and distribution of banks' losses on the holding of sub-prime securities and other structured credits.

1.5 The UK witnessed some of the sharpest increases in inter-bank rates as liquidity requirements at the mortgage lender Northern Rock became more pronounced eventually triggering a bank run. The government bond yields in industrialised countries declined sharply reflecting risk aversion and consequent flight of investors to safety. The US 10-year bond yield declined from 5.19 per cent on June 13, 2007, to 3.42 per cent on January 23, 2008. The 10-year bond yield in the euro area declined from 4.63 per cent on July 9, 2007 to 3.88 per cent on January 23, 2008. The Japanese 10-year bond yield fell from 1.94 per cent on June 13, 2007 to 1.34 per cent on January 23, 2008. Equity prices in the advanced industrial economies began to fall over the summer of 2007, following the widening of CDS spreads during the onset of the credit market turmoil. Worsening of the US macroeconomic outlook triggered worries about future profits and depressed investors' risk tolerance. During the first half of 2007, emerging market asset prices soared, underpinned by yet another year of strong economic performance and strong portfolio capital flows into their equity markets. In the second half of the year, however, emerging market asset values experienced considerable swings in line with the general repricing of risk, although these swings were not as large as those observed in some mature economies at that time.

1.6 Foreign exchange markets experienced a substantial increase in volatility in August 2007 as a consequence of significant dislocations in other financial markets. This marked an important change in the factors driving market developments. After June 2007, the steady depreciation of the US dollar quickened. During 2006 and the first six months of 2007, the US dollar depreciated against the euro at an annualised rate of 9 per cent and appreciated marginally against the yen. Between the beginning of July 2007 and the end of April 2008, the annualised rate of depreciation increased to around 20 per cent against both currencies. Similarly, sterling depreciated by almost 15 per cent in effective terms between July 2007 and April 2008. Other currencies, such as the Russian rouble, depreciated steadily in nominal effective terms over this period. In contrast, a number of other currencies appreciated in effective terms in the second half of 2007 and into 2008.

Developments during 2008

1.7 The global financial turmoil has accentuated significantly during 2008 so far and its adverse impact on the real sector is clearly in evidence. Many advanced economies are experiencing recessionary conditions. Growth in emerging market economies is also weakening. The financial crisis seems to have entered a new turbulent phase since September 2008 which has severely impaired confidence in global financial institutions and markets. According to the World Economic Outlook Update by the International Monetary Fund (IMF) in November 2008, prospects for global growth have deteriorated as financial sector deleveraging has continued and producer and consumer confidence have fallen. Accordingly, world output is projected to decelerate to 3.7 per cent in 2008 and further to 2.2 per cent in 2009.

1.8 Slowdown has been witnessed in both advanced and emerging market economies in the second quarter of 2008. All major advanced economies such as Euro Area, Japan, Korea, the UK, the US and OECD countries registered decelerated growth in the second quarter of 2008, as compared with that in the first quarter of 2008. The deceleration in growth was also exhibited by emerging and developing economies such as Argentina, China, India, Malaysia and Thailand in the second quarter of 2008.

1.9 Headline inflation firmed up in major economies up to August 2008, reflecting the combined impact of elevated food and fuel prices, as well as strong demand conditions, especially in emerging markets. Subsequently, inflation eased on account of marked decline in food and fuel prices as well as augmentation of downward risks to growth from the intensification of global financial market crisis. Amongst major economies, headline inflation increased in the US to 5.6 per cent in July 2008 (from 2.4 per cent a year earlier) before declining to 3.7 per cent in October 2008. In the UK, CPI inflation rose to 5.2 per cent in September 2008 (from 1.8 per cent), but moderated to 4.5 per cent by October 2008 and in the euro area to 4.0 per cent in July 2008 (from 1.8 per cent) before falling sharply to 2.1 per cent by November 2008. Inflation firmed up in most emerging market economies (EMEs) on the back of strong growth, elevated commodity prices and ample liquidity up to August 2008, but moderated thereafter. Globally, inflation has, however, softened in several countries in recent months. According to the IMF, the combination of stabilising commodity prices and slowdown of the economy would help contain inflationary pressures.

1.10 Strains in financial markets increased significantly as negative cyclical expectations were fuelled by further weakness in housing markets. There was further increase in mortgage delinquencies and foreclosures in the US, with house price depreciation projected to extend well into the future. Sentiment deteriorated further as concerns mounted about the losses and longer-term prospects of two US Government sponsored mortgage securitisation companies, *viz.*, Fannie Mae and Freddie Mac.

1.11 While markets continued to be fragile, worries about the economic outlook and related uncertainties gained prominence, weighing on valuations across asset classes. Credit markets witnessed renewed pressure from end-May 2008 as spreads widened to reflect the implications of the ongoing cyclical adjustment for loss expectations and financial sector balance sheets. Corporate earnings and credit quality eroded as input cost increased and demand subsided in an environment of higher inflation and lower growth. Bond yields in major advanced economies declined, reflecting a flight to safety, worsening growth outlook, but possibly improving near-term inflation outlook. Equity markets declined further on concerns about growth, news of further financial losses by leading investment banks and deteriorating earnings. In the inter-bank money markets, funding pressures continued and spreads between the London inter-bank offer rate (LIBOR) and corresponding overnight indexed swap (OIS) rates widened on the back of renewed concerns about financial sector write-downs, weak equity markets, counterparty credit risk and liquidity factors. CDS spreads rose with the US five-year CDX high-yield index spread widening by almost 136 basis points to over 700 by late August 2008. European and Japanese CDS indices broadly mirrored the performance of their US counterparts.

1.12 During the third quarter of 2008, short-term interest rates in advanced economies witnessed a mixed trend, moving broadly in tandem with the policy rates. In the US, short-term interest rates declined. The US Fed kept its fed funds rate target unchanged at 2.0 per cent in its meetings in June, August and September 2008. The pause occurred after a series of consecutive reductions in the fed funds rate target undertaken between September 18, 2007 and April 30, 2008. In the UK, short-term interest rates increased, notwithstanding cut in the policy rate in the second half of 2007-08 and also in April 2008. The Bank of England, which had increased its policy rate in May 2007 and July 2007, reduced the rate in December 2007, February 2008 and April 2008 to 5.0 per cent in the wake of concerns over slow growth. Short-term interest rates increased in the Euro Area during the quarter ended September 2008. The European Central Bank raised its refinance rate by 25 basis points on July 3, 2008. In the EMEs, short-term interest rates generally softened in Argentina, China and the Philippines, but firmed up in Brazil, Hong Kong, Malaysia, Singapore, South Korea and Thailand. In September 2008, the People's Bank of China reduced its benchmark lending rate by 0.27 percentage points and also reduced its reserve requirement ratio by one percentage point. The half-point coordinated rate cut by six major central banks, *viz*., the Federal Reserve, the European Central Bank (ECB), the Bank of England, the Riksbank, the Swiss National Bank and the Bank of Canada, on October 7, 2008 has been an unprecedented move to abate the panic in global equity and inter-bank markets. The Federal Reserve further reduced the policy rate by 50 basis points to 1.0 per cent on October 29, 2008, the Bank of England by 150 basis points to 3.0 per cent on November 6, 2008 and the Riksbank by 50 basis points to 3.75 per cent on October 29, 2008.

1.13 Long-term government bond yields in major advanced economies, which had softened at end-March 2008, hardened during the second quarter of 2008 and again softened during the third quarter of 2008, reflecting worsening growth expectations and improved near-term inflation outlook.

1.14 Equity markets, which had recovered somewhat during April-May 2008, turned extremely volatile thereafter. During the third quarter of 2008, equity markets in most of the developed economies and in EMEs declined on the back of negative news about the health of financial institutions, rising oil prices, concerns over economic slowdown in the US, Europe and Asia, extension of credit losses, high inflation and fears over decline in corporate earnings.

1.15 In the foreign exchange market, the US dollar which had depreciated during April-July 2008, appreciated from early-August 2008, notwithstanding an increase in the unemployment rate and persistent low housing sales. The US dollar's strength from early-August 2008, however, reflected narrowing of these growth differential between the US and Europe, liquidation of positions in the overseas equity and bond markets by US investors and repatriation of the money back to the US due to slowing growth in the Euro area. Between March 2008 and November 2008, the US dollar appreciated by 24.2 per cent against the Euro, 29.7 per cent against the Pound sterling but depreciated 4.8 per cent against the yen. Amongst Asian currencies, the US dollar depreciated by 2.7 per cent against Chinese yuan, but appreciated by 52.2 per cent against Korean won, 24.7 per cent against the Indian rupee, 16.4 per cent against the Russian rouble, 13.6 per cent against the Malaysian ringgit and 11.9 per cent against Thai baht.

Indian Economy

Macro Environment

1.16 The Indian economy continued to record strong growth during 2007-08, *albeit* with some moderation. Real gross domestic product (GDP) growth rate at 9.0 per cent during 2007-08 moderated from 9.6 per cent during 2006-07, reflecting some slow down in industry and services. A positive feature during the year was a recovery in the growth of real GDP originating in the agricultural sector, after the slowdown experienced in the previous year. Despite this moderation, the overall growth rate of the Indian economy during 2007-08 was noteworthy in the global context.

1.17 During 2007-08, the growth of real GDP originating from the industrial sector decelerated to 8.2 per cent as against 10.6 per cent in 2006-07. In terms of Index of Industrial Production (IIP), industrial growth was at 8.5 per cent as against 11.5 per cent in 2006-07. Manufacturing sector growth at 9.0 per cent during 2007-08 (12.5 per cent during 2006-07) was the lowest in the last four years. The mining and electricity sectors also grew at a slower pace during 2007-08. In terms of use-based classification, the performance of the capital goods sector was particularly impressive with 18.0 per cent growth. However, the basic goods, intermediate goods and consumer goods sectors recorded decelerated growth of 7.0 per cent, 8.9 per cent and 6.1 per cent, respectively, during 2007-08. The performance of the industrial sector was also affected by the subdued performance of the infrastructure sector, registering 5.6 per cent growth during 2007-08. The services sector recorded double digit growth consistently in the last three years. It grew by 10.7 per cent during 2007-08, on top of 11.2 per cent growth in 2006-07.

1.18 Headline inflation in India, based on movement in the wholesale price index (WPI), increased to 7.7 per cent at end-March 2008 from 5.9 per cent a year earlier. Inflation softened initially up to mid-October 2007, partly reflecting moderation in the prices of some primary food articles and some manufactured products as also due to the base effect. Inflation, however, hardened subsequently to reach an intra-year high of 8.0 per cent on March 15, 2008, reflecting tightening of supply-side pressures on key commodities and surge in international fuel prices. Headline WPI inflation in 2007-08 was mainly driven by 12 items/groups, *viz.*, rice, wheat, milk, raw cotton, oilseeds, iron ore, coal mining, mineral oils, edible oils, oil cakes, basic heavy inorganic chemicals and metals, with a combined weight of about 35 per cent in the WPI basket accounting for almost 82 per cent of WPI inflation, on a year-on-year basis, as on March 29, 2008 (as compared with 56 per cent a year ago). Among the major groups, primary articles, fuel group and manufactured products exhibited inflation of 9.7 per cent, 6.8 per cent and 7.3 per cent, respectively.

1.19 The key deficit indicators for the Central and State Governments were placed lower in the revised estimates (RE) *vis-à-vis* the budget estimates for 2007-08. The revenue deficit of the Central Government estimated at Rs.63,488 crore or 1.4 per cent of GDP was lower than 1.5 per cent of GDP in the budget estimates for 2007-08 and in 2006-07. The combined gross fiscal deficit (GFD) for 2007-08 at Rs.2,47,831 crore constituted 5.3 per cent of GDP as against 5.6 per cent in the previous year. The primary balance continued to remain in surplus. The improvement in key fiscal indicators was facilitated by buoyancy in tax revenue, especially direct tax revenues. The combined outstanding liabilities as a proportion to GDP at 77.0 per cent at end-March 2008 (RE) were the same as at end-March 2007. The increase in the outstanding liabilities of the Central Government was offset by the decline in the liabilities of the State Governments.

1.20 Broad money (M3) growth at 20.8 per cent as on March 31, 2008 was above the indicative trajectory of 17.0-17.5 per cent for 2007-08 set out in the Annual Policy Statement in April 2007. However, the rate of growth of M3 dipped from mid-February 2008, reflecting some moderation in the growth of time deposits. Non-food credit growth moderated in 2007-08 and remained marginally lower than the Reserve Bank's policy projection of 24.0-25.0 per cent (April 2007). Banks' investments in SLR securities increased in tandem with growth in deposits. As a result, their SLR investments as a proportion of their NDTL remained almost at the same level as at end-March 2007. Demand for commercial credit at 20.6 per cent in 2007-08 showed some moderation from 25.8 per cent during 2006-07. Commercial banks' credit to Government increased during the year, while net RBI credit to Government declined, as a result of MSS issuance. The banking sector's net foreign exchange assets increased by 41.8 per cent. Accretion to net foreign exchange assets continued to be a major source of monetary expansion, while growth of bank credit to the commercial sector moderated.

1.21 Domestic financial markets conditions remained orderly during 2007-08, barring a brief spell of volatility in the call money market and occasional bouts of volatility in the equity market during the second-half of August 2007, second-half of December 2007 and beginning of the second week of January 2008 broadly in tandem with trends in international equity markets. The primary market segment of the capital market, which had witnessed increased activity till early January 2008, turned subdued thereafter, due to volatility in the secondary market. Yields in the Government securities market softened during the large part of the year.

1.22 Brief spells of volatility were observed in the money market on account of changes in capital flows and cash balances of the Central Government with the Reserve Bank. The money market was also affected by the imposition of the ceiling of Rs.3,000 crore on reverse repo acceptances under the liquidity adjustment facility (LAF) from March 5, 2007 to August 5, 2007. Call/ notice rates softened to below the reverse repo rate during June-July 2007. Interest rates in overnight money markets subsequently moved broadly in the reverse repo and repo corridor for the most part of the year after the withdrawal of the ceiling of Rs.3,000 crore on reverse repo acceptances under the LAF in August 2007. During 2007-08, interest rates averaged 5.20 per cent, 5.50 per cent and 6.07 per cent, respectively, in collateralised borrowing and lending obligation (CBLO), market repo and call/notice money market (6.24 per cent, 6.34 per cent and 7.22 per cent, respectively, a year earlier).The weighted average rate for all the three money market segments combined together was 5.48 per cent during 2007-08, as compared with 6.57 per cent a year ago, partly due to low overnight interest rates during March to August period when there was a ceiling of Rs.3,000 crore on LAF absorption.

1.23 Indian financial markets have generally remained orderly during 2008-09 so far. Money market rates moderated at the beginning of the first quarter of 2008-09, but mostly hovered above/around the repo rate during the second quarter of 2008-09, reflecting the impact of, *inter alia*, the hikes in the cash reserve ratio (CRR) and the repo rate as well as foreign exchange market operations of the Reserve Bank. In view of the tight liquidity conditions in the domestic money markets in September 2008, the Reserve Bank announced a series of measures beginning September 16, 2008 (detailed in Chapter II). As a result, the average call rate, which was at 10.52 per cent, declined to 7.57 per cent in November 2008.

1.24 The Reserve Bank during 2007-08 had to contend with large variations in liquidity not only due to swings in cash balances of the Central Government, but also on account of large and volatile capital flows. The Reserve Bank judiciously used the CRR, LAF and MSS to manage such swings in liquidity conditions, consistent with the objectives of price and financial stability. As a whole, there was a net absorption of liquidity on 171 days and net injection of liquidity on 75 days during 2007-08. The average daily net outstanding balances under LAF varied between injection of Rs.10,804 crore during December 2007 to absorption of Rs.36,665 crore in October 2007. Net issuances under the Market Stabilisation Scheme (MSS) during 2007-08 amounted to Rs.1,05,691 crore.

1.25 The weighted average discount rate (WADR) on commercial paper (CP) declined from 11.33 per cent on March 31, 2007 to 7.65 per cent at end-October 2007, but increased thereafter, to reach 10.38 per cent as on March 31, 2008. The WADR on certificates of deposit (CDs), which declined from 10.75 per cent at end-March 2007 to 7.40 per cent at the beginning of August 2007, increased thereafter to 10.00 per cent at end-March 2008. Deposit and lending rates of scheduled commercial banks (SCBs) increased during 2007-08.

1.26 Yields in the Government securities market hardened somewhat during the first quarter of 2007-08 up to mid-June 2007, but declined thereafter. The 10-year yield moved in a range of 7.42-8.32 per cent during 2007-08. As on March 31, 2008, the 10-year yield was 7.93 per cent, four basis points lower than that at end-March 2007.

1.27 During 2007-08, the domestic stock markets continued to surge till January 8, 2008. The upward trend up to January 8, 2008 was interspersed by mild corrections during mid-August 2007, mid-October 2007 and mid-December 2007. However, beginning January 9, 2008, the domestic stock markets turned volatile. The BSE Sensex at 15,644 at end-March 2008, had declined by 25.1 per cent from its all time high level of 20,873 on January 8, 2008. However, it still was higher by 19.7 per cent over its end-March 2007 level (13,072).

1.28 In the foreign exchange market, the Indian rupee exhibited two-way movements in the range of Rs.39.26-43.15 per US dollar during 2007-08. The Indian rupee depreciated to Rs.41.58 per US dollar on August 17, 2007 from Rs.40.43 per US dollar on July 31, 2007. The exchange rate of the rupee appreciated thereafter up to January 2008. The rupee moved in a range of Rs.39.26-39.84 per US dollar during October 2007-January 2008. However, the rupee started depreciating against the US dollar from the beginning of February 2008 on account of FII outflows, rising crude oil prices and heavy dollar demand by oil companies. The exchange rate of the rupee was Rs.39.99 per US dollar at end-March 2008.

1.29 According to the data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports recorded a growth of 28.9 per cent during 2007-08 as compared with 22.6 per cent in 2006-07. Growth in India's imports accelerated to 35.4 per cent during 2007-08, from 24.5 per cent in 2006-07. India's merchandise trade deficit, on a balance of payments basis, widened from US $ 63.2 billion in 2006-07 to US $ 90.1 billion in 2007-08. The sustained increase in invisibles surplus during 2007-08 continued to cushion the impact of widening of merchandise trade deficit. As a result, the current account deficit amounted to US $ 17.4 billion during 2007-08 (US $ 9.8 billion in 2006-07). As a proportion to GDP, the current account deficit at 1.5 per cent in 2007-08 was higher than that of the previous year (1.1 per cent), led by the higher trade deficit. 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 increase in forex reserves to US $ 309.7 billion at end-March 2008 as compared with US $ 199.2 billion at end-March 2007. Reflecting higher external commercial borrowings (ECBs) and short term debt, the external debt rose to US $ 221.2 billion by end-March 2008.

Scheduled Commercial Banks

1.30 The assets of the banking sector continued to grow at a faster rate than the real economy, resulting in an increase in the assets to GDP ratio to 91.8 per cent at end-March 2008 as compared with 83.5 per cent a year ago. Credit growth during the year showed some deceleration mainly on account of lower growth in agriculture and allied activities and personal loans, whereas credit to the services sector showed a higher growth. Notwithstanding some deceleration, the growth of credit to real estate remained higher than most other sectors. Deposits of banks continued to show a robust growth, despite some moderation in term deposits. There was a significant increase in investments in Government securities (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, *albeit* marginally. The consolidation of the banking sector continued with the merger of two old private sector banks and takeover of one foreign bank, bringing down the total number of SCBs at end-March 2008 to 79 from 82 at end-March 2007.

1.31 Financial performance of SCBs during 2007-08 was underpinned by hardening of lending rates and deposit rates. The net interest income of banks in relation to total assets declined somewhat. However, non-interest income of banks increased reflecting their efforts to diversify their sources of income. As operating expenses (in relation to assets) declined, banks were able to maintain their operating profits in relation to total assets. Provisions and contingencies made by banks as percentage of assets were marginally lower than those in the previous year. As a result, return on assets (RoA) of SCBs showed a moderate improvement during the year. However, return on equity (RoE) declined, reflecting mainly the impact of increase in capital base as banks raised resources from capital market during the year and strengthened reserves and surplus.

1.32 The asset quality of SCBs improved further during 2007-08, which was reflected in the decline in gross non-performing assets (NPAs) as percentage of loans and advances. The net NPAs as percentage of net advances remained unchanged at the previous year's level. However, gross and net NPAs were higher in absolute terms during 2007-08, as fresh accruals of NPAs exceeded the NPAs recovered and written-off during the year. This trend was observed across all bank groups, barring old private sector banks.

1.33 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, improved to 13.0 per cent at end-March 2008 from 12.3 per cent a year ago.

Co-operative Banks

1.34 Operations of the urban co-operative banks (UCBs) witnessed impressive growth during 2007-08. The growth in deposits was higher than the growth in loans and advances. However, UCBs missed both the priority sector lending target as also the stipulated sub-target for the weaker sections. Investments by UCBs increased during the year due to both the increase in SLR investments and non-SLR investments. The financial performance of all UCBs improved in terms of operating profits.

Table I.1: Select Financial Sector Indicators: 2007-08

Category		Indicator	2006-07	2007-08
1		2	3	4
1. Scheduled Commercial Banks	a)	Growth in Major Aggregates (per cent)		
		Aggregate Deposits	24.6	23.1
		Loans and Advances	30.6	25.0
		Investment in Government Securities	9.3	22.7
	b)	Financial Indicators (as percentage of total assets)		
		Operating Profits	1.9	1.9
		Net Profits	0.9	1.0
		Spread	2.6	2.4
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	2.5	2.3
		Net NPAs	1.0	1.0
2. Urban Co-operative Banks	a)	Growth in Major Aggregates (per cent)		
		Deposits	6.4	14.1
		Credit	11.3	11.6
	b)	Financial Indicators (as percentage of total assets)@		
		Operating Profits	1.5	1.4
		Net Profits	0.7	0.6
		Spread	2.8	2.6
	c)	Non-Performing Assets (as percentage of gross advances)		
		Gross NPAs	18.3	16.4
		Net NPAs	7.8	7.5
3. Rural Co-operative Banks	a)	Number	98,343	-
	b)	Growth in Major Aggregates (per cent)		
		Deposits	9.1	-
		Credit	11.7	-
	c)	Financial Indicators (as percentage of total assets)@		
		Societies in Profit (Number)	34,641	-
		Societies in Loss (Number)	48,529	-
		Overall Profit/Loss (Rs. crore)	-1,405	-
	d)	Non-Performing Assets (as percentage of advances outstanding)*	19.8	-
4. Financial Institutions (FIs)	a)	Growth in Major Aggregates (per cent)[1]		
		Sanctions	12.9	86.2
		Disbursements	82.8	14.6
	b)	Financial Indicators (as percentage of total assets)[2]		
		Operating Profits	1.5	1.6
		Net Profits	1.0	1.0
		Spread	1.5	1.5
5. Deposit taking Non-banking Financial Companies (NBFCs-D)	a)	Growth in Major Aggregates (per cent)		
		Public Deposits	-15.1	-1.9
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	1.0	2.9
	c)	Non-Performing Assets (as percentage of net advances)[3]		
		Net NPAs	0.2	-8.7
6. Residuary Non-Banking Companies (RNBCs)	a)	Growth in Major Aggregates (per cent)		
		Deposits	12.1	-1.2
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	0.9	1.5

- : Not available.
@ : Relating to scheduled urban co-operative banks.
* : Includes overdues amount for PACS. .
1. Figures for 2006-07 relating to IFCI, SIDBI, IIBI, IVCF, TFCI, LIC, GIC and its subsidiaries. Figures for 2007-08 relate to SIDBI, IIBI, IVCF, LIC, GIC and its subsidiaries.
2. Relating to four FIs, *viz*., EXIM Bank, SIDBI, NABARD and NHB.
3. For reporting companies with variations in coverage.

However, higher ‘provisions, contingencies and taxes’ led to a decrease in net profits. Asset quality of UCBs declined markedly as both gross and net NPAs increased in absolute terms. However, both gross and net NPAs as percentage of gross advances declined.

1.35 Balance sheets of all segments of the rural co-operative banking sector, except state co-operative agricultural and rural development banks (SCARDBs), expanded during 2006-07. Wide variations were 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 2006-07, the lower tier (*viz.*, primary agricultural credit society (PACS) and primary co-operative agricultural and rural development banks (PCARDBs) incurred overall losses. Asset quality in terms of NPA as a percentage of loans outstanding improved for all categories of rural co-operative banks, except PCARDBs, for which it remained at the previous year's level. While the recovery performance of district central co-operative banks (DCCBs), PACS and PCARDBs improved, that of state co-operative banks (StCBs) and SCARDBs worsened during the year.

Financial Institutions

1.36 Financial assistance sanctioned by Financial Institutions (FIs) witnessed a sharp rise during 2007-08, as against a decline during the previous year. However, the disbursements slowed down during the year. Financial assistance sanctioned and disbursed by FIs increased by 86.2 per cent and 14.6 per cent, respectively, during 2007-08 as compared with a rise of 12.9 per cent and 82.8 per cent, respectively, witnessed during the previous year. The sharp rise in sanctions and slow down in disbursements were accounted for mainly by investment institutions (especially LIC).

1.37 Net interest income of FIs registered a sharp growth of 19.7 per cent during 2007-08. Non-interest income of FIs also increased significantly during the year. However, in contrast with the decline in the previous year, the operating expenses of FIs registered a rise of 46.6 per cent during the year, even though the wage bill declined substantially by 32.7 per cent. As a result, the operating profit recorded an increase of 30.1 per cent during the year. Net profit of FIs also increased, despite the increase in provision 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

1.38 Total assets/liabilities of deposit taking non-banking financial companies (NBFCs-D) increased at a much higher rate of 44.8 per cent during 2007-08, compared with 28.4 per cent during 2006-07. Borrowings, which represent the major source of funds for NBFCs-D, increased by 55.3 per cent during 2007-08, as compared with an increase of 30.1 per cent in the previous year. While net owned funds (capital and reserves) registered a substantial increase, public deposits declined marginally by 1.9 per cent during 2007-08.

1.39 Total assets/liabilities of NBFCs-ND-SI increased by 28.6 per cent during 2007-08 as compared with an increase of 26.8 per cent during 2006-07. The profits earned by NBFCs-ND-SI registered an increase of 16.7 per cent on top of the rise of 73.4 per cent during the previous year. The gross NPAs to total assets ratio of NBFCs-ND-SI remained unchanged at 2.3 per cent for the year ended March 2008. A new classification of NBFCs, *viz.*, asset finance company (AFC) became effective in 2006. Companies financing real/physical assets for productive/economic activities have been re-classified as AFCs. At end-March 2008, asset finance companies held the largest share (64.1 per cent) in assets/liabilities of NBFCs-D, partly reflecting the reclassification of NBFCs.

Micro Finance

1.40 The micro finance movement has been gaining momentum in India in recent years. At present, there are two predominant models for micro finance delivery in India. These are the SHG-bank linkage programme (SBLP) model and the micro finance institution (MFI) model. The SBLP model, which was first initiated as a pilot project by NABARD in 1992, has now emerged as a dominant model in terms of number of borrowers and loans outstanding. In terms of coverage, this model is considered to be the largest micro finance programme in the world. Recognising the potential of micro finance to positively influence the income and socio-economic conditions of the poor, the Reserve Bank, NABARD and SIDBI have taken several initiatives over the years to give a further fillip to the micro finance movement in India. With a view to providing an account of the progress achieved by this movement against the backdrop of these policy developments, a new chapter titled 'Micro Finance' has been introduced in this Report.

1.41 The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the member of SHGs credit linked with banks as also the banks loans disbursed by SHGs. As on March 31, 2007 (latest data available so far), 2.9 million SHGs were having outstanding bank loans of Rs.12,366 crore under the SBLP programme. As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs. 3,513 crore, thereby covering more than 58 million poor households under the programme.

1.42 The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognised and the banking sector has been extending loans to MFIs for on-lending to SHGs. During the year 2006-07 (latest data available so far), bank loans amounting Rs. 1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to. Rs.1,584 crore to 550 MFIs as on March 31, 2007.

Developments during 2008-09

1.43 According to the second quarter estimates of 2008-09 released by the Central Statistical Organisation (CSO) on November 28, 2008, real GDP growth during July-September 2008 was placed at 7.6 per cent compared with 9.3 per cent during the corresponding quarter of previous year. The deceleration was spread across all the three sectors, *viz*., agriculture and allied activities, industry and services. As per the latest data, the IIP in September 2008 plummeted to 4.8 per cent over the same month in 2007. Cumulative growth during April-September 2008 decelerated to 4.9 per cent, as compared with 9.5 per cent during April-September 2007.

1.44 Inflation, measured by variations in the WPI, on a year-on-year basis, firmed up to an intra-year peak of 12.9 per cent on August 2, 2008 from 7.7 per cent at end-March 2008. Subsequently, WPI annual inflation eased to 8.4 per cent as on November 22, 2008, driven by the decline in prices of freely priced petroleum products, oilseeds/edible oils/oil cakes, raw cotton, cotton textiles and iron and steel. While annual inflation rates for primary articles and manufactured products were higher (12.0 per cent and 8.1 per cent respectively as on November 22, 2008) than the end-March 2008 levels (9.7 per cent and 7.3 per cent respectively), that of fuel group was lower (5.3 per cent) than that at end-March 2008 (6.8 per cent). Various measures of consumer price inflation were placed in the range of 9.5-11.1 per cent during September/October 2008 as compared with 7.3-8.8 per cent in June 2008 and 5.5-7.0 per cent in October 2007.

1.45 The key deficit indicators of combined finances of the Central and State Governments for 2008-09 are budgeted to decline over the revised estimates for 2007-08, both in absolute terms and as a proportion to GDP. The surplus in the primary balance is budgeted to increase to 0.8 per cent of GDP in 2008-09 (BE). The buoyant tax receipts are expected to increase the revenue receipts (by 0.4 per cent of GDP in 2008-09), while revenue expenditure as a proportion of GDP remained at the 2007-08 (RE) level. The envisaged improvement in revenue account is expected to bring down the combined revenue deficit by 0.4 per cent of GDP. The anticipated improvement in the revenue account is also expected to contribute significantly in bringing down the combined gross fiscal deficit (GFD) by 0.7 per cent of GDP in 2008-09.

1.46 Monetary and liquidity aggregates witnessed some moderation during the second quarter of 2008-09, partly reflecting decline in capital flows. During the fiscal year 2008-09 (up to November 21, 2008), broad money (M_3) increased, year-on-year (y-o-y), above the indicative trajectory of 17.0 per cent set out in the First Quarter Review (July 2008) of the Annual Policy Statement for 2008-09. M_3 growth, on a y-o-y basis, was placed at 19.0 per cent on November 21, 2008 as compared with 23.0 per cent a year ago. On a financial year basis, money supply (M_3) increased by 9.3 per cent up to November 21, 2008 as compared with 11.0 per cent during the corresponding period of the previous year.

1.47 Scheduled commercial banks' credit to the commercial sector expanded by 27.0 per cent (y-o-y) as on November 21, 2008, as compared with 23.1 per cent a year ago. Non-food credit of scheduled commercial banks expanded by 26.9 per cent, y-o-y, as on November 21, 2008, higher than 23.7 per cent a year ago. The higher expansion in credit growth relative to the expansion in deposit growth resulted in a higher incremental credit-deposit ratio (y-o-y) of SCBs of 93.7 per cent as on November 21, 2008 compared with 65.9 per cent a year ago. Disaggregated sectoral data available up to September 28, 2008 showed that about 48 per cent of incremental non-food credit (y-o-y) was absorbed by industry, around 9 per cent by agriculture, and nearly 14 per cent by personal loans, of which about 38 per cent was constituted by housing loans. The growth in non-food credit to industry during this period was led by infrastructure (power, port and telecommunication), petroleum, iron and steel, textiles, chemicals, engineering, food processing, construction and vehicles industries. Growth in loans to commercial real estate remained high, notwithstanding some moderation.

1.48 Liquidity conditions and the movement in money market rates during 2008-09 so far can be broadly categorised into two phases partitioned by the knock-on effects of disruptions in international financial markets on domestic financial markets beginning mid-September 2008. During the first phase (April to mid-September 2008), the drying up of capital inflows and the consequent turnaround in the foreign exchange market operations of the Reserve Bank from net spot purchases up to May 2008 to net spot sales thereafter (barring August 2008) restrained the generation of domestic liquidity. During the second phase, beginning mid-September 2008, extraordinary global developments triggered by the bankruptcy/sell-out/restructuring of some of the world's largest financial institutions resulted in severe disruptions of international money markets, sharp declines in stock markets across the globe and extreme investor risk aversion. These developments also brought pressures on the domestic money and foreign exchange markets, in conjunction with temporary local factors such as advance tax outflows during the mid-September 2008. The average injection through LAF window reached Rs.43,000 crore in September 2008 and rose further to Rs.46,000 crore in October 2008. This sizeable easing has ensured a comfortable liquidity position starting mid-November 2008 as evidenced in a number of indicators. Since November 18, 2008, the LAF window has largely been in the absorption mode. The average daily net outstanding liquidity injection declined to around Rs.8,017 crore during November 2008.

1.49 The WADR on CP declined from 13.16 per cent on March 31, 2008 to 8.57 per cent by mid-May 2008, but increased thereafter to 12.28 per cent at mid-November 2008 in tandem with other money market rates. The most preferred maturity of CP was for periods ranging from '181 days and above'. The WADR on CDs declined from 10.0 per cent at end-March 2008 to 9.16 per cent at end-June 2008, but increased thereafter to 12.57 per cent by October 2008. As at end-October, the WADR on CDs declined to 10.0 per cent in tandem with other money market rates.

1.50 In view of higher inflation and in sync with higher money market interest rates, primary market yields on Treasury Bills (TBs) hardened during the second quarter of 2008-09. The yield spread between 364-day and 91-day TBs was 4 basis points in November 2008 (7 basis points in March 2008).

1.51 During 2008-09 (up to November 18, 2008), scheduled commercial banks increased their deposit rates for various maturities by 50-175 basis points. The range of interest rates offered by public sector banks (PSBs) on deposits of maturity of one year to three years increased to 9.00-10.50 per cent in November 2008 from 8.25-9.25 per cent in March 2008. On the lending side, the benchmark prime lending rates (BPLRs) of PSBs increased to 13.00-14.75 per cent by November 2008 from 12.25-13.50 per cent in March 2008. Private sector banks and foreign banks also increased their BPLR to 13.00-17.75 per cent and 10.00-17.00 per cent from 13.00-16.50 per cent and 10.00-15.50 per cent, respectively, during the same period. Accordingly, the weighted average BPLR of public sector banks, private sector banks and foreign banks increased to 13.99 per cent, 16.42 per cent and 14.73 per cent, respectively, in September 2008 from 12.8 per cent, 15.1 per cent and 13.9 per cent, respectively, in March 2008.

1.52 During 2008-09 (up to December 2, 2008), the Indian rupee generally depreciated, and moved in the range of Rs.39.89-50.53 per US dollar. The rupee depreciated beginning April 2008, reflecting FII outflows, bearish stock market condition, high inflation and higher crude oil prices reflecting higher demand for dollars. The exchange rate of the rupee was Rs.50.53 per dollar as on December 2, 2008 as compared with Rs.39.99 per dollar at end-March 2008. At this level, the Indian rupee depreciated by 20.9 per cent over its level on March 31, 2008. Over the same period, the rupee appreciated by 5.9 per cent against the Pound sterling, but depreciated by 1.0 per cent against the Euro, 26.2 per cent against the Japanese yen and 22.1 per cent against the Chinese yuan.

1.53 The BSE Sensex closed at 9163 on December 8, 2008, registering a fall of 41.4 per cent over the end-March 2008 level. The performance of the domestic stock markets during 2008-09 so far has witnessed four distinct phases. In the first phase between April 1 and May 21, 2008, the markets staged a recovery. In the second phase between May 22 and July 16, 2008, the market sentiment turned cautious on account of increase in international crude oil prices, hike in domestic retail fuel prices, rise in domestic inflation rate, net sales by FIIs in the Indian equity market, concerns over rising trade deficit and depreciation of the rupee, downward trend in major international equity markets, domestic political uncertainties and other sector and stock-specific news. In the third phase from July 17, 2008 to first week of September 2008, domestic stock markets recovered, notwithstanding some intermittent corrections on account of decline in international crude oil prices. In the fourth phase beginning from the second week of

September 2008, domestic stock markets turned volatile, and weak due to bankruptcy/ sell-out/restructuring of some of the world's largest financial institutions resulting in severe disruptions in international financial markets, heavy net sales by FIIs, decline in global metal prices, slowdown in industrial and export growth, decline in indirect tax collections and deceleration in corporate earnings growth.

1.54 India's merchandise exports which remained resilient till August 2008 (35.3 per cent during April-August 2008), decelerated in September 2008 (10.4 per cent); exports recorded negative growth during October 2008 (-12.1 per cent). According to the provisional data released by the DGCI&S, during April-October 2008, India's merchandise exports and imports recorded a growth of 23.3 per cent and 36.0 per cent, respectively, which was higher than that of 22.7 per cent and 27.4 per cent, respectively, recorded a year ago. Merchandise trade deficit increased during April-October 2008 on account of sustained increase in oil imports. India's balance of payments position during the first quarter of 2008-09 (April-June) reflected a widening of the current account deficit to US $ 10.7 billion and decline in capital flows. Net surplus under invisibles remained buoyant, led by increase in software exports and private transfers. The large increase in merchandise trade deficit led to an increase in the current account deficit over its level during April-June 2007. Net capital inflows have remained volatile during 2008-09 so far. While foreign direct investment into India increased during April-September 2008, portfolio investments showed an outflow during April-October 2008. During 2008-09 (up to November 28, 2008), foreign exchange reserves declined by US $ 62.0 billion over the end-March 2008 level to US $ 247.7 billion as on November 28, 2008.

Chapter II

Policy Developments in Commercial Banking

Introduction

2.1 The global financial landscape has changed significantly during the last one and half years. Several large global financial institutions have either failed or have had to be restructured to avoid failure. The recent financial market turbulence has brought into sharp focus the issue of financial stability. To quell the turmoil in markets, extra-ordinary actions have been initiated by several central banks and governments in advanced countries to mitigate the systemic risks posed by the ongoing financial crisis in an environment of heightened risk aversion. Co-ordinated policy action by central banks and lending by central banks to non-banks are some instances of such policy actions. To restore confidence and facilitate functioning of markets, in a number of countries, governments also drew up comprehensive plans offering guarantees to depositors and assurances to creditors. Further, steps have been taken to deal with distressed assets and provide liquidity, including through bank recapitalisation. These developments highlight the challenge the regulators/governments face to maintain financial stability. The recent liquidity and solvency problems faced by some banks in the US and Europe also suggest that the assumption concerning the ability of some financial intermediaries to generate sufficient liquidity in times of need strikes at the very root of the financial intermediation function performed by them.

2.2 While financial innovations in banking and financial systems help in reducing the cost of financial intermediation significantly, they can pose some serious risk too. This would need strengthening of the regulatory and supervisory frameworks. A major challenge faced by the regulators is, thus, how to adapt capital and liquidity standards to manage the risk posed by financial innovations. The challenge is also to improve the methods for identification, assessment and mitigation of systemic risks, given the increased degree of global financial integration and significant growth in cross-border operations of large financial institutions. It is recognised that regulatory and supervisory failure in advanced economies was one of the causes of the present crisis and countries are moving towards plugging the loopholes and information gaps in financial regulation and supervision and improving the global financial architecture. As part of the ongoing rethinking on international financial architecture, there is a growing recognition that emerging market economies should have a greater role and say in global matters and multilateral institutions and fora (such as the Financial Stability Forum).

2.3 Following the wide-ranging reforms undertaken since the early 1990s, the Indian banking system has become quite robust. The Indian banking industry has largely remained protected from the global financial turbulence. The Reserve Bank has, however, been vigilant about the lessons that have emerged from the global credit crisis. The Reserve Bank has been constantly reviewing and refining its regulatory and supervisory policies to ensure strong capital base, effective risk management and best corporate governance standards in the banking sector. In recent years, the focus has also been on improving credit delivery and customer service and promoting financial inclusion.

2.4 During 2007-08, prudential norms governing issue of letters of comfort by banks were prescribed, the role of credit rating agencies was scrutinised and a more dynamic liquidity management system was operationalised. An important development during the year was the adoption of the Basel II framework by foreign banks operating in India and Indian banks having operational presence outside India. A few changes were also made in the revised capital adequacy framework based on the feedback received, while detailed guidelines relating to Pillar 2 were also issued. It has been the endeavour of the Reserve Bank to put in place safe and efficient payment and settlement systems in the country. In this context, the enactment of the Payments and Settlement Systems Act, 2007 designated the Reserve Bank as the regulator of the payment and settlement systems in the country, thus paving the way for efficient regulation, control, functioning and audit of the systems. Along with measures to conform to the best prudential practices followed internationally, the Reserve Bank also undertook a number of initiatives to facilitate access to credit to the underserved sections/sectors of the economy. Banks have been advised to adopt customer-oriented approach with a view to easing the access to banking facilities for people at large.

2.5 This chapter provides a detailed account of various policy measures undertaken by the Reserve Bank in the Indian commercial banking sector during 2007-08 (July-June) and 2008-09 (up to October 2008). The stance of monetary policy as it evolved during 2007-08 and 2008-09 (up to October 2008), 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 detailed in Section 5 and Section 6, respectively. Policy initiatives pertaining to Regional Rural Banks (RRBs) are set out in Section 7. Policy developments in the area of financial markets, *i.e.*, the money market, the Government securities market and the foreign exchange market are covered in Section 8. This is followed by an account of measures initiated in the area of customer service by banks in Section 9. Policy measures relating to the payment and settlement systems and technological developments are outlined in Section 10 and Section 11, respectively. Section 12 details the measures undertaken to strengthen the legal infrastructure.

2. Monetary Policy

2.6 Several challenges such as unprecedented capital flows, turbulent international financial markets and increase in headline inflation and inflationary expectations had a bearing on the conduct of monetary policy during 2007-08. Monetary conditions were impacted by significant shifts and developments in both global and domestic arenas by the year-end as compared with the initial assessment. While aggregate supply capacity expanded, economic activity continued to be mainly demand-driven. Inflation picked up in the fourth quarter of 2007-08 mainly due to supply-side pressures that essentially emanated from global surge in prices of commodities such as foodgrains, crude oil and steel. Several new challenges have emerged in 2008-09 with the global financial system undergoing a crisis of unprecedented dimension. Liquidity in the domestic money and foreign exchange markets was squeezed as knock-on effects of international crisis. While inflation reached multi-year highs in the early part of the year and continues to be above the acceptable level, there has been a moderation in the growth momentum of the economy. Consequently, the task of conduct of monetary policy has become more complex than before.

2.7 The reconstituted Technical Advisory Committee on Monetary Policy (TACMP), with tenure up to January 31, 2009, has strengthened the consultative mechanism for monetary policy in India as important issues are discussed in its meetings held from time to time[1]. TACMP's role is, however, advisory in nature and the responsibility and accountability of decision-making rests with the Reserve Bank. The Committee is headed by the Reserve Bank Governor with the Deputy Governor in charge of monetary policy as Vice Chairman and comprises the other three Deputy Governors, two members of the Central Board of the Reserve Bank and five external members with expertise in the areas of monetary economics, central banking, financial markets and public finance.

2.8 The year 2007-08 began with moderation in global growth, relative to the previous year. In addition, inflationary pressures were evident in terms of the elevated levels of commodity and asset prices. Simultaneously, risks from financial markets had magnified with amplified exchange rate fluctuations and growing uncertainty regarding the timing and extent of global liquidity withdrawals. It was gradually becoming clear that the sub-prime mortgage crisis would pose a grave risk to the world economy. On the domestic front, the outlook remained positive up to the third quarter despite some moderation in the real economy, business confidence and credit offtake, which was already anticipated.

2.9 The stance of monetary policy for 2007-08 was initially conditioned by the pattern of likely evolution of macroeconomic and financial conditions which indicated an environment supportive of sustaining the then prevailing domestic growth momentum and it was considered necessary that monetary policy, while contributing to growth, ensured and maintained price and financial stability (Box II.1). While the conduct of monetary policy reinforced the emphasis on price stability and well-anchored inflation expectations all along, the shifting stance of the policy to greater emphasis on financial stability was notable. Monetary measures were taken in an environment of heightened uncertainty and supply constraints impacting the growth momentum in the domestic economy.

Annual Policy Statement for 2007-08

2.10 The Annual Policy Statement for the year 2007-08 was issued at a time (April 2007) when global growth was strong, with expectation of moderation relative to the previous year. Commodity and asset prices were stoking inflationary pressures across the globe. In the global financial markets, risks remained under-priced and diffused. As a structural change was underway in the Indian economy, there was optimism of a step-up in the growth trajectory. However, there were indications of intensified demand-side as well as supply-side pressures in the form of sustained demand for capital goods and consumer durables, high growth rates of money/credit, wage pressures in some sectors and rising input costs. Against this backdrop, the Statement noted that the overarching policy challenge was to maintain the transition to a higher growth path while containing inflationary pressures.

2.11 The Annual Policy Statement estimated real GDP growth for 2007-08 at around 8.5 per cent and stated that the policy endeavour

[1] In 2008-09 so far, apart from the usual meetings before the Annual Policy Statement for 2008-09 in April 2008, the First Quarter Review in July 2008 and the Mid-term Review in October 2008, an additional TACMP meeting was held on June 23, 2008 to advise the Reserve Bank on suitable policy responses to the sudden hardening of inflation.

Box II.1: Stance of Monetary Policy – April 2007 to October 2008

Annual Policy Statement for 2007-08 (April 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 and the growth momentum.

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 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.

Third Quarter Review for 2007-08 (January 2008)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment conducive to continuation of the growth momentum and orderly conditions in financial markets.
- To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.
- To monitor the evolving heightened global uncertainties and domestic situation impinging on inflation expectations, financial stability and growth momentum in order to respond swiftly with both conventional and unconventional measures, as appropriate.

Annual Policy Statement for 2008-09 (April 2008) / First Quarter Review for 2008-09 (July 2008)

- To ensure a monetary and interest rate environment that accords high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum.
- To respond swiftly on a continuing basis to the evolving constellation of adverse international developments and to the domestic situation impinging on inflation expectations, financial stability and growth momentum, with both conventional and unconventional measures, as appropriate.
- To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Mid-term Review for 2008-09 (October 2008)

- Ensure a monetary and interest rate environment that optimally balances the objectives of financial stability, price stability and well-anchored inflation expectations, and growth.
- Continue with the policy of active demand management of liquidity through appropriate use of all instruments including the CRR, open market operations (OMO), the MSS and the LAF to maintain orderly conditions in financial markets.
- In the context of the uncertain and unsettled global situation and its indirect impact on the domestic economy in general and the financial markets in particular, closely and continuously monitor the situation and respond swiftly and effectively to developments, employing both conventional and unconventional measures.
- Emphasise credit quality and credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

would be to contain year-on-year inflation close to 5.0 per cent. This was, however, based on the assumption of no further escalation in international crude prices and non-occurrence of domestic/external shocks. It was observed that the Reserve Bank's self-imposed medium-term ceiling on inflation at 5.0 per cent had exerted a beneficial impact on inflation expectations and brought down the socially tolerable rate of inflation. With a view to maintaining self-accelerating growth over the medium-term and taking cognisance of both India's evolving integration with the global economy and societal preferences in this regard, the Statement added that the resolve, going forward, would be to condition policy and perceptions for inflation in the range of 4.0–4.5 per cent. As M3 growth in 2005-06 and 2006-07 was well above the indicative projections, the need to contain monetary expansion in 2007-08 at around 17.0-17.5 per cent, in consonance with the outlook on growth and inflation, was emphasised. In harmony with M3 projections, the growth in aggregate deposits in 2007-08 was placed at around Rs.4,90,000 crore. A gradual deceleration of non-food credit (including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper) growth to 24.0-25.0 per cent was projected in 2007-08, as against the average of 29.8 per cent during 2004-07. It was indicated that the policy of withdrawal of semi-durable and durable elements of liquidity through the Market Stabilisation Scheme (MSS) would continue along with other arrangements relating to the operation of the liquidity adjustment facility (LAF). Supplementing the monetary measures taken in March and April 2007, the policy hiked the cash reserve ratio (CRR) that banks were required to maintain by 25 basis points to 6.5 per cent with effect from the fortnight beginning April 28, 2007.

First Quarter Review for 2007-08

2.12 The First Quarter Review, issued in July 2007, retained the projection of real GDP growth and the outlook for inflation for 2007-08 at around 8.5 per cent and 5.0 per cent, respectively, barring domestic or external shocks. There was expectation of return to trend growth in agriculture in the backdrop of the India Meteorological Department's forecast of normal rainfall for the country while growth in industrial and services sectors was expected to be sustained. There were indications that the lagged and cumulative effects of monetary policy actions in conjunction with fiscal and administrative measures for supply management had exerted a salutary effect on inflation expectations. While non-food credit growth had decelerated, the acceleration in money supply and reserve money warranted an appropriate response. The Review noted that the considerable uncertainty in international financial markets and the volatility in equity and currency markets had imparted an additional dimension of uncertainty to the evolution of the international economic environment. With a view to insulating domestic real activity from external shocks, it was indicated that monetary policy in India would continue to be vigilant and pro-active in the context of any accentuation of global uncertainties that posed threats to growth and stability of the domestic economy. While the stance of monetary policy continued to reinforce the emphasis on price stability and well-anchored inflation expectations and thereby sustaining the growth momentum, it was recognised that contextually, financial stability could assume greater importance in the months ahead. The Review stated that the Reserve Bank would continue with its policy of active demand management of liquidity through appropriate use of the CRR stipulations and OMO including the MSS and the LAF, using all policy options at its disposal flexibly, as and when the situation warranted. Accordingly, in response to the then prevailing macroeconomic and overall monetary and liquidity conditions, the second liquidity adjustment facility (SLAF) and the ceiling of Rs.3,000 crore on daily reverse repo under the LAF was withdrawn on August 6, 2007. The CRR was raised by 50 basis points to 7.0 per cent with effect from the fortnight beginning August 4, 2007.

Mid-term Review for 2007-08

2.13 The Mid-term Review of the Annual Policy Statement for 2007-08 (October 2007) was formulated in the context of strong aggregate demand and the economy being mainly driven by the increase in gross fixed investment, while growth in private consumption and exports was relatively modest. The growth in key monetary aggregates such as reserve money and M3 was well above initial projections, on account of higher than expected deposit growth and capital inflows and the drawdown of fiscal cash balances. Although wholesale price index (WPI) inflation had eased considerably, consumer price inflation, particularly for agricultural workers and rural labourers remained high. The Review reiterated that GDP growth and inflation outlook for the year would continue to be as indicated in the Annual Policy Statement for 2007-08. With a view to conditioning inflation expectations in the range of 4.0-4.5 per cent, the Mid-term Review set a medium-term inflation target of 3.0 per cent, consistent with India's broader integration into the global economy.

2.14 The Review also stated that upside threat to inflation emanated not just from domestic liquidity conditions but also from global factors, particularly the high and volatile levels of international crude, food and metal prices. There was a possibility of China's high inflation rate being transmitted to its major trading partners, given the country's dominant position in the global economy. On a review of the then prevailing monetary conditions, it was decided to increase the CRR by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007.

Third Quarter Review for 2007-08

2.15 The Third Quarter Review in January 2008 observed that adverse global developments had the potential to overwhelm the softening of inflation in terms of manufactures and primary food articles through the year. The prospects for the domestic economy over the remaining part of 2007-08 were, however, perceived to be consistent with policy expectations. There was a historic build-up in the foreign exchange reserves during 2007-08 and it was noted that the expansion of monetary conditions made liquidity management more complex and challenging. The Review indicated that the aggregate deposit growth in the year was above the Annual Policy projection of Rs.4,90,000 crore, while non-food credit growth was below the 24.0-25.0 per cent target for 2007-08. M3 growth, however, was above the indicative trajectory of 17.0-17.5 per cent for 2007-08.

2.16 The Third Quarter Review reaffirmed the stance of monetary policy set out in the Annual Policy Statement of April 2007 and subsequent Reviews reinforcing the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment conducive to continuation of the growth momentum and orderly conditions in the financial markets. Though credit quality continued to receive priority, credit delivery, particularly to employment-intensive sectors, was emphasised for pursuit of financial inclusion.

Reckoning global factors as becoming increasingly relevant even though domestic factors dominated the policy stance, the Review committed to monitor the evolving heightened global uncertainties and the domestic situation impinging on inflation expectations, financial stability and the growth momentum in order to respond swiftly with both conventional and unconventional measures, as appropriate.

2.17 The period following the Third Quarter Review, was marked by a significant rise in inflation. With a view to absorbing the excess liquidity, tempering the demand pressures and containing the inflationary expectations, the Reserve Bank announced a two-stage hike (25 basis points each) in the CRR to 7.75 per cent and 8.00 per cent, effective from the fortnights beginning April 26, 2008 and May 10, 2008 respectively.

Annual Policy Statement for 2008-09

2.18 Against the backdrop of risks to inflation and inflationary expectations because of upside pressures from international food and energy prices, the Annual Policy Statement for the year 2008-09, issued in April 2008, emphasised that the stance of monetary policy was geared towards maintenance of a monetary and interest rate environment that accorded high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum. The Statement pegged the growth rate of the economy for 2008-09 in the range of 8.0 to 8.5 per cent assuming a normal monsoon in the country and no marked deterioration in global financial/commodity markets and the real economy, compared with the initial assessment. It was stated that the policy endeavour would be to bring down inflation from the then high level of above 7.0 per cent to around 5.5 per cent in 2008-09 with a preference for bringing it as close to 5.0 per cent as soon as possible, recognising the evolving complexities in globally transmitted inflation. The resolve, going forward, was to condition policy and perceptions for inflation in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent became a medium-term objective consistent with India's broader integration into the global economy and with the goal of maintaining self-accelerating growth over the medium-term.

2.19 Movements in banking aggregates during the fourth quarter of 2007-08 enabled a better balance between banks' sources and uses of funds resulting in a decline in the incremental non-food credit deposit ratio to below 75 per cent for the first time since August 2004. Asset prices, particularly equity prices, which had risen to record highs in January 2008, declined significantly during February-March 2008. The Statement observed that despite the dislocations in the securitised credit markets in the US and Europe, the underlying macroeconomic fundamentals of emerging market economies remained resilient though they remained vulnerable to slower export growth and volatility in financial flows. Notwithstanding the significant deterioration in inflationary expectations and other developments, both domestic and international, in relation to the initial assessment in 2007-08, the build-up in supply pressures had the ability to further stoke inflationary pressures.

2.20 On the back of sizeable accretions to the Reserve Bank's foreign exchange assets and a cyclical acceleration in credit and deposit growth, particularly in 2007-08, M3 growth had persisted above indicative projections through 2005-08. In view of the resulting monetary overhang, it was necessary to moderate monetary expansion and plan for M3 growth in the range of 16.5-17.0 per cent in 2008-09, in consonance with the outlook on growth and inflation, so as to ensure macroeconomic and financial stability in the period ahead. Consistent with the monetary projections, the growth in aggregate deposits in 2008-09 was placed at around 17.0 per cent or around Rs.5,50,000 crore and that of non-food credit at around 20.0 per cent. In accordance with the policy stance, it was reiterated that the Reserve Bank would continue with its policy of active demand management of liquidity through appropriate use of the CRR stipulations and OMO, including the MSS and the LAF, using all the policy instruments at its disposal flexibly, as and when warranted by the situation. An increase in the CRR by 25 basis points to 8.25 per cent with effect from the fortnight beginning May 24, 2008 was announced. Besides a number of policy measures for smoother functioning of the money and Government securities markets, furthering access to credit, better risk assessment and strengthening of supervision were also announced.

2.21 On May 30, 2008 special market operations (SMO) were announced to alleviate the binding financing constraints faced by the public oil companies in importing petroleum, oil and lubricants (POL) as also to minimise the potential adverse consequences for financial markets in which these oil companies were important participants. Subsequent to the announcement of the hike in administered POL prices, the repo rate under the LAF was increased by 25 basis points on June 12, 2008 and further by 50 basis points to 8.50 per cent on June 25, 2008. As WPI inflation continued to surge in the months following the policy announcement, the Reserve Bank in accordance with its pre-emptive and calibrated approach to contain inflation expectations, raised CRR in two stages, to 8.50 and 8.75 per cent, from the fortnights beginning July 5, 2008 and July 19, 2008, respectively.

First Quarter Review for 2008-09

2.22 The First Quarter Review for 2008-09 was announced in July 2008 against the backdrop of year-on-year inflation in the country touching a 13-year high. The main drivers for this were the rapid escalation in commodity prices internationally and the rising concern that the spurt in food and energy prices would trigger a more generalised inflation spiral through second-round effects. The elevated level of international food, crude and other commodity prices led to a sizeable expansion in the merchandise trade deficit, putting persistent downward pressure in the foreign exchange market which, in turn, was further aggravated by volatility of capital flows, particularly portfolio outflows and tightening of international bank lending.

2.23 The Review observed that there had been a slight moderation in the industrial and the services sectors, while a favourable outlook for agriculture raised optimism regarding food availability and consequent mitigation of inflationary expectations. The monetary policy stance, it was indicated, would accord the highest priority to bringing down inflation and stabilising inflation expectations. Reinforced policy actions on several fronts were expected to exert a noticeable decline in inflation towards the last quarter of 2008-09. The Reserve Bank, while aiming to bring down inflation to around 3.0 per cent over the medium-term, set a realistic policy endeavour to bring down inflation from the then prevailing level of about 11.0-12.0 per cent to close to 7.0 per cent by March 31, 2009. Setting out the aggregate demand management and supply prospects required, the Review observed that the growth projection for the Indian economy made in the Annual Policy Statement for 2008-09 might prove to be optimistic, and a projection of around 8.0 per cent growth appeared a more realistic central scenario, barring domestic or external shocks.

2.24 The Review emphasised the need for moderating monetary expansion and M3 growth rate in the range of around 17.0 per cent in 2008-09 in consonance with the outlook on growth and inflation so as to ensure macroeconomic and financial stability in the period ahead. Consistent with this, the growth in aggregate deposits in 2008-09 was revised to about 17.5 per cent or around Rs.6,00,000 crore and that of non-food credit was placed at around 20.0 per cent, as indicated in the Annual Policy Statement. In view of the then prevailing macroeconomic and overall monetary conditions, the Reserve Bank increased the fixed repo rate under the LAF by 50 basis points from 8.5 per cent to 9.0 per cent with effect from July 30, 2008 and the CRR for scheduled commercial banks (SCBs) by 25 basis points to 9.0 per cent with effect from the fortnight beginning August 30, 2008 (Table II.1). These measures were expected to impart a stabilising influence on the economy in the period ahead. In view of the criticality of anchoring inflation expectations, a continuous heightened vigil over ensuing monetary and macroeconomic developments

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
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)
April 26, 2008	6.00	7.75	7.75 (+0.25)
May 10, 2008	6.00	7.75	8.00 (+0.25)
May 24, 2008	6.00	7.75	8.25 (+0.25)
June 12, 2008	6.00	8.00 (+0.25)	8.25
June 25, 2008	6.00	8.50 (+0.50)	8.25
July 5, 2008	6.00	8.50	8.50 (+0.25)
July 19, 2008	6.00	8.50	8.75 (+0.25)
July 30, 2008	6.00	9.00 (+0.50)	8.75
August 30, 2008	6.00	9.00	9.00 (+0.25)
October 11, 2008	6.00	9.00	6.50 (-2.50)
October 20, 2008	6.00	8.00 (-1.00)	6.50
October 25, 2008	6.00	8.00	6.00 (-0.50)
November 3, 2008	6.00	7.50 (-0.50)	6.00
November 8, 2008	6.00	7.50	5.50 (-0.50)
December 8, 2008	5.00 (-1.00)	6.50 (-1.00)	5.50

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. 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.

was indicated to be maintained to enable swift responses with appropriate measures as necessary, consistent with the monetary policy stance.

2.25 The extraordinary global developments beginning mid-September 2008, triggered by the bankruptcy/sell-out/restructuring of some of the world's largest financial institutions resulted in severe disruptions of international money markets, sharp declines in stock markets across the globe and extreme investor aversion. Several central banks and financial regulators responded with both unorthodox and unconventional measures to facilitate orderly operation of financial markets and to ensure financial stability. In the wake of the significant deterioration in the global financial environment since mid-September 2008, the Reserve Bank took a number of measures to maintain adequate liquidity in domestic money and foreign exchange markets and to enable banks to continue to lend for productive purpose while maintaining credit quality so as to sustain the growth momentum (Box II.2).

Mid-term Review for 2008-09

2.26 The Mid-term Review of the Annual Policy Statement for the year 2008-09, announced in October 2008, noted that the aggregate supply conditions in the economy had shown resilience in the second quarter of 2008-09 in the face of a deteriorating global macroeconomic and financial environment. There were, however, growing indications that the underlying economic cycle was turning in tune with global economic developments and that domestic economic activity was straddling a point of inflexion. The Mid-term Review thus revised the GDP growth forecast for the year to the range of 7.5 to 8.0 per cent. Keeping in view the supply management measures taken by the Government and the lagged demand response to the monetary policy measures taken by the Reserve Bank which had led to softening of inflation since July 2008, it was decided to maintain the earlier projection of inflation of 7.0 per cent by end-March 2009 for policy purposes. The Mid-term Review reiterated that the Reserve Bank's endeavour would be to bring down inflation to a tolerable level of below 5.0 per cent at the earliest, while aiming for convergence with the global average inflation of around 3.0 per cent over the medium-term.

2.27 The Review indicated that key monetary and banking aggregates – money supply, deposit and non-food credit growth – had been expanding at rates that were significantly elevated relative to indicative trajectories given in the Annual Policy Statement of April 2008. The need to modulate the monetary overhang generated by the sustained expansion of money supply since 2005-06 was emphasised; it was indicated that the Reserve Bank would endeavour to moderate the rate of growth of money supply to 17.0 per cent in 2008-09. The Review mentioned that the liquidity conditions in the domestic markets tightened abruptly in mid-September 2008. As the contagion from the US financial crisis spread further to Europe and Asia, there was continued tightening of domestic liquidity conditions. The Reserve Bank announced a number of measures since mid-September to assuage the domestic liquidity stress. The global financial turmoil reinforced the importance of putting special emphasis on preserving financial stability. At the same time, inflation, which was still in double digits, and the moderation in growth continued to be critical policy concerns. Consequently, the central task for conduct of monetary policy had become more complex than before, with increasing priority being given to financial stability. The Review noted that the challenge was to strike an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations, and sustaining the growth momentum. To manage this challenge, the Reserve Bank would continue to deploy both conventional and unconventional tools (refer Box II.2).

2.28 In response to the evolving macroeconomic and liquidity conditions in the global and domestic financial markets which reinforced the importance of focussing on preserving financial stability, the Reserve Bank announced a number of monetary and other measures in November 2008. Further measures were announced on December 6, 2008 to arrest the growth moderation in the economy (refer Box II.2).

Statutory Pre-emptions

2.29 Prior to the onset of withdrawal of monetary accommodation in September 2004, the Reserve Bank had brought down the CRR to 4.5 per cent, while following a policy of a conscious move away from direct instruments of monetary control to indirect instruments. The CRR for SCBs was increased by a cumulative of 150 basis points during 2007-08 – two hikes of 25 basis points each were effected in April 2007 and two hikes of 50 basis points each were effected in August 2007 and November 2007, respectively. During 2008-09 so far, the CRR was first increased by 150 basis points in six phases of 25 basis points each to 9.0 per cent before a sharp reduction of 250 basis points to 6.5 per cent of NDTL from the fortnight beginning October 11, 2008. The CRR was further reduced in two phases of 50 basis points each to 6.0 per cent and 5.5 per cent of NDTL with effect from the fortnights beginning October 25, 2008 and November 8, 2008, respectively.

2.30 The amendments made to the Reserve Bank of India (RBI) Act, 1934 and the Banking Regulation Act, 1949 during 2006-07 enhanced the Reserve Bank's operational flexibility in monetary management. Provisions of Section 3 of the RBI (Amendment) Act, 2006, came into force on April 1, 2007 following which, the floor and the ceiling on CRR to be prescribed by the Reserve Bank ceased to exist and no interest was payable on the CRR balances of banks with effect from the fortnight beginning March 31, 2007.

2.31 The Banking Regulation (Amendment) Act, 2007, which came into force on January 23, 2007, removed the floor rate of 25 per cent for SLR and empowered the Reserve Bank to determine SLR-eligible assets, among others. The Reserve Bank had maintained the pre-emption under SLR at 25 per cent till the first week of November 2008. Banks, however, have continued to hold more than the prescribed minimum, though the amount exceeding the prescribed minimum has gradually come down in recent years.

2.32 The Reserve Bank began offering to banks additional liquidity support under the LAF from September 17, 2008. Banks obtain liquidity from the Reserve Bank under the LAF against the collateral of eligible securities that are in excess of their prescribed SLR. It was decided that, in addition, purely as a temporary measure, SCBs could avail additional liquidity support under the LAF to the extent of up to 1.0 per cent of their NDTL and seek waiver of penal interest. In November 2008, it was decided to make the reduction permanent and accordingly, the SLR was reduced to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008. Furthermore, till end-June 2009, banks have been allowed relaxation in maintenance of SLR up to 1.5 per cent of their NDTL to meet the funding requirements of MFs, NBFCs and HFCs.

Interest Rate Structure

2.33 Rationalisation and deregulation of the interest rate structure has been an important

Box II.2: Major Policy Announcements by the Reserve Bank (September-December, 2008)

Important measures initiated by the Reserve Bank since mid-September 2008 are set out below:

Measures Announced in September

- The Reserve Bank indicated that it would continue to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps.
- The interest rate ceilings on foreign currency non-resident (bank) [FCNR (B)]/non-resident (external) rupee account [NR(E)RA] deposits were increased by 50 basis points each on September 16, 2008.
- As a temporary measure, SCBs (excluding RRBs) and primary dealers were allowed to avail additional liquidity support under the LAF to the extent of up to 1.0 per cent of their net demand and time liabilities (NDTL) and seek waiver of penal interest from September 17, 2008.
- The SLAF began to be conducted on a daily basis with effect from September 17, 2008 (the SLAF was re-introduced on August 1, 2008 to be conducted on reporting Fridays for banks).

Mid-term Review for 2008-09 (October 24, 2008)

- Floating rate bonds to be issued at an appropriate time taking into account the prevailing market conditions.
- The scheme for non-competitive bidding facility of state development loans (SDLs) to be operationalised by end-December 2008.
- Interest rate futures contracts, as recommended by the concerned working group, to be launched in early 2009 along with the supporting changes in the regulatory regime.
- Arrangements for settlement of primary auction bidding under the multi-modal settlements mechanism on the anvil.
- Clearing Corporation of India Limited (CCIL) to operationalise a clearing and settlement arrangement for over-the-counter (OTC) rupee interest rate derivatives on a non-guaranteed basis within a month, and on a guaranteed basis within three months. CCIL to operationalise settlement system of the foreign exchange forward segment within a month.
- A model scheme for financial literacy and credit counselling centres to be notified.
- Feedback to be given to banks to make the process of financial inclusion more effective.
- Guidelines related to liquidity risk management to be significantly revised.
- Guidelines on stress testing to be upgraded.
- An approach paper on appropriate model of risk-based supervision to be finalised by mid-December 2008.
- The working group to facilitate emergence of umbrella organisation/s for the urban co-operative bank (UCB) sector and examine issues concerning creation of a revival fund for the sector to submit its report by end-December 2008.
- The four Advisory Panel reports and the overview report of the Committee on Financial Sector Assessment to be released by December 2008.
- Report of the High Level Committee constituted to review the Lead Bank Scheme and improve its effectiveness to be submitted by December 2008.

Other Measures Announced in October

- The CRR was reduced by 250 basis points to 6.5 per cent of NDTL with effect from the fortnight beginning October 11, 2008.
- The repo rate under the LAF was reduced by 100 basis points to 8.0 per cent on October 20, 2008.
- Systemically important non-deposit taking non-banking financial companies (NBFCs-ND-SI) were temporarily permitted to raise short-term foreign currency borrowings under the approval route, subject to compliance with certain norms.
- A term repo facility for an amount of Rs.20,000 crore was instituted under the LAF to enable banks to ease liquidity stress faced by mutual funds (MFs). SCBs were allowed to avail additional liquidity support up to 0.5 per cent of their NDTL for meeting the liquidity requirements of MFs.
- The Reserve Bank announced that it would institute SMO to meet the foreign exchange requirements of public sector oil marketing companies against oil bonds when they become available.
- The interest rate ceilings on FCNR (B)/NR(E)RA deposits were increased by 50 basis points each on October 15, 2008.
- The Reserve Bank provided an advance of Rs.25,000 crore to financial institutions under the Agricultural Debt Waiver and Debt Relief Scheme, 2008.
- External commercial borrowings (ECBs) up to US$ 500 million per borrower per financial year were permitted for rupee/foreign currency expenditure for permissible end-uses under the automatic route.
- The all-in-cost ceiling for ECBs of average maturity period of three to five years and of maturity period over five years was enhanced to 300 basis points above LIBOR and to 500 basis points above LIBOR, respectively. The all-in-cost ceiling for trade credit less than three years was enhanced to 6-month LIBOR plus 200 basis points.
- Authorised Dealer (AD) category - I banks were allowed to borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 50 per cent of their unimpaired Tier 1 capital as at the close of the previous quarter or US$ 10 million, whichever was higher, as against the existing limit of 25 per cent.

Measures Announced in November

- The repo rate under the LAF was reduced by 50 basis points to 7.5 per cent on November 3, 2008.

- The statutory liquidity ratio (SLR) was reduced by 100 basis points to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008.
- The CRR was reduced by 100 basis points from 6.5 per cent to 5.5 per cent of NDTL in two stages - by 50 basis points with retrospective effect from the fortnight beginning October 25, 2008 and by a further 50 basis points with effect from the fortnight beginning November 8, 2008.
- A special refinance facility was introduced for SCBs (excluding RRBs) with a limit of 1.0 per cent of each bank's NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. During this period, refinance can be flexibly drawn and repaid. Banks have been encouraged to use the special refinance facility for the purpose of extending finance to micro and small enterprises (MSEs). This facility, available up to June 30, 2009, can be rolled over.
- It was indicated that the special term repo facility, announced in October, would be conducted up to a cumulative amount of Rs.60,000 crore with an associated SLR exemption of 1.5 per cent of NDTL to enable banks to meet the liquidity needs of MFs, NBFCs and and housing finance companies (HFCs). The facility will continue till end-June 2009 and can be availed of either on an incremental or on a rollover basis.
- The Reserve Bank has put in place a mechanism to buy back dated securities issued under the MSS.
- The interest rate ceilings on FCNR (B)/NR(E)RA deposits were increased by 75 basis points each on November 15, 2008.
- As a temporary measure, HFCs registered with the National Housing Bank (NHB) were allowed to raise short-term foreign currency borrowings under the approval route, subject to compliance with prudential norms laid down by the NHB.
- It was indicated that the Reserve Bank would consider, under the approval route, proposals from Indian companies to prematurely buy back their foreign currency convertible bonds (FCCBs). The buy-back should be financed by the company's foreign currency resources held in India or abroad and/or out of fresh ECB raised in conformity with the current norms for ECBs. Extension of FCCBs would also be permitted at the current all-in cost for the relative maturity.
- The period of entitlement of the first slab of pre-shipment rupee export credit and post-shipment rupee export credit was extended by 90 days each with effect from November 15, 2008 and December 1, 2008, respectively.
- The eligible limit of the export credit refinance (ECR) facility for scheduled banks (excluding RRBs) was enhanced to 50 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight, as against the earlier limit of 15 per cent.
- Amounts were allocated, in advance, from SCBs for contribution to the Small Industries Development Bank of India (SIDBI) and the NHB to the extent of Rs.2,000 crore and Rs.1,000 crore, respectively, against banks' estimated shortfall in priority sector lending in March 2009.
- Provisioning requirement for all types of standard assets was reduced to a uniform level of 0.4 per cent except in the case of direct advances to agriculture and SMEs sectors which would continue to attract provisioning of 0.25 per cent.
- Risk weight on all unrated claims of corporates, long term as well as short term, regardless of the amount of claim, would be 100 per cent. Risk weight on claims secured by commercial real estate was reduced to 100 per cent from 150 per cent. Claims on rated as well as unrated NBFCs-ND-SI are uniformly risk weighted at 100 per cent. Claims on asset financing companies (AFCs) would continue to be governed by the credit rating of the AFCs, except the claims that attracted a risk weight of 150 per cent under the new capital adequacy framework now have a risk weight of 100 per cent.
- Indian banks with foreign branches and subsidiaries have been allowed forex swaps of tenure up to three months, till end-June 2009, to meet the short-term funding requirements at their overseas offices.

Growth Stimulus Announced on December 6, 2008

- The repo rate and the reverse repo rate were reduced by 100 basis points each to 6.5 per cent and 5.0 per cent, respectively, on December 8, 2008.
- To enhance credit flow to the MSE sector, SIDBI would be provided refinance worth Rs.7,000 crore. The facility, available up to end-March 2010, would be available at the prevailing repo rate under the LAF for a 90-day period, during which the amount can be flexibly drawn and repaid and can be rolled over at the end of the 90-day period. The utilisation of funds would be governed by the policy approved by SIDBI's Board.
- A similar refinance facility worth Rs.4,000 crore to be worked out for NHB.
- As a follow-up to the announcement in November 2008, the policy on premature buyback of FCCBs by Indian companies was liberalised and applications for buyback would be considered under both automatic and approval routes and related compliance terms and conditions were issued.
- Up to March 31, 2010, loans granted by banks to HFCs for on-lending to individuals for purchase/construction of dwelling units would be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. However, the elegibility under the measure is restricted to 5.0 per cent of the individual bank's total priority sector lending on an ongoing basis.
- Exceptional/concessional treatment of retaining the asset classification of the restructured standard accounts in standard category has been extended to the commercial real estate exposures which are restructured up to June 30, 2009.
- As there are likely to be instances of even viable units facing temporary cash flow problems in the face of the current economic downturn, as a one-time measure, the second restructuring done by banks of exposures (other than exposures to commercial real estate, capital market and personal/consumer loans) up to June 30, 2009, would also be eligible for exceptional regulatory treatment.
- The prescribed interest rate applicable to post-shipment rupee export credit (ceiling of BPLR minus 250 basis points) was extended to overdue bills up to 180 days from the date of advance.

component of the financial sector reforms initiated in the early 1990s. Interest rates have been progressively deregulated barring those on savings bank deposits, non-resident external (NRE) deposits, FCNR (B) deposits, export credit and small loans upto Rs.2 lakh. Interest rate reforms have enhanced competitiveness and efficiency in the resource allocation process in the financial system, while simultaneously improving the monetary transmission mechanism.

Bank Rate and Repo/Reverse Repo Rate

2.34 The Bank Rate has been retained at 6.0 per cent since April 2003. Thus, the Bank Rate now functions as a signalling rate for the medium-term stance of the monetary policy, while the repo and reverse repo rates have become more commonly used signalling devices. With a view to fine-tuning the management of bank reserves on the last day of the maintenance period, the SLAF was re-introduced on August 1, 2008, to be conducted only on reporting Fridays for banks. The salient features of the SLAF are the same as those of the LAF. However, the settlement for the LAF and SLAF is conducted separately and on a gross basis. The SLAF is conducted on a daily basis with effect from September 17, 2008.

2.35 The repo and reverse repo rates were kept unchanged during 2007-08. During 2008-09, up to July 2008, the repo rate was raised by 125 basis points in the light of evolving macroeconomic and monetary conditions. On October 20, 2008, however, the repo rate was cut by 100 basis points to 8.0 per cent. The repo rate was further reduced by 50 basis points to 7.5 per cent on November 3, 2008. On December 8, 2008, both repo and reverse repo rates were reduced by 100 basis points each to 6.5 per cent and 5.0 per cent, respectively (refer Table II.1).

Deposit Rates

2.36 The interest rate on savings bank deposits was last revised on March 1, 2003, when it was reduced to 3.5 per cent per annum from 4.0 per cent. Ceilings on interest rates on NRE deposits and FCNR (B) deposits are linked to the LIBOR/SWAP rates and are reviewed from time to time, depending on monetary and macroeconomic developments. The interest rate ceiling on NRE deposits for one to three year maturity was increased by 50 basis points each on September 16, 2008 and October 15, 2008 to LIBOR/SWAP rates plus 100 basis points (Table II.2). Another 75 basis points hike was effected on November 15, 2008. On September 16, 2008 following a review, the interest rate ceiling on FCNR (B) deposits was raised by 50 basis points to LIBOR/SWAP rates minus 25 basis points. In the light of adverse developments in the domestic money and foreign exchange markets following the deterioration in the international financial environment, the interest rate payable on FCNR (B) deposits was increased by further 50 basis points to LIBOR/SWAP rates plus 25 basis points on October 15, 2008. The ceiling was increased to LIBOR/SWAP rates plus 100 basis points on November 15, 2008.

2.37 In view of the global developments during August-September, 2007 and with a view to giving an opportunity to SMEs to manage the challenges in the global markets, the Reserve Bank, in consultation with the Government of India, permitted all exporters from October 6, 2007 to earn interest on exchange earners' foreign currency (EEFC) accounts to the extent of outstanding balances of US$ 1 million per exporter in the form of term deposits up to one year maturing on or before October 31, 2008. The rate of interest was to be determined by the banks themselves. This, however, was a purely temporary measure subject to further review. Subsequently, the Reserve Bank in

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/Swap rates plus 50 basis points.
	November 17, 2005	LIBOR/Swap rates plus 75 basis points.
	April 18, 2006	LIBOR/ Swap rates plus 100 basis points.
	January 31, 2007	LIBOR/Swap rates plus 50 basis points.
	April 24, 2007	LIBOR/Swap rates.
	September 16, 2008	LIBOR/Swap rates plus 50 basis points.
	October 15, 2008	LIBOR/Swap rates plus 100 basis points.
	November 15, 2008	LIBOR/Swap rates plus 175 basis points.
FCNR (B) deposits @	April 29, 2002	LIBOR/Swap rates minus 25 basis points.
	March 28, 2006	LIBOR/Swap rates.
	January 31, 2007	LIBOR/Swap rates minus 25 basis points.
	April 24, 2007	LIBOR/Swap rates minus 75 basis points.
	September 16, 2008	LIBOR/Swap rates minus 25 basis points.
	October 15, 2008	LIBOR/Swap rates plus 25 basis points.
	November 15, 2008	LIBOR/Swap rates plus 100 basis points.
Export Credit in Foreign Currency	April 29, 2002	LIBOR/Swap rates plus 75 basis points.
	April 18, 2006	LIBOR/Swap rates plus 100 basis points.

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

consultation with the Government of India, announced on August 4, 2008 that it would withdraw this facility from November 1, 2008.

Lending Rates

2.38 In the wake of the currency appreciation in the earlier months of 2007-08, the Government of India, in July 2007, announced a package of measures to provide relief to exporters. This included an interest rate subvention of 200 basis points per annum, for a temporary period, on rupee export credit availed of by exporters in nine categories of exports (textiles including handlooms; readymade garments; leather products; handicrafts; engineering products; processed agricultural products; marine products; sports goods and toys) and to all exporters from the SME sectors defined as micro, small and medium enterprises (MSMEs). Accordingly, it was decided that banks would charge interest rate not exceeding the 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 defined above.

2.39 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. On November 30, 2007, the interest rate subvention on rupee export credit was further extended by additional 200 basis points on pre-shipment and post-shipment export credit for the following sectors, *viz.*, leather and leather manufacturers, marine products, all categories of textiles under the existing scheme including readymade garments and carpets but excluding man-made fibre and handicrafts. Banks were to charge interest rates not exceeding BPLR minus 6.5 per cent on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days on the outstanding amount in respect of the above-mentioned sectors. However, the total subvention was subject to the condition that the interest rate after subvention would not fall below 7.0 per cent, the rate applicable to the agriculture sector under priority sector lending. The Government extended the scheme for one more year *i.e.*, up to March 31, 2009, but in August 2008, it was decided to bring the scheme to a close with effect from September 30, 2008.

2.40 The validity of the reduction in the interest rate ceiling to 250 basis points below BPLR on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days announced on September 24, 2001 was extended up to April 30, 2009. The period of credit for pre-shipment and post-shipment rupee export credit was extended to 270 days and 180 days, respectively, in November 2008.

2.41 In order to provide credit to the agricultural sector at a reasonable rate, the Union Budget for 2006-07 had announced the availability of short term credit up to Rs.3 lakh to farmers at 7.0 per cent per annum with effect from *Kharif* 2006-07, which was continued for the years 2007-08 and 2008-09. In this regard, the Union Budget made an initial provision of Rs.1,600 crore for interest subvention in 2008-09.

3. Credit Delivery

2.42 The Reserve Bank has promoted a conducive environment for provision of adequate and timely bank finance at reasonable rates to the different sectors of the economy. This is especially important given the structural transformation that is underway and the need to bring the underserved sectors/sections of society within the banking fold. The initiatives taken in the recent past in this regard include improving credit delivery through simplification of the procedures and processes for lending to agriculture and MSMEs, supporting employment generation in rural and unorganised sectors and devising credit relief schemes for sectors in distress due to natural calamities and other factors.

2.43 The major policy initiatives for enhancing credit flow and facilitating credit delivery to the vulnerable sections of the society during 2007-08 included the Agriculture Debt Waiver Scheme, 2008 (farmers whose loans are written off by lending institutions under the scheme, become eligible for fresh finance from the lending institutions); removal of the requirement of 'no dues' certificates from small/marginal farmers, sharecroppers and the like for loans up to Rs.50,000; accepting affidavits submitted by landless labourers, sharecroppers and oral lessees giving occupational status for crop loans up to Rs.50,000; relief measures announced for the bird-flu affected poultry industry and introduction, on a pilot basis, of a cyclical credit product for financing crop production. Several initiatives were taken to increase the flow of credit to the priority sector such as increase in the limit of RRBs' direct finance to housing; permission to sell the priority sector loan assets held by the RRBs in excess of the prescribed level; and allowing commercial/sponsor banks to classify loans made to RRBs for on-lending to agriculture as their indirect lending to agriculture, *etc*. Initiatives were also taken during the year to ease the access to credit and enhance the flow of credit to MSEs such as formulation of the Code of Banks' Commitment to MSE customers.

Priority Sector Lending

2.44 The guidelines on lending to priority sector were revised with effect from April 30, 2007 based on the Report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C.S. Murthy). The priority sector broadly comprises agriculture, MSEs, retail trade, micro credit, education and housing subject to certain limits. The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006.

The priority sector lending targets (40 per cent and 32 per cent for domestic and foreign banks, respectively) have been linked to the adjusted net bank credit[2] (ANBC) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31 of the previous year, as against the previous practice of linking targets to the ongoing net bank credit.

2.45 The formats used by banks to inform the Reserve Bank about their priority sector advances were revised with effect from September 2007. SCBs should furnish data on priority sector advances on a half-yearly (*ad hoc*) basis as on the last reporting Fridays of March and September of a particular year (within fifteen days from the reference date), as also on a yearly basis (final data) as on the last reporting Friday of March of a particular year (within two months from the reference date).

2.46 RRBs were permitted to extend direct finance up to Rs.10 lakh to the housing sector in rural and semi-urban areas as part of priority sector lending, with the prior approval of their boards. In August 2007, the limit of board-approved direct finance to housing by RRBs was raised to Rs.20 lakh, irrespective of the area.

2.47 The Reserve Bank, in December 2007, allowed all loans granted by commercial banks/sponsor banks to RRBs for on-lending to agriculture and allied activities sector to be classified as indirect finance to agriculture in the books of the lenders. Consequently, the the loans granted by RRBs out of the funds borrowed from commercial banks/sponsor banks may not be classified as their priority sector lending. RRBs should not include such advances as part of their bank credit for the purpose of computing their achievement level under priority sector lending.

2.48 Following the announcement made in the Annual Policy Statement for 2008-09, in May 2008, the Reserve Bank allowed RRBs to sell the loan assets held by them under the priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.

2.49 Domestic SCBs, both in the public and private sector, which fail to achieve the priority sector and/or agriculture lending targets, are required to deposit into the Rural Infrastructure Development Fund (RIDF) such amounts as may be allocated to them by the Reserve Bank. The Fund has completed thirteen years of operation. Domestic SCBs are required to lend 10 per cent of their ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, to weaker sections. It was, however, noted that most banks were not meeting this sub-target for lending to weaker sections and hence in May 2008, the Reserve Bank advised that the shortfall in lending to weaker sections would also be taken into account for the purpose of allocating amounts to banks for contribution to the RIDF or funds with other financial institutions with effect from April 2009.

Credit to Agriculture and Allied Activities

2.50 The Union Budget for 2008-09 set a target of Rs.2,80,000 crore for disbursement of agricultural credit during the year by all banks including co-operative banks and RRBs. Several measures were taken during the year to increase the flow of credit to agriculture and allied activities.

2.51 Two proposals of the Working Group for Simplification of Processes and Procedures for Obtaining Agricultural Loans (Chairman: Shri C.P. Swarnkar) were brought into effect in April 2007. One, all SCBs were asked to dispense with the requirement of ‘no dues’

[2] Net bank credit plus investments made by banks in non-SLR bonds held in the held-to-maturity (HTM) category.

certificates for loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower. Two, banks were advised to accept certificates regarding the cultivation of crops provided by the local administration/ *panchayati raj* institutions for crop loans to landless labourers, share-croppers and oral lessees. In August 2008, banks were advised that where landless labourers, share-croppers and oral lessees faced difficulties in getting the necessary certificates from the local administration/*panchayati raj* institutions regarding the cultivation of crops, they could submit affidavits regarding their occupational status (*i.e.*, details of land tilled/crops grown) for loans up to Rs.50,000. Banks should also encourage the joint liability group/self-help group (SHG) mode of lending for such persons. Banks were, however, cautioned to continue with their procedures of identification as per the 'know your customer' (KYC) norms and other routine checks.

Relief Measure for Agriculture – Interest Rate Subvention

2.52 The Government has in recent years provided interest subvention to the vulnerable sections of the farming and allied sectors which were reeling under natural calamities and afflictions. Pursuant to the announcement in the Union Budget of 2006-07, all SCBs, RRBs and primary agricultural credit societies were advised to grant relief of 2.0 per cent on the borrower's interest liability for loans with principal amount up to Rs.1 lakh. The interest relief on each crop loan granted by banks during *Kharif* and *Rabi* of 2005-06, was to be credited to the borrower's account before March 31, 2006. Furthermore, public sector banks, RRBs and rural co-operative banks were advised that with effect from *Kharif* 2006-07, the Government would provide interest rate subvention of 2.0 per cent in respect of short-term production credit up to Rs.3 lakh provided to farmers. Subsequently, as a one-time extension, the Government decided to provide additional subvention for the period April 1, 2007 to June 30, 2007 in respect of those farmers/ borrowers in the *Vidarbha* region of Maharashtra, who could not pay on the due date, *i.e*. March 31, 2007 but repaid/would repay before June 30, 2007. The extended subvention was for repayment of *Kharif* loans. The Government in the Union Budgets for the years 2007-08 and 2008-09 announced continuation of the 2.0 per cent subvention scheme for short-term crop loans. In December 2008, the Government enhanced the subvention for 2008-09 to 3.0 per cent.

Relief Measures for Poultry Industry

2.53 There were instances of outbreak of avian influenza (bird flu) in some areas of the country during 2007-08. Keeping in view the loss of income suffered on account of culling of birds and the steep fall in prices of poultry products, the Reserve Bank, in February 2008, announced the following relief measures to be extended to all accounts of the poultry industry that were classified as standard accounts as on December 31, 2007: (i) banks were advised to convert the principal and the interest due on working capital loans and instalments and interest on term loans (that were due for payment on/after December 31, 2007 but were unpaid) into term loans and recover such loans over a period of three years with an initial moratorium of up to one year; (ii) the remaining portion of the term loan could be rescheduled, with a moratorium period up to one year, depending upon the cash flow generating capacity of the poultry unit; (iii) the re-schedulement/conversion was to be completed on or before April 30, 2008; and (iv) rescheduled/converted loans were to be treated as current dues, following which the borrower would be eligible for fresh need-based finance.

Recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness

2.54 The Government constituted the Expert Group on Agricultural Indebtedness (Chairman: Dr. R. Radhakrishna), which submitted its report in July 2007. The major issues addressed in the report related to the creation of credit absorption capacities, need for risk mitigation practices, introduction of cyclical credit system, setting up of dispute resolution mechanisms and a debt redemption fund. Consequent to the announcement made in the Mid-term Review for 2007-08, an Internal Working Group (Chairman: Shri V.S. Das) was constituted to examine those recommendations that were relevant to the banking system in general and the Reserve Bank in particular (Box II.3). In pursuance of these recommendations, certain measures were initiated by the Reserve Bank. In August 2008, banks were advised to select one rain-fed district for introduction, on a pilot basis, of a new product for financing crop production whereby: (i) 80 per cent of the crop loan requirement of individual borrowers could be released through a short-term production loan in conformity with the extant norms/ practices; and (ii) the remaining 20 per cent representing the 'core component' (expenses for land preparation, pre-sowing operations, *etc.*, besides self-labour/consumption) could be sanctioned as a 'clean credit limit' to ensure year-round liquidity. Banks were also advised to allow drawings in the 'clean credit limit' on the pattern of operations in cash credit/over draft accounts as long as the farmers continued to service the interest. It was specified that the asset classification norms as applicable to non-agricultural cash credit/ over draft accounts would apply to the 'clean credit limit'. Further, any re-schedulement of the loans in terms of extant guidelines on relief measures to be provided in the event of natural calamities in the area, would warrant clubbing of balances outstanding in the clean credit account with those in the loan account for re-schedulement and a fresh 'clean credit limit' should be made available to the farmer. Under normal circumstances, the extant guidelines of borrower-wise asset classification would prevail for the new product also, unless specifically dispensed

Box. II.3: Internal Working Group to Examine the Recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness

An Internal Working Group (Chairman: Shri V.S. Das) was constituted to examine the recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness. The Internal Group took a close look at the wide-ranging recommendations made by the Expert Group to address the issue of agricultural indebtedness and agreed with most of them. The Internal Group submitted its report in April 2008 which was placed on the Reserve Bank's website for wider consultation. The following were the major recommendations made by the Internal Group.

(i) The Government of India should prescribe transparent but flexible guidelines for choosing debt stressed districts in future.

(ii) A Steering Committee should be formed under the aegis of the State Level Bankers' Committee (SLBC) for monitoring and periodical review of the relief measures in the event of natural calamities.

(iii) Liquidity constraints in rain-fed areas should be mitigated through the cyclical credit system of treating crop loan as a weather cycle long intervention rather than an annual feature.

(iv) Credit counselling centres should be set up to evolve debt restructuring plans in consultation with banks and borrowers and there should be stricter and more transparent regulation of money lenders.

(v) There should be greater thrust towards providing for the various credit needs of small borrower households as part of financial inclusion.

(vi) Agency and mobile banking should be implemented to serve farmers at their door steps.

(vii) State Governments should enact appropriate legislation to facilitate creation of mortgages.

(viii) The procedures for obtaining loans by the disadvantaged farmers be simplified by allowing them to submit an affidavit explaining their identity and status for loans up to a certain amount (say, Rs.50,000).

(ix) Land records be computerised and tenancy be legalised through appropriate legislations.

with as in the case of restructuring in natural calamities. Rate of interest and periodicity of interest application in respect of 'clean credit limit' would be as applicable to other agricultural advances. Banks were asked to try out the new system in select branches.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

2.55 The Union Budget for 2008-09 announced a scheme of agricultural debt waiver and debt relief for farmers with the total value of overdue loans to be waived then estimated at Rs.50,000 crore and a one-time settlement (OTS) relief on the overdue loans estimated at Rs.10,000 crore. The modalities of the debt waiver scheme were finalised by the Government in consultation with the Reserve Bank and the National Bank for Agriculture and Rural Development (NABARD) and were notified on May 23, 2008. The scheme covers direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by SCBs, RRBs, co-operative credit institutions and local area banks. The Reserve Bank advised all banks to complete implementation of the scheme by June 30, 2008, while NABARD issued similar guidelines to RRBs and co-operatives.

2.56 The eligibility for debt waiver was short-term production loans (the loan amount and the applicable interest) and investment loans (overdue instalments and the applicable interest on such instalments): (a) disbursed up to March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008; (b) restructured and rescheduled by banks in 2004 and 2006 through the special packages announced by the Central Government, whether overdue or not; and (c) restructured and rescheduled in the normal course up to March 31, 2007 on account of natural calamities, as per applicable Reserve Bank's guidelines, whether overdue or not.

2.57 The entire 'eligible amount' was to be waived in the case of a small or marginal farmer. In the case of 'other farmers', there was to be a OTS under which the farmer was given a waiver of 25 per cent of the 'eligible amount', subject to the condition that the farmer repays the balance of 75 per cent of the 'eligible amount' in three instalments, *viz*., September 2008, March 2009 and June 2009. In the case of 237 revenue districts covering Drought Prone Area Programme, Desert Development Programme and the Prime Minister's Special Relief Package districts (listed in Annex-1 of the Scheme), 'other farmers' would be given OTS rebate of 25 per cent of the eligible amount or Rs.20,000, whichever was higher, subject to the condition that the farmer paid the balance of the eligible amount. Further, a farmer classified as 'small or marginal farmer' would be eligible for fresh agricultural loans pursuant to waiver of the eligible amount. In the case of a short-term production loan, the 'other farmer' would be eligible for fresh short-term production loan upon paying one-third of his share. In the case of an investment loan (for direct agricultural activities or allied activities), the 'other farmer' will be eligible for fresh investment loan upon paying his share in full. The Government would reimburse, through the Reserve Bank/NABARD, the lending institutions for the waiving off of the prescribed amounts of the 'small and marginal farmers' and 'other farmers' dues, respectively. The reimbursements would be made in instalments on the basis of duly certified and audited claims submitted through the respective nodal agencies. The Government has also decided to pay interest on the second, third and fourth instalments at the prevailing yield-to-maturity rate on 364 day Government of India Treasury Bills. The interest will be paid from the date of reimbursement of the first instalment till the date of actual reimbursement.

2.58 With a view to ensuring adequate financing of agricultural operations by banks, the Reserve Bank decided to provide temporary liquidity support to RRBs and co-operatives (through NABARD) and scheduled banks to the tune of Rs.17,500 crore (the limit of liquidity support made available to NABARD was revised to Rs.2,500 crore with effect from December 6, 2008) and Rs.7,500 crore, respectively. The limits in this regard are related to the quantum of debt waived by banks under the Agricultural Debt Waiver and Debt Relief Scheme. The liquidity support was provided to scheduled banks and NABARD under Section 17 (3-B) and Section 17 (4-E), respectively, of the RBI Act 1934. The facility would bear interest at the prevailing fixed repo rate under the LAF and would be repayable not later than December 15, 2008.

Credit to Micro, Small and Medium Enterprises (MSMEs) Sector

2.59 MSMEs are crucial to economic development as they further the objectives of employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and enhancement of export earnings. MSMEs produce a wide range of products, from simple consumer goods to high precision tools and sophisticated high-end products. To ease the difficulties faced by small manufacturing and services enterprises in accessing credit, the Code of Banks' Commitment to MSEs was formulated (Box II.4).

2.60 The SLBCs were advised in May 2008 to apprise all their members about the Government of India's decision to continue the credit linked capital subsidy scheme (CLCSS) for technology upgradation of MSEs during the Eleventh Five Year Plan (2007-12), subject to the following terms and conditions: (a) ceiling on the loan under the scheme would be Rs.1 crore; (b) the rate of subsidy would be 15 per cent for all MSE units up to the loan ceiling at (a) above; (c) calculation of admissible subsidy to be done with reference to the purchase price of plant and machinery instead of the term loan disbursed to the beneficiary unit; and (d) SIDBI and NABARD to continue as the implementing agencies for the scheme.

Working Group on Rehabilitation of Sick SMEs

2.61 The Standing Advisory Committee on Flow of Institutional Credit to the MSME Sector had observed in January 2007 that there was considerable delay in rehabilitation/ nursing of the potentially viable units, mainly on account of the inability of the promoters to bring in additional contribution. A Working

Box II.4: Formulation of "Banking Code for MSE Customers"

The Banking Codes and Standards Board of India (BCSBI) constituted a Working Group comprising members from select banks, Indian Banks' Association (IBA) and the Reserve Bank to formulate a Banking Code for MSE customers. The Working Group finalised the code on March 11, 2008 pursuant to discussions with industry associations, banks, SIDBI and Government agencies. The Code was released by the Union Finance Minister on May 31, 2008. It is a voluntary code, reflecting banks' positive commitment to their MSE customers to provide easy, speedy and transparent access to banking services in their day-to-day operations and in times of financial difficulty. The following are the main objectives of the voluntary code.

(a) To give a positive thrust to the MSE sector by providing easy access to efficient banking services.

(b) To promote good and fair banking practices by setting minimum standards in dealing with MSE customers.

(c) To increase transparency so that MSEs have a better understanding of what to expect from the banking services offered.

(d) To improve banks' understanding of MSE business through effective communication.

(e) To encourage market forces, through competition, to achieve higher operating standards.

(f) To promote a fair and cordial relationship between MSEs and banks and also to ensure timely and quick response to MSEs' banking needs.

(g) To foster confidence in the banking system.

Group (Chairman: Dr. K.C. Chakrabarty) was, therefore, constituted to look into the issues and suggest remedial measures so that the potentially viable sick units could be rehabilitated at the earliest. The Group submitted its report in April 2008 which was placed on the Reserve Bank's website. Based on the comments received, detailed guidelines on rehabilitation of potentially viable sick SME units would be issued to banks shortly (Box II.5).

Conditions of Work and Promotion of Livelihoods in the Unorganised Sector

2.62 The Government had constituted a National Commission for Enterprises in the Unorganised Sector (NCEUS) (Chairman: Dr. Arjun K. Sengupta) in September 2004. The NCEUS submitted a Report on the "Conditions of Work and Promotion of Livelihoods in the Unorganised Sector" in August 2007, suggesting a package of measures for addressing some of the critical issues relating to farm and non-farm sectors. Consequent to the announcement made in the Mid-term Review for 2007-08, an Internal Working Group was constituted to study the recommendations of the Sengupta Committee Report that were relevant to the financial system and to suggest an appropriate action plan for implementation of the acceptable recommendations. The report of the Group was placed on the Reserve Bank's website for wider dissemination (Box II.6).

Financing of Infrastructure by Banks and Financial Institutions

2.63 In November 2007, the Reserve Bank expanded the scope of the definition of infrastructure lending to include credit facilities sanctioned by banks and select all-India financial institutions (AIFIs) for projects involving laying down and/or maintenance of gas/crude oil/petroleum pipelines, in view of the importance of pipelines in the industrial development of the country. With a view to encouraging the flow of credit to the infrastructure sector, in December 2007, banks were advised that they could invest in unrated bonds of companies engaged in infrastructure activities within the ceiling of 10 per cent for unlisted non-SLR securities.

4. Financial Inclusion

2.64 Financial inclusion is delivery of financial services, at an affordable cost, to the vast sections of disadvantaged/low-income groups who tend to be excluded from the formal financial system. Notwithstanding the widespread expansion of the banking sector during the last three decades, a sizeable proportion of the households, especially in rural areas, remains outside the coverage of the formal banking system. An important step to bring the financially excluded people within the fold of the formal financial sector was the promotion of micro finance in India (detailed in Chapter V). The SHG-bank linkage programme was launched by NABARD in 1992, with policy support from the Reserve Bank to facilitate collective decision making by the poor and provide 'door step' banking. The term 'financial inclusion' was explicitly used for the first time in the Annual Policy Statement for 2005-06. It indicated that the Reserve Bank would: (a) implement policies to encourage banks that provided extensive services, while disincentivising those which were not responsive to the banking needs of the community, including the underprivileged; (b) the nature, scope and cost of services would be monitored to assess whether there was any denial of basic banking services to the common person; and (c) banks were urged to review their existing practices to align them with the objective of financial inclusion. The Reserve Bank's broad approach to financial inclusion is to 'connect' people with the

Box II.5: Working Group on Rehabilitation of Sick SMEs – Major Recommendations

A Working Group (Chairman: Dr. K.C. Chakrabarty) was constituted to suggest measures for improving the credit flow to the SME sector as well as early implementation of rehabilitation/nursing of sick SME units by examining feasibility of bringing in additional capital through alternative routes, such as equity participation and venture financing. The Group held wide ranging discussions with the stakeholders, namely, industry associations, banks and Government agencies. The Group made several suggestions as set out below:

(i) A simplified application *cum* sanction form (printed in the regional language as well) should be introduced for sanction of loans up to Rs.1 crore to all micro enterprises.

(ii) A current ratio of 1.25 should be acceptable in the accounts where bank finance was provided under the Nayak Committee norms.

(iii) The rate of interest on loans should be completely deregulated and should be determined by the lenders based on the competitive market forces.

(iv) The banks may be encouraged to accept interchangeability of margin and collateral so as to enable the borrowers with poor liquidity to provide additional collateral without inducting funds and the banks could accordingly reduce the margin. The Reserve Bank could consider raising the limit of compulsorily collateral free loans from Rs.5 lakh to Rs.10 lakh incentivised by 80 per cent coverage under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE).

(v) Banks that had sanctioned term loan singly or jointly must also sanction working capital limit singly (or jointly, in the ratio of the term loan) to avoid delay in commencement of commercial production of the MSME.

(vi) Banks could focus on opening more specialised MSME branches, while RRBs and co-operative banks could be asked to undertake more MSME financing.

(vii) Banks could consider sanctioning 50 per cent of the working capital as post sales limit. Cash credit (book debt) could be provided at a lower margin of say not more than 30 per cent. Margin could be reduced in the case of bill discounting/factoring also.

(viii) A Rehabilitation Fund, with a corpus of Rs.1,000 crore, should be created as many sick units could not be rehabilitated due to non-availability of promoters' contribution.

(ix) A Marketing Development Fund to provide, *inter alia*, financial assistance to MSMEs in setting up distribution and marketing infrastructure/outlets should be set up.

(x) The State Governments should be directed by the Government of India to provide a one-time financial support for recapitalisation of the viable State Financial Corporations (SFCs) while the unviable SFCs should be wound up with the State Governments settling their creditors/lenders.

(xi) Banks should finance, on an average, at least 10 MSME accounts per semi-urban/urban branch per year.

(xii) Small finance banks could be set up, as suggested by the Raghuram Rajan Committee, to reach out to the poorer sections and MSMEs.

(xiii) Enterprise Development Centres (EDCs) could be set up by the stakeholders for providing comprehensive guidance and training for setting up of new units and provide continuing education on different aspects of successful management of existing business enterprises. The Government may provide grant up to Rs.2.5 crore, which should not be more than 50 per cent of the cost of setting up an EDC, as against the present provision of Rs.1 crore.

(xiv) State Governments should have separate department for MSMEs as also short and long term policies for development/promotion of the MSME sector.

(xv) The incidence of sickness in small enterprises is double of that prevailing in the banking system as a whole. This makes the lenders averse to lending to the sector. Thus, the risk coverage under CGTMSE could be raised to 80 per cent for all micro enterprises without charge of guarantee fees, while the credit guarantee coverage offered could be raised from Rs.50 lakh to Rs.1 crore.

(xvi) Banks should set up credit counselling centres (whether singly or jointly with other banks or with large corporates) exclusively for MSMEs in major industrial towns/clusters.

(xvii) A micro or small enterprise (as defined in the MSMED Act, 2006) could be defined as sick, if any of the borrowal account of the enterprise remained a non-performing asset (NPA) for three months or more, or, accumulated losses led to a 50 per cent erosion of its net worth. Also, the existing stipulation for the unit to have been in commercial production for at least two years should be removed in order to enable banks to rehabilitate units where there was a delay in commencement of commercial production and a resultant need for handholding due to time/cost overruns.

(xviii) The rehabilitation process should start at the point of incipient sickness which is defined as any of the following: (a) delay in commencement of commercial production by more than six months for reasons beyond the control of promoters and entailing cost overrun; (b) incurrence of losses for two years or cash loss for one year, beyond the accepted timeframe on account of change in economic and fiscal policies affecting the working of MSMEs or otherwise; and (c) capacity utilisation at less than 50 per cent of the projected level in terms of quantity or sales at less than 50 per cent of the projected level in terms of value during a year.

Box II.6: Internal Working Group to Study the Recommendations of the Report on Conditions of Work and Promotion of Livelihoods in the Unorganised Sector (Arjun K. Sengupta Committee)

The Internal Working Group (IWG) (Chairman: Shri K.U.B. Rao) was constituted in November 2007 by the Reserve Bank to examine and suggest a way forward for implementation of the recommendations of the NCEUS Report on Conditions of Work and Promotion of Livelihoods in the Unorganised Sector. The IWG submitted its Report in May 2008 which was put on the Reserve Bank's website for wider dissemination and consultation. The main recommendations of the Group are set out below:

(i) The NCEUS had recommended that a sub-target of 12 per cent (out of the total priority sector lending allocation of 40 per cent) should be set for the socio-economically weaker sections. The IWG suggested that the Reserve Bank should evolve a system of disincentives for banks that failed to reach the existent sub-target of 10 per cent for lending to weaker sections.

(ii) The IWG concurred with the NCEUS recommendation that all lending through general credit cards (GCCs) should be treated as indirect finance to agriculture or other priority sectors.

(iii) The NCEUS had recommended an explicit target of 10 per cent for lending to small and micro enterprises and a sub-target of 4 per cent for lending to micro enterprises with capital investment (other than land and building) up to Rs.5 lakh. It also recommended enhancing the sub-target to 8 per cent of the net bank credit over a five year period. The IWG, however, was of the view that setting an explicit target of 10 per cent could further discourage the flow of credit. The extant guidelines that required banks to set a self-target for lending to the SME sector with an increase of 20 per cent each year and to ensure that 60 per cent of loans for SMEs went to micro enterprises, were found to be adequate.

(iv) The IWG supported the NCEUS' recommendation that the subsidy component of *Swarnjayanti Gram Swarozgar Yojana* (SGSY) be pooled into the funds made available under the programme for creating capacity, infrastructure and backward/forward linkages.

(v) The IWG agreed with the NCEUS' recommendation for issue of multi-purpose *Swarozgar* Credit Cards for the self-employed persons in the non-farm unorganised sector.

(vi) The NCEUS had recommended that the Government should set up a Credit Guarantee Fund (CGF) in NABARD, on the lines of the CGF set up by the Ministry of MSME, which provided guarantee cover on loans to small units. The IWG drew attention to the alternative proposal that had been mooted by the Reserve Bank to offer a credit guarantee scheme to distressed farmers through the Deposit Insurance and Credit Guarantee Corporation. It also indicated that the earlier experience with credit guarantee schemes suggested that excessive guarantee coverage could lead to moral hazard. Besides, banks could become lethargic and complacent while undertaking credit assessment.

(vii) The NCEUS recommended rationalisation and reduction in the cost of credit to MSMEs by controlling the rate of interest which needed to be governed by the overall cost and not specifically by the cost of advancing small loans alone. The IWG opined that it would not be appropriate to control interest rates for reducing the cost of funds. The Group, therefore, suggested that credit record bureaus and credit information companies should be quickly established so that data were available to banks to enable them to price credit according to risk. The establishment of credit information bureaus and the improvement in risk assessment was expected to reduce the transaction costs leading to a decrease in interest rates.

banking system and not just to dispense credit. The objective is to provide people with access to payment systems and establish financial inclusion as a viable business model and opportunity. The measures initiated by the Reserve Bank to bring the hitherto financially excluded population into the fold of the formal financial system include introduction of 'no-frills' accounts, promotion of financial literacy and responsible borrowing and encouraging adoption of Information and Communication Technology (ICT) solutions for achieving greater outreach as also reducing transaction costs.

2.65 Pursuant to the announcement in the Union Budget for 2008-09, in April 2008, the Reserve Bank advised all SCBs to adopt the concept of *total financial inclusion* by meeting the entire credit requirements (income generation activities, social needs such as housing, education, marriage, *etc.*, and debt swapping) of SHG members.

'No-Frills' Accounts

2.66 As announced in the Annual Policy Statement for the year 2008-09, and in order to give further impetus to financial inclusion, banks were advised in May 2008 to classify overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in the rural and semi-urban areas as indirect finance to the agriculture sector under the priority sector with immediate effect. 'No-frills' accounts (accounts with low or nil minimum balances as well as charges) were introduced in November 2005 to expand the outreach of banking services to vast sections of the population. To ensure that persons belonging to low income groups, both in urban and rural areas, did not encounter difficulties in opening bank accounts, the KYC norms for opening accounts with balances not exceeding Rs.50,000 and credits thereto not exceeding Rs.1,00,000 in a year, were also simplified. The simplified procedure allowed customers on whom the full KYC drill had been followed, to introduce new customers.

General-purpose Credit Cards

2.67 In December 2005, all SCBs, including RRBs, were advised to introduce a GCC scheme for their constituents in rural and semi-urban areas with a view to providing them with credit card like facilities with limited point-of-sale (POS) and automated teller machine (ATM) facilities. The GCCs could be issued based on the assessment of income and cash flow of the household as is done for normal credit cards. In May 2008, banks were advised to classify 100 per cent of the credit outstanding under the GCCs as indirect finance to agriculture sector under the priority sector as against the earlier limit of 50 per cent of the credit outstanding.

Pilot Project for 100 per cent Financial Inclusion

2.68 The convenor banks of the State Level/ Union Territory Level Bankers' Committees (SLBC/UTLBC) in all States/Union Territories were advised in April 2006 to identify at least one suitable district in their respective jurisdiction for achieving 100 per cent financial inclusion by providing 'no-frills' accounts and issue of GCCs and gradually extending the endeavour to other areas/ districts. The SLBCs/UTLBCs were further advised to allocate villages to various banks operating in the State for taking the responsibility of ensuring 100 per cent financial inclusion and also to monitor financial inclusion in the meetings of the SLBC/UTLBC from September 2006 onwards. 342 districts have been identified for 100 per cent financial inclusion so far and the target reported to be achieved in 155 districts in 19 States and six Union Territories with Haryana, Himachal Pradesh, Karnataka, Kerala, Uttarakhand, Puducherry, Daman and Diu, Dadra and Nagar Haveli, Goa and Lakshdweep reporting achievement of 100 per cent financial inclusion in all districts.

2.69 The Reserve Bank undertook an evaluation, through external agencies, of the progress made in achieving 100 per cent financial inclusion in 26 districts that had reported success. The studies revealed that although several districts had been declared as 100 per cent financially included, the actual financial inclusion had not been to the extent. Further, several accounts that were opened as a part of the financial inclusion drive, remained inoperative due to various reasons. Based on the findings of the studies, feedback would be provided to banks to make the process of financial inclusion more effective.

Use of Intermediaries as Agents

2.70 Pursuant to the announcement in the Union Budget for 2008-09, banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008, in addition to the entities already permitted, subject to appropriate due diligence. The individuals appointed as BCs should be permanent residents of those respective areas. Every BC was to be under the oversight of a specific bank branch, designated as the base branch. It was advised that the distance between the place of business of a BC and the base branch, should not exceed 15 kms in rural/semi-urban/urban areas and 5 kms in metropolitan centres. If need arose to relax the distance criterion, the matter could be referred to the District Consultative Committee (DCC) of the district concerned for approval. For relaxations covering adjoining districts and for metropolitan areas, the respective SLBC would be the clearing agency. DCCs/SLBCs would consider the requests on merit in respect of under-banked areas or where the population was scattered over large area where the need to provide banking services was imperative, but having a branch was not viable.

2.71 Furthermore, on August 27, 2008, SCBs, including RRBs and local area banks were advised that they could engage companies registered under Section 25 of the Companies Act, 1956, as BCs provided those companies were stand-alone entities or not more than 10 per cent of their equity was held by NBFCs, banks, telecom companies and other corporate entities or their holding companies. For engaging Section 25 companies as BCs, banks had to strictly adhere to the distance criterion of 15 kms/5 kms, as applicable, between the place of business of the BC and the branch. The controlling authorities of banks should closely monitor the functioning of business facilitators (BFs)/BCs during their periodic visits to the branches. Banks were also advised to put in place an institutionalised system for periodically reviewing the implementation of the BF/BC model at the board level.

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

2.72 The Reserve Bank had in the recent past constituted Working Groups to suggest measures for improving the outreach of banks and their services, and promoting financial inclusion in certain less developed States/ Union Territories, such as Bihar, Uttarakhand, Chattisgarh, Himachal Pradesh, Jharkhand, Lakshadweep and those in the North-Eastern Region, and for supporting the development plans of these State Governments. These Groups made specific recommendations for strengthening of financial institutions (FIs), improving currency and payment systems and for revitalisation of the RRBs and UCBs in the respective regions. The Special Task Force on North-Eastern Region (Chairperson: Smt. Usha Thorat), constituted in May 2008 to give a fresh impetus for setting up of banking facilities in the regions where perceived necessary as per public policy, was entrusted with, *inter alia*, suggesting a mechanism for cost sharing among banks, State Governments and the Reserve Bank for opening of branches/ currency chests and extension of foreign exchange/Government business facilities at centres which were found to be commercially unviable by banks. The Task Force picked up Meghalaya as the first State for implementation of its decisions. The State Government has agreed to the proposal of providing premises and necessary security arrangements for the new branches. Similar mechanisms for other States, where requests have been received, are under consideration.

Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF)

2.73 In June 2006, the Government constituted the “Committee on Financial Inclusion” (Chairman: Dr. C. Rangarajan). The Interim Report of the Committee had recommended the establishment of two funds – the FIF for meeting the cost of developmental and promotional interventions for ensuring financial inclusion and the FITF to meet the cost of technology adoption. The Union Budget for 2007-08, announced the constitution of the FIF and the FITF, with an overall corpus of Rs.500 crore each with NABARD. For the year 2007-08, the Government fixed an initial contribution of Rs.25 crore each in the two funds by the Central Government, the Reserve Bank and NABARD in the ratio 40:40:20.

Financial Literacy

2.74 Recognising lack of awareness about financial services as a major factor for financial exclusion, the Reserve Bank has taken a number of measures towards financial literacy. The Reserve Bank started "Project Financial Literacy" with the objective of disseminating information regarding the central bank and general banking concepts to various target groups such as school and college going children, women, rural and urban poor, defence personnel and senior citizens. The target audience is reached through banks, local government machinery and schools/colleges through the use of pamphlets, brochures, films and also the Reserve Bank's website. The 'For the Common Person' link on the Reserve Bank's website facilitates access to information in Hindi, English and 11 regional languages.

2.75 A 'Financial Education' link, aimed at teaching basics of banking, finance and central banking to children in different age groups, was placed on the Reserve Bank's website on November 14, 2007. The concepts are explained in a simple and interesting way using comic book formats. The site has films on security features of currency notes of different denominations and an educative film to dissuade citizens from stapling notes. The site also has a games section which aims at educating children through entertainment.

Credit Counselling Centres

2.76 The Working Group (Chairman: Professor S.S. Johl) constituted by the Reserve Bank to suggest measures for assisting distressed farmers had recommended financial and livelihood counselling as important for increasing the viability of credit. Further, the Working Group constituted to examine 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 for credit delivery in the relatively under-developed regions. In the light of the recommendations of these two Groups, in May 2007, convenor banks of SLBCs were advised to set up a financial literacy-*cum*-counselling centre in any one district on a pilot basis and extend it to all other districts in due course, based on the experience gained. As reported by SLBC convenor banks, as on July 31, 2008, 109 credit counselling centres had been set up/proposed to be set up in 19 States, on a pilot basis. In accordance with the announcement made in the Mid-term Review for 2007-08, the Reserve Bank placed on its website a concept paper on 'Financial Literacy and Credit Counselling Centres' on April 3, 2008. Based on the feedback received, a model Scheme for Financial Literacy and Credit Counselling Centres is being conceptualised.

Lead Bank Scheme

2.77 The Lead Bank Scheme, introduced in 1969, was aimed at coordinating the activities of banks and other development agencies for achieving the overall objectives of enhancing the flow of bank finance to the priority sector and promoting banks' role in the overall development of the rural sector. Under the scheme, each district had been assigned to SCBs to enable them to act as consortium leader to coordinate the efforts of banks in the districts, particularly in matters such as branch expansion and credit planning. During

2007-08 (July-June), the nine newly formed districts in six States were assigned to various SCBs, *viz.*, (i) Ramanagara and Chikballapur in Karnataka to Canara Bank and Corporation Bank, respectively; (ii) Ariyalur in Tamil Nadu to State Bank of India (SBI); (iii) Tapi in Gujarat to Bank of Baroda; (iv) Pratapgarh in Rajasthan to Bank of Baroda; (v) Ramgarh and Khunti in Jharkhand to Bank of India; and (vi) Alirajpur and Singrauli in Madhya Pradesh to Bank of Baroda and Union Bank of India, respectively. The total number of districts covered under Lead Bank Scheme, thus, went up to 617, as on June 30, 2008.

2.78 Pursuant to the announcement made in the Mid-term Review for 2007-08, a High Level Committee (Chairperson: Smt. Usha Thorat) was constituted to review the Lead Bank Scheme and improve its effectiveness, with a focus on financial inclusion and recent developments in the banking sector. The Committee conducted ten meetings up to June 30, 2008, with select banks, senior officers of certain State Governments, representatives of micro finance institutions (MFIs)/non-government organisations (NGOs), academicians of reputed educational institutions and others. A questionnaire covering various aspects of the Lead Bank Scheme was forwarded to all the State Governments and major banks. The Committee is expected to submit its report by December 2008.

Government Sponsored Schemes

2.79 As the Government of India had decided to merge the Prime Minister's *Rozgar Yojana* (PMRY) with the Rural Employment Generation Programme (REGP) to form a new scheme, all implementing banks were requested on March 5, 2008, to take necessary steps to achieve all programme targets for 2007-08 and also 2006-07 (if any) and forward their final subsidy requirement for 2007-08 (if any), latest by March 31, 2008. The Government announced the creation of Prime Minister's Employment Generation Programme, by merger of PMRY and REGP, on August 15, 2008.

2.80 In the 11th Meeting of Central Level Coordination Committee (CLCC) of SGSY held on February 8, 2008, the representatives of the commercial banks and State Governments agreed that training institutes such as the Rural Development and Self-Employed Training Institutes (RUDSETIs) needed to be established for assisting the beneficiaries of SGSY in capacity building and skill upgradation to ensure the sustainability of the benefits of the scheme to the rural poor. Accordingly, all SLBC/UTLBC convenor banks were advised in April 2008 to set up one RUDSETI in all districts under their jurisdiction. It was decided in the twelfth meeting of the CLCC of SGSY to prepare separate guidelines for establishment of RUDSETI type institutions. The draft guidelines have since been framed by the Ministry of Rural Development and are being finalised in consultation with the Reserve Bank.

Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)

2.81 The National Scheme for Liberation and Rehabilitation of Scavengers (NSLRS) was introduced in 1993 to liberate all scavengers and their dependents from their hereditary and obnoxious occupation and engage them in alternative and dignified occupations within a period of five years. In place of the NSLRS, the Government of India approved a new and improved scheme named "Self Employment Scheme for Rehabilitation of Manual Scavengers" (SRMS), aimed at rehabilitating the remaining scavengers and their dependents by March 2009. Accordingly, public sector banks were advised on April 15, 2008 to implement the new scheme as the Government had stopped funding the NSLRS from 2005-06. The approved scheme contained provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations. The scheme covered projects costing up to Rs.5 lakh; the loan amount would be the remaining portion of the project cost, after deducting the admissible capital subsidy. No margin money/promoter's contribution was required to be provided under the scheme. Both, term loan (up to a maximum cost of Rs.5 lakh) and micro financing (up to a maximum of Rs.25,000) would be admissible under the scheme. Micro financing would also be done through SHGs and reputed NGOs. The rate of interest chargeable from the beneficiaries would be: (a) 5.0 per cent per annum for projects up to Rs.25,000 (4.0 per cent for women beneficiaries); and (b) 6.0 per cent per annum for projects above Rs.25,000. The period of repayment of loan would be three years for projects up to Rs.25,000 and five years for projects above Rs.25,000. The moratorium period to start the repayment of loan would be six months. Credit linked capital subsidy would be provided upfront to the beneficiaries in a scaled manner.

Differential Rate of Interest (DRI) Scheme

2.82 The Union Budget for 2007-08 proposed to raise the limit of the loans under the DRI scheme from Rs.6,500 to Rs.15,000 and the limit of housing loans under the scheme from Rs.5,000 to Rs.20,000 per beneficiary. The Reserve Bank issued instructions to the effect in June 2007. Furthermore, the Union Budget for 2008-09 proposed to raise the borrower's eligibility criteria for availing loans under the DRI Scheme. Accordingly, the Reserve Bank advised banks in April 2008 that borrowers with annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas would be eligible to avail of the facility as against the earlier annual income criteria of Rs.6,400 in rural areas and Rs.7,200 in urban areas. The target for lending under the DRI scheme was maintained at 1.0 per cent of the previous year's total advances.

5. Prudential Regulation

2.83 The focus of the Reserve Bank's regulatory initiatives during 2007-08 continued to be on adopting international best practices to the Indian conditions to ensure financial stability. Measures were initiated that paved the way for smooth adoption of the Basel II framework in India. Guidelines pertaining to the New Capital Adequacy Framework (or the Revised Framework) were released and based on clarifications sought by banks during the parallel run of the Revised Framework, a few amendments were made to it. Guidelines for the Supervisory Review Process (SRP) or Pillar 2 of the framework were also issued. The Reserve Bank broadened the means for banks to raise capital to meet their regulatory requirements. In view of the turmoil in the international financial markets, prudential regulation for off-balance sheet exposure of banks was strengthened. Guidelines were also issued for a more dynamic management of liquidity risk by banks, while the frequency of supervisory reporting to the Reserve Bank was increased from monthly to fortnightly. Other major initiatives taken during the year included the tightening of prudential norms in relation to financing of projects by banks and issuance of letters of comfort (LoCs) by them, modifications in the corporate governance norms relating to nationalised banks and associate banks of the SBI and issuance of exhaustive guidelines for enhancing the efficacy of the anti-money laundering (AML) and combating financing of terrorism (CFT) initiatives.

2.84 A view has been expressed in certain quarters that the Indian regulatory framework should migrate to principles-based regulation from the current rules-based approach. The merits of a principles-based approach are that in a dynamic market context the principles-based approach to regulation provides a more enduring regulatory option since the underlying principles would not change with every new product whereas the detailed rules may have to be constantly modified to address the unique features of market/product developments. The approach, however, has its demerits as it places greater reliance on the discretion/ judgment of the supervisors and regulators in interpreting the broad principles (Box II.7).

Capital Adequacy

Basel II - Implementation

2.85 Guidelines on the Revised Framework, based on the Basel Committee on Banking Supervision (BCBS) document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (June 2006), were issued on April 27, 2007. During 2007-08, significant progress was made towards implementation of the Basel II as foreign banks operating in India and Indian banks having operational presence outside India migrated to the Revised Framework with effect from March 31, 2008, while all other commercial banks, except RRBs and local area banks, are required to migrate to these approaches not later than March 31, 2009. Banks are required to maintain a minimum capital to risk-weighted assets ratio (CRAR) of 9.0 per cent on an ongoing basis.

Pillar 2 Guidelines

2.86 The 'International Convergence of Capital Measurement and Capital Standards', commonly known as the Basel II Framework, has three components or Pillars. Pillar 1 pertains to minimum capital requirements, Pillar 2 is the SRP and Pillar 3 relates to market discipline. While the guidelines on Pillar 1 and Pillar 3 were issued by the Reserve Bank in April 2007, the guidelines in regard to Pillar 2, which comprises the SRP and the internal capital adequacy assessment process (ICAAP), were issued in March 2008. In fact, it is Pillar 2 that makes the Basel II framework more comprehensive in covering the various risks to which banks are exposed *vis-à-vis* Basel I which addressed only the credit and market risks.

2.87 Pillar 2 requires banks to implement an internal process, *viz.*, the ICAAP, for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. Pillar 2 also requires the supervisory authorities to subject all banks to an evaluation process and to initiate such supervisory measures on that basis, as might be considered necessary. The main focus of Pillar 2 is on the establishment of suitable risk management systems in banks and their review by the supervisory authority.

2.88 The Reserve Bank will take into account the relevant risk factors and the internal capital adequacy assessment of each bank to ensure that the capital held by a bank is commensurate with the bank's overall risk profile, because it is important for a bank to maintain enough capital for all risks, as and when envisaged (Box II.8). This would include, among others, the effectiveness of a bank's risk management systems in identifying, assessing/measuring, monitoring and managing various risks including interest rate risk in the banking book, liquidity risk, concentration risk and residual risk.

2.89 Holding additional capital becomes necessary for banks, on account of both – the

Box II.7: Rules-based *versus* Principles-based Regulation

Principles-based regulation (PBR) implies moving away, wherever possible, from dictating, through detailed prescriptive rules and supervisory actions, how firms should operate their business. Under PBR, the regulated firms are entrusted with the responsibility of deciding how best to align their business objectives and processes with the regulatory outcomes specified by the regulators. This would imply increasingly shifting the balance of the activities towards laying down desirable regulatory outcomes in principles and outcome-focussed rules, enabling the regulators to engage with the firms' senior management in pursuit of these outcomes. PBR was originally conceived at the Bank of England prior to the 1997 reforms. The Financial Services Authority (FSA) of the UK, which is one of the forerunners in adoption of PBR, has eleven principles of business relating to integrity; skill, care and diligence; management and control; financial prudence; market conduct; customers' interests; communication with clients; conflicts of interest; relationships of trust with customers; clients' assets and relations with regulators. These principles are a general statement of the fundamental obligations of firms under the regulation system.

The implementation of PBR requires clearly articulated outcomes that regulators want to achieve and against which their performance can be measured. The Report draws attention to the enabling conditions for introduction of PBR which include building-up of adequate infrastructure, identifying the market activities that are amenable to regulation using high-level statements of principles, a change in culture for regulatory bodies as well as the firms as PBR has significant implications for the way in which regulators work with firms on a day-to-day basis.

In the Indian context, an ownership and size neutral regulation (in terms of various provisions of the Banking Regulation Act and the RBI Act) is adopted, which is uniformly applicable to all banks. Over a period of time, there has been a gradual, well-sequenced, calibrated movement from structured regulation to prudential regulation and these regulatory practices are equally applicable to big and small banks.

Despite the stated superiority of the principles-based approach, the FSA of the UK is perhaps the only regulator to have adopted the model in a big-bang or comprehensive manner, though with a multitude of rules associated with it. In fact, the experience of the countries ostensibly shifting to PBR underscores the fact that it is more of drift rather than dominance. PBR does not necessarily require that principles have legal force – principles could have the status of guidance that informs the supervision of forms and/or enforcement policy. Thus, routine supervisory monitoring will rest on principles coupled with explanatory rules, evidential provisions and guidance, rather than on principles alone.

Thus, in any regulatory regime, complete reliance on a principles-based approach would rarely be a feasible option since the high-level principles would need to be underpinned by detailed rules at the operational level, to achieve the regulatory objectives. Illustratively, it might be easy to enunciate the principle, "treat your customer fairly" but ensuring it at the ground level would invariably require specific rules and prescriptions to achieve the objective underlying the principle.

Besides, as the PBR approach requires the regulator to identify and monitor risks for the overall industry and the regulated entities to understand the spirit of the principles while implementing them at the operational level, it necessitates significant skill upgradation on the part of the regulator as well as the regulated entities. Furthermore, in any jurisdiction, there could be certain areas of regulation which would be more amenable to a PBR approach, while other areas might inevitably require detailed prescriptive rules. Thus, the rules-based and principles-based approaches to regulation are not mutually exclusive options but could very well co-exist and complement each other. To illustrate, Pillar 1 of the Basel II framework is essentially rules-based prescription while Pillar 2 is more oriented towards principles-based regime. Both rules-based and principles-based regulations have their advantages and disadvantages. While the rules provide legal certainty, they are inflexible. In contrast, the PBR would be more adaptable, but would require active participation of management and the regulators for its successful implementation. In the ultimate analysis, the issue is to arrive at the optimal mix of rules and principles for a country desiring to transit from rules to principles, given the country-specific conditions including the size and complexity of the economy in general and the banking sector in particular, maturity of the market participants, importance of self-regulatory organisations and the culture of self-regulation and regulatory architecture. The Reserve Bank has been in the process of exploring the feasibility of adopting a more principles-based approach to banking regulation in a gradual and non-disruptive manner.

References:

1. Leeladhar, V. 2007. "The Evolution of Banking Regulation in India – A Retrospect on Some Aspects." *RBI Bulletin*, December.

2. Smith, H. 2007. "Principles-based Regulation: In Principle and In Practice." The London School of Economics and Political Science, February.

3. Reserve Bank of India. 2008. "Regulatory and Supervisory Challenges in Banking." *Report on Currency and Finance 2006-08,* Volume II, September.

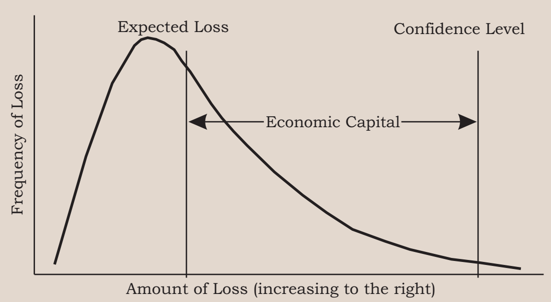
possibility of some underestimation of risks under Pillar 1 and the actual risk exposure of a bank *vis-à-vis* the quality of its risk management architecture. Pillar 2, therefore, includes: (a) the risks that are not fully captured by the minimum capital ratio prescribed under Pillar 1 (for example, credit concentration risk); (b) the risks that are not at all taken into account by Pillar 1 (for example, interest rate risk in the banking book); and

Box II.8: Economic Capital in Assessment of Capital Adequacy

Economic capital is the amount of capital considered necessary by a bank to absorb potential losses associated with all the risks, *viz.*, credit, market, operational and other risks. This is typically arrived at by using mathematical or statistical techniques designed to assess the likelihood of potential adverse outcomes. Economic capital is distinct from accounting and regulatory capital measures as it is based on a probabilistic assessment of potential future losses and is, therefore, a potentially more forward-looking measure of capital adequacy than traditional accounting measures. The economic capital framework provides a system for consistent firm-wide risk/return evaluations. The model which a bank uses to generate its target amount of economic capital is known as its Economic Capital Model (ECM). In recent years, many banks have adopted advanced modeling techniques that incorporate the internal allocation of economic capital considered necessary to support risks associated with individual lines of business, portfolios or transactions within the bank. A bank might also use economic scenario generators to model stochastically its business forecasts and risks.

Economic capital is typically defined as the difference between some given percentile of a loss distribution and the expected loss. It can be expressed as protection against unexpected future losses at a selected confidence level (Chart 1).

Chart 1: Economic Capital



The confidence level is established by the bank management – the higher the confidence level selected, the lower the probability of insolvency and higher the economic capital. Typically, a confidence level of 99.9 per cent is used as a prudent measure for capital in the case of credit and operational risks. A minimum confidence level of 99 per cent has been prescribed by the Basel Committee for market risk capital charge computation. However, the holding period used for market risk capital charge is 10 days, whereas it is one year in the case of capital for credit and operational risk under Basel II. Maintaining economic capital at 99.9 per cent confidence level denotes that the capital is adequate to cover all but one worst possible risk loss level out of 1,000 possible risk scenarios, for a given time horizon. Thus, economic capital captures most of the unexpected loss[3] events with the exception of catastrophic events. It is this possibility for unexpected losses to occur that necessitates the holding of capital protection. ECMs are important to banks adopting the Revised Framework.

The Basel Committee now recognises that capital adequacy in relation to economic risk is a necessary condition for long-term soundness of banks. Thus, in addition to complying with the established minimum regulatory capital requirements, banks should critically assess their internal capital adequacy and future capital needs on the basis of risks assumed. As part of the SRP, supervisors need to improve their understanding of the nature and limitations of economic capital methodologies and how they are being used by banks. This would support the supervisory evaluation of the strength of a bank's management processes and its capital position. Supervisors should keep in mind that while economic capital approaches may provide an additional and useful tool to banks to make risk-related decisions, they should not be seen as a substitute for strong corporate governance and risk management capabilities.

References:

1. Federal Deposit Insurance Corporation. 2004. "Supervisory Insights: Economic Capital and the Assessment of Capital Adequacy." www.fdic.gov
2. Basel Committee on Banking Supervision. 2008. "Cross-sectoral Review of Group-wide Identification and Management of Risk Concentrations." April
3. Basel Committee on Banking Supervision. 2003. "Trends in Risk Integration and Aggregation." August
4. Bank for International Settlements. 2008. "Range of Practices and Issues in Economic Capital Modelling." August

(c) the factors external to the bank (for example, business cycle effects). Another important aspect of Pillar 2 is the assessment of compliance with the minimum standards and disclosure requirements of the more advanced approaches available under Pillar 1, as and when these are permitted in a particular jurisdiction, so as to ensure that these requirements are met, both as qualifying criteria and on a continuing basis.

2.90 Over the last decade, a number of banks have invested resources in modeling

[3] Unexpected loss is the potential for actual loss to exceed the expected loss and is a measure of the uncertainty inherent in the loss estimate. Expected loss is the anticipated average loss over a defined period of time. Expected losses represent a cost of doing business and are generally expected to be absorbed by operating income.

the credit risk arising from their significant business operations with a view to assisting them in quantifying, aggregating and managing credit risk across geographic and product lines. Risk management has become a more complex practice with the evolution of credit risk models that provide decision makers with insight or knowledge that would not otherwise be readily available, thus giving them a competitive edge. The output of these models also plays an increasingly important role in banks' risk management and performance measurement processes, customer profitability analysis, risk-based pricing, active portfolio management and capital structure decisions (Box II.9).

Amendments to the New Capital Adequacy Framework

2.91 With a view to ensuring smooth transition to the Revised Framework and providing an opportunity to streamline their systems and strategies, banks in India were advised by the Reserve Bank in May 2006, to undertake a parallel run of the Revised Framework. In the light of clarifications sought by banks during the course of implementation of the parallel run, the guidelines were reviewed and the following amendments, *inter alia*, were introduced on March 31, 2008:

(i) Innovative Perpetual Debt Instruments (IPDI) in excess of 15 per cent of Tier 1 capital were allowed to be included in Tier 2 capital.

(ii) A bank's aggregate investment in all types of instruments, eligible for capital status of investee banks/FIs/NBFCs/primary dealers (PDs) should not exceed 10 per cent of the investing bank's capital funds (Tier 1 plus Tier 2, after adjustments). Any investment in excess of this limit should be deducted at 50 per cent from Tier 1 and 50 per cent from Tier 2 capital.

(iii) The direct loan/credit/overdraft exposure, if any, of banks to the State Governments and the investment in State Government securities would attract zero risk weight, while State Government guaranteed claims would attract 20 per cent risk weight.

(iv) Consumer credit, including personal loans and credit card receivables but excluding education loans, would attract a higher risk weight of 125 per cent or more, if warranted by the external rating (or, the lack of it) of the counterparty. As gold and gold jewellery are eligible financial collateral, the counterparty exposure in respect of personal loans secured by gold and gold jewellery would be worked out under the comprehensive approach. The 'exposure value after risk mitigation' would attract a risk weight of 125 per cent.

(v) In respect of credit transactions, haircut[4] would apply only to the eligible collateral but not to the credit exposure of the bank. On the other hand, exposures of banks, arising out of repo-style transactions would attract haircut.

(vi) In the case of loans collateralised by a bank's own deposits, even if the tenure of such deposits was less than three months or deposits had maturity mismatch *vis-à-vis* the tenure of the loan, the provisions regarding de-recognition

[4] In the comprehensive approach, while taking collateral, banks will need to calculate their adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of that collateral. Banks are required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements. These adjustments are referred to as 'haircuts'.

Box II.9: Advanced Approaches – Credit Risk Models

The literature on quantitative risk modeling is mainly based on two different approaches to credit risk measurement, *viz.*, default models and mark-to-market models. While the default models consider losses resulting exclusively from obligor defaults, mark-to-market models also consider losses resulting from a change of value of the loans due to credit quality deterioration. Default models have led to the development of statistical approach (analysis of historical data) that tries to rate the firms on a discrete or continuous scale. Mark-to-market models capture distribution of the firm's asset-value over a period of time on the basis of the expected default frequency (EDF)[5] model.

In recent years, important advances have been made in modeling credit risk in lending portfolios. The new models are designed to quantify credit risk on a portfolio basis, and thus are applied at the time of diversification as well as portfolio-based pricing. These models estimate the loss distribution associated with the portfolio and identify the risky components by assessing the risk contribution of each individual asset in the portfolio. CreditMetrics is a portfolio model for evaluating credit risk which enables consolidation of credit risk across the entire organisation and provides a statement of value-at-risk due to credit upgrades, downgrades and defaults. Credit risk models can also be classified as conditional or unconditional. While unconditional models take into account relatively limited borrower or facility-specific information, conditional models also attempt to incorporate information on the state of the economy, such as levels and trends in domestic and international employment, inflation, stock prices, interest rates and even indicators of financial health of particular sectors.

While banks may adopt any credit risk model depending on their size, complexity, risk bearing capacity and risk appetite, among others, the credit risk models followed by them should, at a minimum, be able to: (a) differentiate the degree of credit risk in different credit exposures of a bank; (b) identify concentration in the portfolios; (c) identify problem credits before they become non-performing; (d) identify adequacy or inadequacy of loan provisions; (e) help in pricing of credit; (f) recognise variations in macroeconomic factors and a possible impact under alternative scenarios; and (g) determine the impact on profitability of transactions and relationship.

Sufficient human judgment and oversight is necessary to ensure that all relevant information is taken into consideration and that the model is used appropriately. The burden is on the bank to satisfy its supervisor that a model or procedure has good predictive power and that the regulatory capital requirements will not be distorted as a result of its use. Banks must have in place a process for vetting data inputs into a statistical default or loss prediction model which includes an assessment of the accuracy, completeness and appropriateness of the data specific to the assignment of an approved rating. As credit risk models involve extensive judgment, effective model validation procedures are crucial. Banks should periodically employ stress testing and back testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences between expected and actual outcomes and processes for updating limits as conditions warrant. However, data limitations pose significant difficulties in designing and validating credit risk models. Unlike fixed income instruments and other investments in the trading book, most credit instruments are not marked-to-market. The scarcity of the data required to estimate credit risk models also stems from the longer-term time horizons used in measuring credit risk. Where market risk models typically employ a horizon of a few days, credit risk models generally rely on a time-frame of one year or more. Hence, in specifying model parameters, credit risk models require the use of simplifying assumptions and proxy data. The longer holding period, coupled with the higher confidence intervals used in credit risk models, makes it difficult for model-builders to assess the accuracy of their models. Use of credit risk models by banks under the internal ratings based approaches of Basel II framework would, therefore, pose a challenge to the regulators in ensuring that a bank's internal model accurately represents the level of risk inherent in the portfolio and the regulatory capital maintained, based on the model, is adequate.

While the BCBS stops short of allowing the results of credit risk models to be used for regulatory capital purposes under Basel II, it recognises the importance of continued active dialogue regarding both the performance of such models and their comparability across banks. BCBS is of the view that a successful implementation of the Revised Framework will provide banks and supervisors with critical experience necessary to address such challenges.

References:

1. Reserve Bank of India. 2002. "Guidance Note on Credit Risk Management." October, www.rbi.org.in
2. Diez-Canedo, J.M. 2008. "A Simplified Credit Risk Model for Supervisory Purposes in Emerging Markets." *Bank for International Settlements*, July, Paper No. 22
3. Basel Committee on Banking Supervision. 2006. "Sound Credit Risk Assessment and Valuation for Loans." June
4. Basel Committee on Banking Supervision. 2006. "International Convergence of Capital Measurement and Capital Standards." June

[5] EDF calculation is based on a company's current asset value, volatility of asset returns and the market value of its equity.

of collateral would not be attracted provided an explicit consent was obtained from the depositor (*i.e.*, borrower) for adjusting the maturity proceeds of such deposits against the outstanding loan or for renewal of such deposits till the full repayment of the underlying loan.

(vii) The capital charge for equities would apply on their current market value in a bank's trading book.

(viii) The claims on non-scheduled banks, which were deducted from capital, would be risk weighted from 100 per cent to 625 per cent, depending on the CRAR of the institution concerned, with higher risk weights prescribed for banks with lower CRAR. In the case of banks where no capital adequacy norms were prescribed by the Reserve Bank, the CRAR was to be notionally calculated, by obtaining the necessary information from the investee banks, using the capital adequacy norms as applicable to commercial banks.

(ix) In view of excess volatility in the stock markets across the world, equity was removed from the list of eligible financial collaterals.

(x) Standard supervisory haircut provided for exposures and collaterals, which were obligations of foreign central sovereigns/ corporates.

(xi) Capital adequacy framework applicable for repo/reverse-repo style transactions was specified.

(xii) Detailed guidelines were incorporated for measuring the capital charge for interest rate risk (specific risk) in debt securities and other interest rate related instruments in the available for sale (AFS) and held for trading (HFT) categories.

Enhancement of Banks' Capital Raising Options

2.92 In order to give a wider choice of instruments for raising Tier 1 and Upper Tier 2 capital, the Reserve Bank, in October 2007, enhanced banks' capital raising options for meeting the capital adequacy requirements by issuing guidelines pertaining to issue of preference shares as part of the regulatory capital. Indian banks could issue preference shares in Indian Rupees, subject to extant legal provisions. While perpetual non-cumulative preference shares (PNCPS) would constitute Tier 1 capital, perpetual cumulative preference shares (PCPS), redeemable non-cumulative preference shares (RNCPS) and redeemable cumulative preference shares (RCPS) were allowed as Upper Tier 2 capital.

Exposure Norms and Risk Weights

2.93 The exposure norms and risk weights for a few classes of loans extended by banks were reviewed by the Reserve Bank during 2007-08. While risk weights and norms for certain sectors such as education and housing were relaxed, money lent by banks to mutual funds (MFs) was brought within the purview of limits imposed on the capital market exposure of banks. Besides being a method of checking concentration of credit, the exposure norms also help in channelising credit to the desired sectors (Box II.10). The Reserve Bank also strengthened prudential regulations for off-balance sheet exposure of banks in the wake of the international financial turmoil.

Loans Extended by Banks to MFs and Issue of Irrevocable Payment Commitments (IPCs)

2.94 As per the extant guidelines, the aggregate capital market exposure of a bank in all forms, both fund based and non-fund based, should not exceed 40 per cent of its net worth, as on March 31 of the previous year. There were, however, no explicit guidelines for

Box II.10: Use of Regulatory Tools in Sectoral Deployment of Credit

Banking regulators worldwide generally use regulatory tools to strengthen the financial health of individual institutions, while monetary tools such as interest rates and reserve requirements are mainly useful in influencing the overall liquidity in the system. In view of the complex developments in the financial sector in recent times, it is no longer optimal to confine the use of tools to the original silos where they belonged. Accordingly, an attempt has been made in several countries to make use of regulatory tools for directing credit to desired channels and moderating the flow of credit to certain sectors.

In India, since April 2005, the Reserve Bank has been expressing concern about the strong credit growth, the significantly overdrawn state of the banking system to sustain the credit disbursement, mismatches between sources and uses of funds and implications for interest rates, liquidity conditions and credit quality. Several monetary and prudential measures were initiated during this period. Two of the most commonly used regulatory tools were the risk weights used for calculating minimum regulatory capital and the provisioning requirements applicable to the standard assets. Generally, risk weights are dependent upon historic probability of default. However, unusually high credit growth in a sensitive sector can be seen as a precursor to higher default rates in future necessitating application of higher risk weights without waiting for the relative portfolio to show weaknesses.

Certain sensitive sectors such as consumer credit, capital market exposure and commercial real estate exposure are constantly reviewed to identify any perceptible change in growth, warranting revision of the risk weights and provisioning norms for standard assets. A higher risk weight of 125 per cent was introduced in 2004, as a temporary counter cyclical measure, for consumer credit including personal loans and credit cards receivables exhibiting strong growth. The increased risk weight was regularly reviewed and retained at the same level. Similarly, the continued rapid expansion in credit to the capital market prompted the Reserve Bank to increase the risk weight on banks' exposure to the capital market to 125 per cent in July 2005. The risk weight on commercial real estate exposure was increased from 100 per cent to 125 per cent in July 2005 and subsequently to 150 per cent in May 2006. The real estate loans showed deceleration thereafter, though in absolute terms there has been substantial increase. Thus, the higher risk weight applicable to this sector has been found to be an effective tool for moderating credit growth, besides serving prudential purpose.

The general provisioning requirement on standard advances in certain sectors, *viz.*, capital market exposure, residential housing loans beyond Rs.20 lakh and commercial real estate loans was raised from 0.4 per cent to 1.0 per cent in May 2006, in order to ensure that asset quality was maintained in the face of high credit growth. As continued high credit growth in the real estate and capital market sectors emerged as a matter of concern, it was decided to increase the provisioning requirement in respect of standard assets for these loans and advances from 1.0 per cent to 2.0 per cent in January 2007. In view of the macroeconomic, monetary and credit conditions prevailing in November 2008, consistent with the practice of dynamic provisioning, the provisioning requirement for all types of standard assets was reduced to a uniform level of 0.4 per cent, except in case of direct advances to the agricultural and SME sectors, provisioning for which was retained at 0.25 per cent.

The risk weight measure has also been used to enhance credit flow to socially important sectors such as housing finance, education loans and investments in mortgage-backed securities of HFCs. Education loans, which were earlier classified as consumer credit, have been classified as non-consumer credit for the purpose of capital adequacy norms since January 2008 and their risk weight has been reduced.

The use of regulatory tools has helped in containing the growth of lending of SCBs to sensitive sectors. For instance, the growth of banks' lending to the real estate sector decelerated from 80 per cent at end-March 2006 to 42.3 per cent at end-March 2007 and further to 19.8 per cent at end-March 2008. Thus, there has been some rebalancing and overall correction in credit growth in response to policy initiatives.

extending loans and advances to MFs. The Annual Financial Inspection reports of certain banks and an analysis of the consolidated prudential return of some banks revealed that they had extended large loans to various MFs and had also issued IPCs to the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) on behalf of MFs/foreign institutional investors (FIIs). These exposures had, however, not been included by the banks for computation of their capital market exposure. Accordingly, in December 2007, the Reserve Bank advised banks to be judicious in extending loans to MFs and also ensure that these loans were utilised for meeting only temporary liquidity needs of the MFs. Furthermore, these loans should not exceed 20 per cent of the net asset of the scheme and their tenure should not exceed six months. If such finance was extended to equity-oriented MFs, it would be included in the capital market exposure of the bank. Also, IPCs extended by banks would be included in computation of their capital market exposure as they were in the nature of non-fund based credit facility for purchase of shares. Banks were advised that entities such as FIIs were not permitted to avail of fund or non-fund based facilities such as IPCs. Banks have been given a transition period of one year (up to December 13, 2008) to comply with the above requirements.

Off-Balance Sheet Exposures of Banks

2.95 The Reserve Bank has initiated several steps in the recent past to strengthen the prudential framework in respect of on-balance sheet exposures of banks. Such measures included additional risk weights and provisioning requirements for exposures to specific sectors. In view of the recent developments in the global financial markets, it was felt necessary to review the current stipulations regarding conversion factors, additional risk weights and provisioning requirements for specific off-balance sheet exposures of banks and prescribe prudential requirements as appropriate. Accordingly, in May 2008, the draft guidelines incorporating the required modifications were put up on the Reserve Bank's website for comments from the public. Based on the feedback received, guidelines were issued in August 2008. These, among others, included the following:

(i) For the purpose of exposure norms and capital adequacy, banks shall compute their credit exposures and credit equivalent amounts, respectively, arising on account of interest rate and foreign exchange derivative transactions and gold using the current exposure method (CEM).

(ii) The credit conversion factors (CCFs) for market related off-balance sheet items applicable to these transactions will be as under:

Residual Maturity	Credit Conversion Factors	
	Interest Rate Contracts	Exchange Rate Contracts and Gold
One year or less	0.5 per cent	2.0 per cent
Between one year and five years	1.0 per cent	10.0 per cent
More than five years	3.0 per cent	15.0 per cent

(iii) Credit exposures computed as per the current marked-to-market value of the contract arising on account of interest rate and foreign exchange derivative transactions and gold shall also attract provisioning requirement as applicable to loan assets in standard category.

(iv) In respect of derivative transactions, any amount due to a bank, which remains unpaid in cash for a period of 90 days from the specified due date for payment, would be classified as a NPA as per the 'prudential norms on income recognition, asset classification and provisioning pertaining to advances portfolio'.

2.96 The issues regarding asset classification status of overdue payments in respect of derivative transactions and restructuring of derivative contracts were again examined in October 2008 and banks were advised to treat any receivables representing positive mark-to-market value of a derivative contract, remaining overdue for a period of 90 days or more, as NPA. They were required to extend the principle of borrower-wise asset classification for all other funded facilities granted to the client, and classify them also as NPA, as per the existing asset classification norms. However, the principle of borrower-wise classification needs to be confined only to the overdues arising from forward contracts, plain vanilla swaps and options.

Risk Weight on Education and Housing Loan

2.97 In order to meet the regulatory requirements as per the Revised Framework, 'education loans' were classified as a part of 'consumer credit' for the purpose of capital adequacy, and accordingly attracted a risk weight of 125 per cent. Following a review of the risk weight for education loans, in January 2008, it was decided that education loans need not be classified as consumer credit for the purpose of capital adequacy norms. Accordingly, the risk weight applicable to education loans was stipulated at 100 per cent for banks under Basel I framework. Under Basel II framework, such loans would be treated as a component of the regulatory retail portfolio and would attract a risk weight of 75 per cent.

2.98 For the purpose of applying concessional risk weights for meeting capital adequacy requirements under both Basel I and Basel II frameworks, in May 2008, the limit of bank loans for housing was enhanced to Rs.30 lakh from Rs.20 lakh. Accordingly, where the loan-to-value (LTV) ratio was less than 75 per cent, loans up to Rs.30 lakh would carry a risk weight of 50 per cent, whereas loans of higher amount would attract a risk weight of 75 per cent. The risk weight in the case of other loans, *i.e.*, loans with LTV ratio of above 75 per cent, irrespective of the size, would continue to be 100 per cent.

Para-Banking Activities

2.99 The Reserve Bank has from time to time modified the framework of rules/ regulations/instructions to the SCBs for allowing them to undertake certain financial services or para-banking activities. Adequate safeguards have been put in place to ensure that the financial services or para-banking activities undertaken by banks are run on sound and prudent lines. In June 2007, guidelines were issued for banks to act as pension fund managers (Box II.11).

Box II.11: Pension Fund Management by Banks

The Government of India issued a notification on May 24, 2007 {under clause (o) of sub-section (1) of Section 6 of the Banking Regulation Act, 1949} specifying Pension Fund Management (PFM) as a lawful business for a banking company to engage in. Accordingly, banks were advised that they could undertake PFM through their subsidiaries, set up for the purpose, subject to their satisfying the eligibility criteria prescribed by the Pension Fund Regulatory and Development Authority (PFRDA) for pension fund managers. Banks were also advised that they should obtain prior approval of the Reserve Bank before engaging in the business of PFM subject to certain guidelines.

Banks are allowed to undertake PFM through their subsidiaries only and should not be undertaken departmentally. Banks have been permitted to lend their names/abbreviations to their subsidiaries formed for PFM, for leveraging their brand names and associated benefits thereto, subject to maintaining an "arm's length" relationship with the subsidiary. In order to provide adequate safeguards against associated risks and ensure that only strong and credible banks enter into the business of PFM, the banks complying with the following eligibility criteria (as also the solvency margin prescribed by the PFRDA) can approach the Reserve Bank for necessary permission to enter the PFM business: (i) net worth of the bank should be not less than Rs.500 crore; (ii) CRAR should be not less than 11.0 per cent during the last three years; (iii) bank should have made net profit for the last three consecutive years; (iv) return on assets should be at least 0.6 per cent or more; (v) level of net NPAs should be less than 3.0 per cent; (vi) performance of the bank's subsidiary/ies, if any, should be satisfactory; (vii) management of the bank's investment portfolio should be good as per the Annual Financial Inspection Report of the Reserve Bank and there should not be any adverse remark/s in the Report involving supervisory concerns.

The PFRDA had sought expressions of interest from only public sector entities with sufficient experience and financial strength for sponsoring pension funds for Government employees under the New Pension System. Three public sector entities, *viz.*, SBI, UTI Asset Management Company Private Ltd. and Life Insurance Corporation of India were recommended for appointment as sponsors of pension funds under the New Pension System by an independent selection committee constituted by the PFRDA. The SBI has since been accorded an 'in-principle' approval for setting up a subsidiary to act as a pension fund manager subject to certain conditions.

Risk Management

2.100 Risk management is a crucial element of the banking business and it has assumed added significance in the context of the recent global financial markets crisis. In view of the importance of risk management, the Reserve Bank has from time to time issued various guidelines including those on asset-liability management (ALM). While these serve as benchmarks for establishing integrated risk management systems, banks have been given the freedom to develop their own systems taking into account their type, size of operations and risk perceptions. Several initiatives were taken during the year to strengthen risk management systems in banks such as modification in the ALM guidelines. Banks were also advised to avoid equity funding of projects. Comprehensive guidelines were issued to banks to do a proper risk assessment and accounting for the LoCs issued by them.

Role of Credit Rating Agencies (CRAs)

2.101 CRAs, specialising in analysing and evaluating the credit-worthiness of corporate and sovereign issuers of debt securities, play a key role in financial markets by helping to reduce the information asymmetry between lenders and investors on the one side, and issuers on the other, about the credit-worthiness of companies/countries. The global financial turmoil brought into sharp focus the role of CRAs in better risk assessment and measurement.

2.102 The Reserve Bank has undertaken a detailed process of identifying the eligible CRAs whose ratings may be used by banks for assigning risk weights for credit risk. However, this accreditation process is neither a regulatory prescription nor a supervisory requirement. It has the limited purpose of using ratings for assigning risk weights within the framework of Basel II. So far, four rating agencies (Credit Analysis and Research, CRISIL, Fitch India and ICRA) have been granted accreditation on the basis of six parameters *viz.*, objectivity, independence, international access, transparency, disclosure credibility and resources. Banks have to use the chosen CRAs and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks are not allowed to 'cherry pick' the assessments provided by different CRAs. Banks must disclose the names of the CRAs that they use for the risk weighting of their assets, the risk weights associated with the particular rating grades as determined by the Reserve Bank through the mapping process for each eligible CRA as well as the aggregated risk weighted assets as required. Further, in India, complex structures like synthetic securitisations have not been permitted so far. As and when such products are to be introduced, the Reserve Bank would put in place the necessary enabling regulatory framework including calibrating the role of the rating agencies.

Liquidity Management – Modification of ALM Guidelines

2.103 Guidelines on ALM system issued in February 1999, covered, *inter alia*, interest rate risk and liquidity risk measurement/reporting framework and prudential limits. Liquidity was tracked through traditional maturity or cash flow mismatches under the extant guidelines. As a measure of liquidity management, banks were required to monitor their cumulative mismatches across all time buckets in their statement of structural liquidity by establishing internal prudential limits with the approval of their boards/management committees. As per the guidelines, in the normal course, the mismatches (negative gap) in the time buckets of 1-14 days and 15-28 days were not to exceed 20 per cent of the cash outflows in the respective time buckets.

2.104 During the period under review, the Reserve Bank fine-tuned the guidelines for ALM in order to make liquidity management by banks more dynamic. Taking into consideration the international practices in this regard, the level of sophistication of banks and the need for a sharper assessment and better liquidity management, it was decided that the 1-14 days time bucket be made more granular by splitting it into three time bands, *viz.*, day 1 (*i.e.*, next day), 2-7 days and 8-14 days. Accordingly, in October 2007, banks were advised that the net cumulative negative mismatches during the next day, 2-7 days, 8-14 days and 15-28 days should not exceed 5 per cent, 10 per cent, 15 per cent and 20 per cent of the cumulative outflows, respectively, in order to recognise the cumulative impact on liquidity. Banks were also advised to undertake dynamic liquidity management and prepare the statement of structural liquidity on a daily basis. In the absence of a fully networked environment, banks were allowed to compile the statement on best available data coverage initially but were advised to make conscious efforts to attain 100 per cent data coverage in a timely manner.

2.105 The statement of structural liquidity was to be reported to the Reserve Bank, once a month, as on the third Wednesday of every month. The frequency of supervisory reporting of the structural liquidity position was increased to fortnightly, with effect from April 1, 2008. Banks are now required to submit the statement of structural liquidity as on the first and third Wednesday of every month to the Reserve Bank. The due date of the submission of the statement is the seventh day from the reporting date.

Project Finance Portfolio of Banks

2.106 At the time of financing projects, banks generally adopt one of the following methodologies for determining the level of promoters' equity: (i) promoters bring their entire contribution upfront before the bank starts disbursing its commitment; (ii) promoters bring certain percentage of their equity (40-50 per cent) upfront and the balance is brought in stages; and (iii) promoters agree, *ab initio*, that they would bring in equity funds proportionately as the banks finance the debt portion. It was observed that the last method had greater equity funding risk. Accordingly, to contain this risk, the Reserve Bank advised banks in November 2007 to have a clear policy regarding the debt-equity ratio (DER) and to ensure that infusion of equity/fund by the promoters is such that the stipulated level of DER is maintained at all times. Furthermore, banks were asked to adopt funding sequences so that the possibility of equity funding by them was obviated.

Norms Relating to Issuance of LoCs

2.107 It was observed that banks in India were issuing LoCs to meet the requirements of overseas regulators while seeking their approval for establishing subsidiaries/ opening branches in their countries as also to support certain activities of their subsidiaries in India. Such LoCs were intended to provide comfort to: (i) the overseas and the domestic regulators that the parent bank would support its foreign/domestic subsidiaries in case they face any financial problem in future; and (ii) the rating agencies in India, which might be rating the issuances/ products of the bank's Indian subsidiaries, in regard to availability of the parental support to the subsidiary. However, such LoCs entailed an element of contingent liability on the part of the issuing banks which was not adequately captured under the extant regulatory dispensation. Accordingly, the matter relating to issuance of LoCs on behalf of a bank's subsidiaries and in favour of overseas regulators was examined by the Reserve Bank and the following prudential norms were laid down in this regard in March 2008. One, every issuance of a LoC should be subject to prior approval by the board of directors of the bank. The bank should lay down a well defined policy for issuance of LoCs, including the indicative cumulative ceilings up to which LoCs could be issued for various purposes. The policy must, *inter alia*, provide that the bank would obtain and keep on record legal opinion in regard to the legally binding nature of the LoC issued. An appropriate system for keeping a record of all the LoCs issued should also be put in place. Two, the bank should make an assessment, at least once a year, of the likely financial impact that might arise from the LoCs issued by it and outstanding, in case it is called upon to support its subsidiary in India or abroad, as per the obligations assumed under the LoCs issued. Such an assessment should be made qualitatively on a judgmental basis and the amount so assessed should be reported to the board, at least once a year. As a first time exercise, such an assessment should be undertaken in respect of all the outstanding LoCs issued and outstanding as on March 31, 2008 and the results placed before the board in the ensuing meeting. Such an assessment should also form a part of the bank's liquidity planning exercise. Three, any LoC that is assessed to be a contingent liability of the bank by a rating agency/auditors (internal or external)/internal inspectors/the Reserve Bank inspection team, should be treated, for all prudential regulatory purposes, on the same footing as a financial guarantee issued by the bank. Four, the bank should disclose full particulars of all the LoCs issued by it during the year, including their assessed financial impact, as also their assessed cumulative financial obligations under the LoCs issued by it in the past and outstanding, in its published financial statements, as part of the 'notes to accounts'.

Income Recognition, Asset Classification and Provisioning

2.108 Over the years, the prudential norms for provisioning have been revised to bring them in conformity with the global best practices. In view of time overruns in infrastructure projects, the Reserve Bank has fine-tuned asset classification norms for infrastructure projects that are under implementation and involve time overrun. In May 2008, the Reserve Bank modified the prudential norms on asset classification in respect of infrastructure projects under implementation and which have been delayed on account of legal and other extraneous reasons. Accordingly, it was decided that in the case of infrastructure projects financed by banks post May 28, 2002, 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 extends beyond a period of two years (as against the earlier norm 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, 2008.

NPA Management by Banks

2.109 The availability of information on a prospective borrower's capacity to repay a loan and past track-record are key variables in risk analysis and the decision by a FI to grant credit. The availability of information on credit history facilitates risk evaluation and thereby limits credit rationing practised by lenders. An efficient system of credit information on borrowers is, thus, an important first step in improving the credit risk management (Box II.12).

2.110 In India, the regulations under the Credit Information Companies (Regulation) Act, 2005 were notified in December 2006. In

Box II.12: Credit Information Companies – A Perspective

The need for an adequate, comprehensive and reliable information system on the borrowers through an efficient database system has been strongly felt by regulators, policy makers as well as credit institutions. CICs, also known as credit bureaus, fulfil the need of credit information resulting in several benefits to credit institutions and borrowers:

- The exchange of information on borrowers decreases default rates and reduces average interest rates, thus, leading to increased lending. The maintenance of historical credit data on borrowers by CICs incentivises the borrowers to maintain clean repayment history, which, in turn, enables reduction of NPAs, augmentation of portfolio quality and availability of more funds with credit institutions for lending. A growing body of empirical evidence suggests that the mechanism of credit information sharing is associated with the deepening of the credit markets.
- CICs facilitate objective and transparent scrutiny/ processing of credit and make the process fast and less expensive.

Credit bureau information can also be important for macroeconomic intelligence. For instance, an increase in the movement of loans to lower grades in a particular sector or region may highlight particular economic problems and risks in that area or sector. This information may be invaluable for a central bank to understand the transmission of monetary policy and to guide monetary policy decisions. Credit bureau information can also be used by the tax authorities to improve fiscal control and to analyse the effect of different tax policies on credit flows.

Information Sharing Mechanism – Public and Private Sector Conundrum

The possibility of increasing returns to scale in the credit information industry could lead to market power concentration, less than optimal service provision and higher than competitive pricing. As a result, the form and design of CICs – public, private or public-private participation assumes importance.

In many countries such as France, public credit registries (PCRs), are operated by a central bank or bank supervisor. Alternatively, some have chosen to leave credit reporting service solely to private firms, for instance, the US. The Italian model, on the other hand, reflects the integration of the private and public sectors while retaining a significant measure of government control. Italy's credit reporting system is considered one of the most complete and accurate registries in Europe. This illustrates that PCRs and private credit bureaus complement and not substitute each other.

Credit Scoring and CICs

The most important innovation in commercial credit scoring in recent years has been the ability to combine all the different data sources to provide the modeling capability to assess companies' likely behaviour accurately and to provide a single score for credit-worthiness. The information required to make an accurate and informed decision is delivered through the one source, the credit reference agency, in the form of a credit scorecard, with scores in the range of 0 to 100, indicating the likelihood of business failure. Further, small businesses are typically much more informationally opaque than large corporations because they often do not have certified audited financial statements to yield creditable financial information on a regular basis. Small Business Credit Scoring involves analysing consumer data about the owner of the firm and combining it with relatively limited data about the firm itself using statistical methods to predict future credit performance.

References:

1. Powell, A., N. Mylenko, M. Miller and G. Majnoni. 2004. "Improving Credit Information, Bank Regulation and Supervision: On the Role and Design of Public Credit Registries." *World Bank Policy Research Working Paper*, November, No. 3443
2. Dorbec, A. 2006. "Credit Information Systems: Theoretical and Comparative Analysis." *Attractivité Economique du Droit Working Paper*, September
3. Berger, A.N., W.S. Frame. 2005. "Small Business Credit Scoring and Credit Availability." *Federal Reserve Bank of Atlanta Working Paper*, May, 2005-10

April 2007, the Reserve Bank invited applications from companies interested in continuing/commencing the business of credit information. The last date for submission of the applications was July 31, 2007 and 13 applications were received. An external High Level Advisory Committee (Chairman: Dr. R.H. Patil) was set up by the Reserve Bank for screening the applications and recommending the names of the companies to which certificates of registration could be granted. After the announcement of the foreign direct investment (FDI) policy for credit information companies (CICs) in March 2008, the processing of applications has been taken up. Thus, soon new CICs will be authorised to commence business which is expected to reduce information asymmetry and facilitate efficient credit allocation and pricing while fostering a better credit culture.

2.111 In order to increase the options available to banks for resolving their NPAs and to develop a healthy secondary market for NPAs, the Reserve Bank had issued guidelines for purchase/sale of NPAs among banks in July 2005. In terms of these guidelines, banks' boards were required to lay down policies covering, among others, valuation procedure to be followed to ensure that the economic value of financial assets was reasonably estimated based on the assessed cash flows arising out of repayment and recovery prospects. However, it was brought to the Reserve Bank's notice that in some cases, NPAs were sold for much less than the value of available securities and no justification was given for sale below the economic value. Accordingly, in October 2007, the Reserve Bank issued guidelines in terms of which banks should work out the net present value (NPV) of the estimated cash flow associated with the realisable value of the available securities net of the cost of realisation, while selling NPAs. The sale price should generally not be lower than the NPV arrived at in the manner described above. The same principle should be used in the case of compromise settlements also. As the payment of the compromise amount may be in instalments, the NPV of the settlement amount should be calculated and this amount should generally not be less than the NPV of securities.

2.112 Further, in November 2007, banks were advised to invariably ensure that once a case was filed before a court/debt recovery tribunal (DRT)/Board for Industrial and Financial Reconstruction (BIFR), any settlement arrived at with the borrower was subject to obtaining a consent decree from the court /DRT/BIFR concerned.

Corporate Governance

2.113 Corporate governance is recognised as a crucial element for maintaining the stability and soundness of the financial system. The Reserve Bank had prescribed the 'fit and proper' criteria for the elected directors of the boards of nationalised banks and associate banks of the SBI in November 2007. This was in keeping with the 'fit and proper' criteria that were prescribed for directors of private banks in June 2004. In view of the vital role that banks can play in promoting the cause of sustainable development (SD), the Reserve Bank, in December 2007, advised banks on corporate social responsibility (CSR) and SD.

'Fit and Proper' Criteria for Elected Directors

2.114 The 'fit and proper' criteria for elected directors on the boards of nationalised banks and associate banks of the SBI were brought into effect through two different notifications in November 2007. According to the criteria laid down, the banks are required to constitute a 'nomination committee' comprising a minimum of three directors (all independent directors/non-executive directors) from amongst the board of directors, one of whom is to be nominated as the chairman of the committee. The board is also to decide the tenure of the nomination committee. The nomination committee should determine the 'fit and proper' status of the existing elected directors/proposed candidates based on broad criteria such as educational qualification, experience, field of expertise, track record and integrity. Moreover, candidates with adverse notice of any authority/regulatory agency or insolvency or default of any loan from any bank or FI would be rendered unfit and improper to be a director on the board of a bank. It is desirable that the board ensures that the elected directors execute the deed of covenants as recommended by the Dr.Ganguly Group, after the election and also every year as on 31st March. It is also mandatory that all the elected directors furnish a simple declaration every year as on 31st March that the information already provided by them has not undergone any change and where there is a change, requisite details are furnished by the directors forthwith. If there is any significant change, the nomination committee should undertake the due diligence exercise afresh and examine the 'fit and proper' status of the director.

Revised Calendar of Reviews

2.115 With a view to reducing the burden on the boards as well as aligning the reviews to present day concerns, the items to be submitted before the boards of banks as part of the 'calendar of reviews' to be undertaken by them were revised. The calendar outlines the critical minimum requirements of review and the boards would have the discretion to prescribe additional reviews to suit their requirements.

2.116 The calendar of reviews to be placed before the board would be under the heads: (a) review of operations; and (b) review of strategy. Banks were also advised that in every board meeting, separate time slot should be allocated for taking up strategy review for business plan – targets and achievements, review of non-fund business, human resource management, training and industrial relations, new prospective business/product lines and closure of existing business/product lines. Detailed report is to be placed before the board only from the risk management committee. All other committees should place only summary reports before the board. The board would review slippages in asset classification in the borrowal accounts with outstanding of Rs.5 crore and above and review NPA accounts which had registered recoveries of Rs.1 crore and above. The revised schedule came into effect from June 1, 2008 for public sector banks and from July 1, 2008 for private sector banks.

Corporate Social Responsibility

2.117 At present, the world over, there is an increasing awareness about CSR, SD and non-financial reporting (NFR). CSR entails the integration of social and environmental concerns by companies in their business operations as also in interactions with their stakeholders. SD essentially refers to the process of maintenance of the quality of environmental and social systems in the pursuit of economic development. NFR is basically a system of reporting by organisations on their activities in this context, especially as regards the triple bottom line, *i.e.*, environmental, social and economic accounting. The contribution of FIs including banks to SD is paramount, considering the crucial role they play in financing economic and developmental activities of the world. To raise the level of awareness and focus the attention of banks in India on this issue, in December 2007, the Reserve Bank advised banks to put in place a suitable and appropriate plan of action towards helping the cause of SD, with the approval of their boards. In this context, a particular reference was drawn to the International Finance Corporation's principles on project finance (the Equator Principles) and carbon trading. Further, banks/FIs were advised to keep themselves abreast of the developments on an on-going basis and dovetail/modify their strategies/plans in the light of such developments. Banks were also advised that the progress made by them under the specified heads, could be placed in the public domain along with their annual accounts.

KYC Guidelines and Anti-Money Laundering Standards

2.118 Money laundering and terrorist financing are major threats to global financial systems and jurisdictions inasmuch as these distort financial markets, provide unfair competition (a business supported by illicit funds could compete unfairly against legitimate businesses), undermine small economies, encourage corruption in the systems, lead to political instability and become a source of finance for sabotage and destructive activities. As these practices undermine national, social and economic interests, it is of utmost importance to safeguard banking systems against the twin threat of money-laundering and terrorist financing (Box II.13).

2.119 The Reserve Bank issued revised KYC/AML/CFT guidelines to banks in February 2008. Banks were advised that customer identification means identifying the customer and verifying his/her identity by using reliable and independent source documents, data or information to the bank's satisfaction. Banks are not to use the indicative list, as prescribed by the Reserve Bank, of the nature and type of documents/information that may be relied upon for customer identification, as an exhaustive list and cite it to deny access to banking services to sections of the public. Banks have been advised to perform a review of risk categorisation of their customers at least once in six months and periodically update the customer identification data (including photograph/s) after opening of the account. Banks are also to put in place an adequate screening mechanism as an integral part of their recruitment/hiring process of personnel. Banks were also advised to ensure that all existing account holders and name/s of potential customers do not appear or are linked to any of the entities or individuals included in the resolutions of the United Nations' Security Council.

2.120 Following the emphasis placed on the need for periodical review of risk categorisation, in May 2008, the Reserve Bank reiterated the need for banks to undertake, *inter alia,* the following:

(i) Steps to ensure electronic filing of cash transaction report (CTR) and suspicious transaction report (STR) to Financial Intelligence Unit – India (FIU-IND). In case of branches that are not fully computerised, the principal officer should, with the help of editable electronic utilities of CTR/STR made available by FIU-IND, arrange to feed the data into an electronic file.

(ii) Put in place an appropriate software application to throw alerts when transactions are inconsistent with the risk categorisation and updated profile of the customers as it may help in effective identification and reporting of suspicious transactions.

(iii) For all cash transactions where forged or counterfeit Indian currency notes have been used as genuine, a reporting mechanism has been put in place to generate counterfeit currency reports.

(iv) While banks are required to be guided by the definition of 'suspicious transactions' as contained in Rule 2(g) of rules notified under Prevention of Money Laundering Act in July 2005 (instructions in this regard were issued by the Reserve Bank in February 2006), banks should make an STR, if they have reasonable grounds to believe that the transactions involve proceeds of crime irrespective of the amount of the transactions. It has also been clarified to banks to report attempted transactions in STRs, *i.e.* transactions that are abandoned/aborted by customers on being asked to furnish some details.

Committee on Financial Sector Assessment

2.121 The FSAP is a joint IMF-World Bank initiative to provide member countries with a comprehensive evaluation of their financial systems. The programme was launched in 1999, partly in response to the Asian crisis and calls by the international community for intensified co-operative efforts to monitor financial systems. The FSAP aims at alerting

Box II.13: Anti-Money Laundering and Combating Financing of Terrorism

Many countries have drafted their AML laws on the basis of the United Nations (UN) model law of 2003. The law was developed by the UN Office on Drugs and Crime for use in countries whose fundamental legal systems were substantially based on the common law tradition. Money laundering (ML), broadly defined, is the process of conversion or transfer of property by any person knowingly or with reasonable ground of suspicion for having known that such property is the proceed of crime, for the purpose of concealing or disguising the illicit origin of such property or of assisting any person who is involved in the commission of the predicate offence under the relevant laws of the jurisdiction. Generally, the act of conversion and concealment is considered crucial to the laundering process. Knowledge, intent or purpose of the person involved are also considered as constituent elements of the offence and are as important as commission of the actual crime. A subsequent dimension that has been added to the crime of ML is financing of terrorism, which is an act by any person who by any means, directly or indirectly, willfully, provides or collects funds, or attempts to do so, with the intention that they should be used or in the knowledge that they are to be used in full or in part to carry out a terrorist act.

There are two UN-sponsored treaties concerning AML, namely (i) the UN Convention Against the Illicit Traffic in Narcotics Drugs and Psychotropic Substances (the Vienna Convention); and (ii) the UN Convention Against Transnational Organized Crime (the Palermo Convention). These focus primarily on legal/criminal enforcement matters, addressing the matter of international cooperation in particular. As part of a programme in technical assistance, the UN Global Programme Against ML has promulgated model laws that address both financial/supervision and legal/criminal enforcement matters in greater detail. The global programme closely follows developments in the UN member states with a view to identifying areas of need for AML technical assistance. The UN Security Council continues its fight against money laundering and terrorist financing (TF) by publishing a negative list of individuals/entities for the reference of and implementation by member countries through its resolutions proclaiming offenders related to terrorism

FATF Standards and Recommendations

A number of UN-based initiatives, such as the Vienna Convention, led to the inception of the Financial Action Task Force (FATF) in 1989. The core work of the FATF is to combat ML (40 recommendations), and since 2001, TF (9 recommendations). The FATF continues to revise and clarify its (40+9) standards/recommendations. In 1996, the FATF included all types of offences as predicate offences for ML which till then were limited only to drug trafficking, while eight special recommendations for CFT were introduced as a response to the terrorist strikes in the US on September 11, 2001. The ninth special recommendation on 'cash couriers' was added to bolster the fight against financing of terrorism. Currently, FATF has 34 members, two observer countries (India and Korea), five associate members including the Asia Pacific Group on ML, 22 observer organisations/bodies such as the Asian Development Bank, the World Bank and the International Monetary Fund (IMF).

One of the fundamental goals of the FATF is full and effective roll out of its recommendations in all countries. Members are assessed through a mutual evaluation process which is an essential and long standing core activity of the FATF. This peer review process has now been extended through the FATF-Style Regional Body network to more than 170 countries. FATF also undertakes appropriate follow-up action from mutual evaluations to ensure that members correct, as quickly as possible, the deficiencies identified. In 2006, the FATF adopted a new surveillance process – the International Co-operation Review Group – to identify, examine and engage with vulnerable jurisdictions that are failing to implement effective AML/CFT systems.

In July 2008, the FATF issued a new best practices paper on trade based ML and TF to raise awareness and improve the ability of government authorities to detect and investigate ML and TF through international trade. Misuse of the trade system is one of the main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origin and integrating it into the formal economy. 'Guidance on the Risk-Based Approach', issued in August 2008, formulated in consultation with accountants, outlines the principles involved in effective application of the risk-based approach to combating ML and TF. In the same month, the FATF published 'Typologies of Proliferation Financing Report', which analyses the threat of proliferation of financing of weapons of mass destruction and the methodologies used by the proliferators and facilitators, and provides options to strengthen safeguards against this activity. The FATF has also initiated studies on the ML and TF risks in the securities sector and ML through sporting clubs.

Efforts of Other International Agencies in Combating ML and TF

The BCBS brought out a detailed paper on 'Customer Due Diligence' in 2001 that outlined the salient features of KYC norms to be followed by financial institutions across the globe. The paper had exhaustive recommendations on key areas like customer identification, maintenance/preservation of records, internal control systems/audit procedures and sharing of information by supervisors.

In March 2004, the IMF Executive Board agreed to make AML/CFT a regular part of its work and endorsed the revised FATF 40+9 Recommendations as the standard for which the Reports on the Observance of Standards and Codes would be prepared. The IMF also carries out AML/CFT assessments of jurisdictions within its framework of the Financial Sector Assessment Program (FSAP), its joint initiative with the World Bank to increase the effectiveness of efforts to promote the soundness of financial systems in member countries.

References:

1. Financial Action Task Force. 2007. "Annual Review of Non-Cooperative Countries and Territories 2006-2007: Eighth NCCT Review." October, www.fatf-gafi.org
2. www.apgml.org
3. www.imf.org
4. www.bis.org
5. www.wolfsberg-principles.com

national authorities to likely vulnerabilities in their financial sectors and assist them in designing measures to reduce the vulnerabilities. A range of financial soundness indicators and macro/financial stress tests are used to analyse sectoral developments, risks and vulnerabilities. Given the current ongoing crisis, the importance of FSAP has increased as the programme examines the structural underpinnings of financial stability - systemic liquidity arrangements, institutional and legal framework for crisis management and loan recovery, transparency, accountability and governance structures.

2.122 India voluntarily participated as one of the earliest member countries in the FSAP in 2001 and a self-assessment of all the areas of international financial standards and codes was undertaken 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, 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).

2.123 The Annual Policy Statement for 2008-09 outlined the progress made by the CFSA. Since then, the reports of four Advisory Panels constituted by the Committee covering assessment of financial stability and stress testing, assessment of relevant international standards and codes as applicable to financial regulation and supervision, institutions and market structure and transparency standards were peer-reviewed by external experts in each relevant area identified for the purpose. The CFSA also held a two-day seminar in June and a one-day conference in July 2008 with the peer reviewers and Advisory Panel members to discuss the major issues/recommendations of the various Panel reports. The Panels have finalised their reports by appropriately incorporating the comments of the peer reviewers. Simultaneously, the overview report of the CFSA is also under preparation. It is expected that the four Advisory Panel Reports and the overview report of the CFSA would be released by December 2008.

6. Supervision and Supervisory Policy

2.124 With a view to providing undivided attention to supervision of financial entities under the purview of the Reserve Bank, the Board for Financial Supervision (BFS) was constituted in November 1994. The BFS meets regularly and suggests measures that enable effective handling of supervisory and regulatory issues by the Reserve Bank. Some of the major issues dealt with by the BFS during 2007-08 included review of the reports on Annual Financial Inspections of commercial banks, FIs, functioning of UCBs, RRBs, non-banking FIs and PDs, periodical reports on critical areas of functioning of banks such as reconciliation of accounts, frauds monitoring, overseas operations and financial position of banks under monthly monitoring and crucial regulatory and supervisory issues (refer Annex II.1). Effective supervision of the financial sector has assumed added importance in the wake of the developments in the international financial markets since August 2007 and the further downturn that occurred in September 2008.

Cross-border Supervision

2.125 In terms of the announcement in the Mid-term Review for 2007-08, an internal Working Group (Chairman: Shri S. Karuppasamy) was constituted in March 2008 to lay down the roadmap for adoption of a suitable framework for cross-border supervision and supervisory co-operation with overseas regulators, consistent with the framework envisaged in the BCBS. The Working Group studied cross-country practices including the related legal issues and held discussions with select banks on cross-border supervisory issues. The Group is expected to submit its Report shortly.

Consolidated Supervision and Financial Conglomerate (FC) Monitoring Mechanism

2.126 In India, a FC Monitoring Mechanism was implemented in June 2004 based on the recommendation of the Working Group (Convenor: Smt. Shyamala Gopinath) on monitoring of systemically important financial intermediaries. A FC is defined as a cluster of entities belonging to a Group[6] which has significant presence in at least two financial market segments comprising banking, insurance, MF, and deposit-taking and non-deposit taking NBFCs. The FC monitoring framework rests on three components: (a) off-site surveillance through receipt of quarterly returns; (b) review of the FC monitoring activities by the Technical Committee which has members from the Reserve Bank, the Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority; and (c) half-yearly discussions with the chief executive officers of the major entities of the FC in association with other principal regulators. The quarterly reporting mechanism mainly focusses on monitoring of intra-group transactions and exposures (ITEs) appearing in the books of the regulated entities. The intra-group transactions are monitored with a view to tracking migration/transfer of 'losses', detecting regulatory/supervisory arbitrage cases and identifying cases of non-compliance with 'arm's length' principles. The monitoring of ITEs also helps tracking of build-up of large exposures across the group entities and to outside counterparties and various markets.

2.127 Several initiatives were taken during the course of the last year to strengthen the FC monitoring mechanism for effective supervision of FCs. Banks were advised to put in place a well-defined policy for issuance of LoCs on behalf of their subsidiaries. Banks were also advised to record the intent of making investment in the subsidiary, associate and joint ventures, including the length of time, for which such investments were intended. In the absence of a record of such intent at the time of investment by the board of the parent bank, the entity under reference would be consolidated with the parent bank. Furthermore, it was decided that the activities which a bank itself was not permitted to undertake as per the provisions of Banking Regulation Act, 1949, could not be undertaken by entities in which the bank had significant equity stakes.

2.128 Following a directive from the BFS, an Internal Group was constituted in the Reserve Bank to prepare an Approach Paper on FC Supervision. The Group has extensively studied the approaches followed for supervision of FCs by the Joint Forum[7] and the EU in general and the US, the Netherlands and the UK in particular. The Approach Paper on the supervision of FCs is likely to be finalised soon.

[6] 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 is any entity involved in the above arrangement.

[7] The Joint Forum was established in 1996 under the aegis of the BCBS, the International Organization of Securities Commissions and the International Association of Insurance Supervisors to deal with issues common to the banking, securities and insurance sectors, including the regulation of FCs. The Joint Forum comprises an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency.

SRP on Activities of the Trusts / Special Purpose Vehicles (SPVs) set up by Banks

2.129 SPVs and trusts are set up by banks to carry out a number of activities such as facilitating securitisation, asset management and investing in other entities. These entities are generally unregulated and are subject to inadequate independent board oversight. Besides, the downstream activities of these entities are normally not captured in the financial statements of the bank. As the activities of these entities could be a potential risk to the parent bank and could also pose systemic risk, the need for placing them under suitable supervisory oversight was felt. Pursuant to the announcement in the Annual Policy Statement for the year 2008-09, a Working Group (Chairman: Shri S. Sen) has been set up (with members from the Reserve Bank, commercial banks and a CRA) to study and recommend a suitable supervisory framework for activities of SPVs/trusts set up by banks.

Review of the Risk-based Supervision (RBS) Framework

2.130 RBS framework was introduced in India on a pilot basis in eight select banks in 2003-04, which was extended to 15 banks in 2004-05, 19 banks in 2005-06 and 27 banks in 2006-07 concurrently with the CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems and control) model of supervision. Based on the feedback obtained from the pilot studies under RBS, it was decided to revisit/review the framework to attune it to the latest regulatory and supervisory developments. An Internal Group of the Reserve Bank studied the practices adopted by the supervisors of various countries, *viz.*, the US, the UK, Australia, France, Hong Kong, Singapore, Thailand and Malaysia, among others. The Group is preparing an appropriate framework with a view to integrating the RBS system with the existing supervisory process and the Supervisory Review and Evaluation Process under Pillar 2 of Basel II.

Overseas Operations of Indian Banks – Review of Existing Off-site Monitoring Framework

2.131 In view of the rapid expansion of overseas operations, introduction of new products and processes, increasing off-balance sheet exposures including derivative products, the need was felt to review the reporting system for Indian banks that had presence in foreign countries. Accordingly, an inter-departmental Group was constituted to review the existing regulatory and supervisory framework for overseas operations of Indian banks and recommend appropriate changes, including off-site reporting systems. Certain Indian banks with large overseas presence were consulted by the Group for this purpose. The Group is in the process of finalising its proposals for a revised off-site surveillance mechanism.

Financial Stability Forum (FSF) Report – Status

2.132 The FSF brought out a report in April 2008 identifying the underlying causes and weaknesses in the international financial markets in the wake of the crisis emanating from the US sub-prime mortgage market. The Report, *inter alia*, contains proposals, to be implemented by the end of 2008, for strengthening prudential oversight of capital, liquidity and risk management, enhancing transparency and valuation, changing the role and uses of credit ratings, strengthening the authorities' responsiveness to risk and implementing robust arrangements for dealing with stress in the financial system. The Reserve Bank has already issued regulatory guidelines covering many of these aspects, while in regard to others, actions are being initiated.

Issues in Fraud Monitoring

2.133 Banks often take the help of third parties to conduct the due diligence exercise for their credit decisions. Some such parties that banks solicit expert opinion, attestation, confirmation and credit information from include lawyers, valuers, chartered accountants, statutory auditors, real estate agents, builders, warehouse owners, motor vehicle dealers, agricultural equipment dealers and third party service providers. It has been observed that sometimes these third parties provide inaccurate or misleading information/confirmation/opinion to the banks resulting in the weakening of the due diligence processes. This kind of negligent/malafide/criminal action on the part of unscrupulous third parties is found to have caused or facilitated frauds in banks. This trend, which is a matter of concern for banks and the Reserve Bank, is being examined for shaping an appropriate regulatory response.

2.134 Banks are required to report fraud cases of Rs.1 lakh and above to the Reserve Bank, following which they are advised to report the cases to the Central Bureau of Investigation (CBI) or the police, examine staff accountability and expedite proceedings against the erring staff, recover the amounts involved in frauds through the various options available to them, remove the names of suspect advocates/valuers from their approved panels and claim insurance, wherever applicable. Public sector banks and private sector/foreign banks are required to report frauds involving Rs.1 crore and above to the Economic Offences Wing of the CBI and Serious Frauds Investigation Office, respectively. Public sector banks should report frauds involving less than Rs.1 crore to the local police, while private sector banks should do the same when the sum involved is between Rs.10,000 and Rs.1 crore. Besides, the Reserve Bank has taken a series of steps for checking/preventing frauds by cautioning the banks about common fraud prone areas, their *modus operandi* and the measures that could be taken to prevent/reduce their incidence. The Reserve Bank has been issuing, in confidence, 'caution advices' containing details of borrowers involved in frauds of Rs.25 lakh and above to banks so that they could exercise due care while considering advancing of credit to such entities.

Supervisory Initiatives Pertaining to Modification of Off-Site Surveillance System

2.135 As part of a new supervisory strategy which was suggested by the Narasimham Committee in 1991, an off-site monitoring system for surveillance over banks was introduced by the Reserve Bank in November 1995 which became fully operational by March 1997. The scope and coverage of the off-site monitoring and surveillance system (OSMOS) returns are periodically revised to incorporate new regulatory changes and other data requirements. The last revision of the OSMOS returns was done in December 2004. Since then, several new regulatory prescriptions have been announced which are required to be captured in the off-site returns for monitoring compliance and analysis. Changes in supervisory focus and additional reporting requirements and improvements in existing reporting/data processing at the end of reporting banks also necessitated a revision of the OSMOS returns. After obtaining suggestions from various users of the system, a comprehensive review of the coverage and scope of the system has been proposed. The changes so identified have been documented and the process of software development is currently underway.

2.136 In view of the application of the Revised Framework, in phases, with effect from March 31, 2008 a new capital adequacy return under the off-site reporting framework was devised thus increasing the total number of off-site returns or DSB Returns (when off-site prudential supervisory returns were first introduced, these returns were christened 'DSB' returns and the nomenclature has been retained) from 22 to 23. An Internal Group has recommended a suitable reporting framework using eXtensible Business Reporting Language (XBRL) technology to capture data as per the final guidelines issued in April 2007 and subsequent amendments issued on March 31, 2008.

2.137 Banks have so far been submitting DSB returns to the Reserve Bank *via* e-mail using the OSMOS software. It was decided that online returns filing system (ORFS) would be the single-window data receptacle for receiving all data from external entities and thus all the existing DSB returns were to migrate to the ORFS. The system requirement specification has been completed for all the 22 existing DSB returns and they are in different stages of being implemented. The new Basel II return, mentioned above, would also be implemented on ORFS. Simultaneously, the work related to back-end changes to the databases and the reporting tools has commenced. The revised structural liquidity statement was made active from February 2008. Consolidated prudential report return has also been hosted on the live environment. Furthermore, it is envisaged that all the reporting tools would also be web-enabled.

7. Regional Rural Banks

2.138 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 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. In recent years, the RRBs have been strengthened through amalgamation and recapitalisation (refer Chapter III).

2.139 Based on the recommendation of the Internal Working Group on RRBs (Chairman : Shri A.V. Sardesai) and pursuant to the announcement made in the Mid-term Review for 2007-08, the Reserve Bank, in December 2007, announced the roadmap for bringing the RRBs within the CRAR framework. To assess the capital structure of the RRBs, it was proposed that they disclose the level of their CRAR as on March 31, 2008 in their balance sheets and thereafter every year as 'notes on accounts' to their balance sheets.

Technology Upgradation of RRBs

2.140 Consequent upon the announcement made in the Mid-term Review for 2007-08, and in order to prepare RRBs to adopt appropriate technology and migrate to core banking solutions (CBS) for better customer service, a Working Group (Chairman: Shri G. Srinivasan) was constituted with representatives from NABARD, sponsor banks and RRBs, to prepare a road-map for migration to CBS by RRBs (Box II.14).

Financial Assistance to RRBs for Implementing ICT-based Solutions

2.141 The Mid-term Review for 2007-08 announced that financial assistance would be provided to RRBs to defray a part of their initial cost in implementing ICT-based solutions, including installation of solar power generating devices for powering ICT equipment in remote and under-served areas. In order to work out the modalities of assistance to be provided to RRBs, a Working Group (Chairman: Shri G. Padmanadbhan) was constituted to explore affordable ICT-

Box II.14: Report of the Working Group on Technology Upgradation of RRBs

The Working Group on Technology Upgradation of RRBs reviewed the present status of computerisation in RRBs and advocated against a 'one strategy fits all' approach. The major recommendations of the Group for smooth migration to CBS by RRBs, *inter alia*, include the following:

(i) RRBs which had achieved 100 per cent branch computerisation should implement CBS in all their branches by September 2009. 20 RRBs fall in this category.

(ii) The remaining RRBs should implement CBS in at least 25 per cent of their branches by September 2009 and at least 50 per cent of their branches by September 2010. The remaining branches should be covered by September 2011.

(iii) All new branches opened after September 2009 should be CBS-compliant from day one.

(iv) The respective sponsor banks should be given the option of selecting the service provider for their RRBs.

(v) RRB branches in remote areas could use solar power once CBS was implemented.

(vi) RRBs should be provided funding support for adoption of CBS, with the sponsor bank contributing 25 per cent of the cost involved and the remaining being met by the Reserve Bank through the Institute for Development and Research in Banking Technology (IDRBT). The support could be in the form of interest free loans repayable in three years.

based solutions suitable for RRBs and to identify the cost elements and recommend the manner and criteria for funding such ICT solutions. The Group's Report, submitted in April 2008, is under examination. The Group delved into the existing financial and infrastructural constraints that RRBs faced in initiating financial inclusion initiatives. It also explored the various technology options available for RRBs to achieve financial inclusion. The Report recommended that the funding of the ICT requirements of RRBs could be done through "Technology Upgradation Interest Free Loans" to be routed through the IDRBT. It was proposed that such loans should have a moratorium period of three years and the repayments should not exceed 5 per cent of the profits of the borrowing bank. For RRBs that continuously incurred losses, an extension of the moratorium period by another two years (total of five years) could be considered. Eligibility criteria for banks to avail the technology upgradation loans as well as caps on funding were also prescribed.

Human Resources Issues in RRBs

2.142 The Task Force constituted to formulate a comprehensive HR Policy for RRBs (Chairman: Dr. Y.S.P. Thorat) submitted its Report to the Government of India in October 2007 (Box II.15). The report is being examined by the Government in the light of views/ comments of the Reserve Bank.

8. Financial Markets

2.143 The Reserve Bank continued with its endeavour to develop broad-based, deep and liquid financial markets during 2007-08. The Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets continued to provide valuable guidance to the Reserve Bank on issues relating to the development and regulation of financial markets. In 2008-09, beginning September 2008, the international financial crisis has had indirect knock-on effects on domestic financial markets. Money markets experienced unusual tightening of liquidity as a result of global developments which were amplified by transient local factors. The foreign exchange market experienced pressure on account of portfolio outflows by FIIs and enhanced foreign exchange requirements of oil and fertiliser companies. Constraints in access to external financing as also re-pricing of risks and higher spreads resulted in additional demand from corporates for domestic bank credit with attendant hardening of interest rates across the spectrum. Given the uncertain global financial situation, it has been recognised that monitoring and maintenance of domestic financial stability warrants continuous

Box II.15: Task Force on HR Issues in RRBs – Major Recommendations

The major recommendations of the Task Force on HR Issues in RRBs include the following:

(i) RRBs be classified into four categories based on business level or branch network, whichever is achieved earlier. RRB branches be classified into five categories based on business levels.

(ii) The concept of controlling office be applied to all RRBs, whether amalgamated or stand-alone, that achieved a branch network of 50 branches.

(iii) Cadre-wise and officer scale-wise staffing pattern in head office according to the category of the RRB be devised. Cadre-wise and officer scale-wise staffing pattern be deployed in controlling offices as well as in branches.

(iv) Categories of staff be rationalised, clerical staff be redesignated as Assistant and subordinate staff as Office Attendant.

(v) Higher grades of officers in scales IV and V be created in RRBs based on merit. A two channel recruitment of specialist category of officers be also introduced. RRB officers on promotion in scale IV/V could be considered for appointment as Chairman.

(vi) A Technical Committee be constituted to suggest required amendments to RRB Officers and Employees Service Regulations, 2000.

(vii) All non-core functions be outsourced. The Task Force identified six such functions.

(viii) Broad guidelines and cadre specific norms for transfer of staff in group 'A', 'B' and 'C' with suitable transfer policy be framed.

(ix) One training institute in each State or one channel in the identified training institute by the sponsor bank which could cater to the training requirements of all RRBs, within the State or from the adjoining areas of adjacent State/s be earmarked.

(x) A scheme of Mobile Job Trainers be introduced, especially to cater to the training requirements on operational/functional subjects in small branches where deputing staff for training would result in branch-level staff constraints.

(xi) An exclusive training cell for RRBs within the Personnel Department at the head office be created to bestow more attention to training function.

attention. The Reserve Bank is maintaining a close vigil on the entire financial system to prevent pressures from building up in the financial markets.

Developments in the Money Market

2.144 The broad policy focus in the money market was to ensure stability, minimise default risk and achieve balanced development of its various segments. With a view to widening the collateral base, necessary changes were made in the Public Debt Office-Negotiated Dealing System (PDO-NDS) to enable the acceptance of the SDLs as eligible securities under the LAF repos with effect from April 3, 2007. A margin of 10 per cent was applied in respect of SDLs.

2.145 The Reserve Bank issued comprehensive guidelines in respect of derivatives in April 2007. Subsequently, the CCIL was advised to start a trade reporting platform for OTC derivative transactions to address the need for a mechanism to capture and disseminate trade information and provide post-trade processing infrastructure in respect of these transactions. The reporting platform for OTC rupee interest rate swaps (IRS) and forward rate agreements (FRA) was made operational by the CCIL on August 30, 2007 whereby banks and PDs report the IRS and FRA to the platform on a daily basis.

2.146 Exchange-traded interest rate futures (IRF) contracts were introduced on the NSE in 2003. These contracts, however, failed to attract a critical mass of participants and transactions. With a view to develop a robust IRF market, the Reserve Bank, in August 2007, constituted a Working Group on IRF (Chairman: Shri V.K. Sharma) following the recommendation made by the TAC on Money, Foreign Exchange and Government Securities Markets. The Group submitted its Report in March 2008 and based on the feedback received from the public, experts, banks, market participants and the Government, the Report was finalised on August 8, 2008. The major recommendations of the Report, *inter alia*, included: (a) banks could be allowed to take trading positions in IRF, subject to prudential regulations, and the extant practice of banks' participation in IRF for hedging risk in their underlying investment portfolio of Government securities classified under the AFS and the HFT categories, should be extended to the interest rate risk inherent in their entire balance sheet (both on and off-balance sheet items); (b) the extant norm of holding the entire SLR portfolio in HTM category should be reviewed; (c) the time limit on short selling to be extended so that the term/tenure/maturity of the short sale was co-terminus with that of the futures contract; (d) a system of transparent and rule-based pecuniary penalty for subsidiary general ledger (SGL) bouncing should replace the current regulatory penalty; and (e) the broader policy on IRF, including that relating to the product and participants, should be the responsibility of the Reserve Bank, while the micro-structure details should be left to respective exchanges.

Developments in the Government Securities Market

2.147 With the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and withdrawal of the Reserve Bank from the primary segment, development of the Government securities market has assumed vital importance. The Government Securities Act, 2006 empowered the Reserve Bank to continue with efforts to broaden and deepen the market in terms of participants, instruments and processes.

2.148 With a view to providing flexibility to participants and encouraging wider market participation, the Mid-term Review for 2007-08 announced that the short sale and 'when issued' transactions, that were permitted to be undertaken only on Negotiated Dealing System-Order Matching (NDS-OM) since introduction in February and May 2006, respectively, would be allowed to be covered outside the NDS-OM system. The cover transactions of short sales and 'when issued' were permitted to be undertaken through the telephone market or through purchases in primary market with effect from January 1, 2008.

2.149 The medium-term objective of the Reserve Bank is to allow current account facility only to banks and PDs. Many non-bank and non-PD entities, however, held current accounts as a pre-requisite for settlement of Government security transactions by Negotiated Dealing System (NDS) members. The Annual Policy Statement for 2008-09 announced that a system of 'Multi Modal Settlements' would facilitate the settlement of Government security transactions undertaken by non-bank and non-PD NDS members. Accordingly, the settlement system under the NDS was modified for entities that did not maintain current accounts with the Reserve Bank (refer Chapter VI, Box VI.3).

2.150 Consequent to the announcement in the Annual Policy Statement for 2008-09, development of the system for separate trading for registered interest and principal of securities (STRIPS) has been taken up. The activity of stripping/reconstitution would be carried out in the NDS system of the Reserve Bank. To begin with, securities with coupon dates as January 2 and July 2, were identified as eligible for stripping/reconstitution on the basis of cash flow concentration among current coupon dates. The processing of requests for stripping/reconstitution would be carried out by PDs. The STRIPS system is proposed to be introduced during 2008-09.

2.151 Most of the recommendations of the High Level Committee on Corporate Bonds and Securitisation (Chairman: Dr. R.H. Patil) have been taken up for implementation. The Union Budget for 2008-09 abolished tax deduction at source on corporate bonds. Reporting platforms for corporate bonds were set up by the NSE and the BSE in July 2007 and the Fixed Income Money Market and Derivatives Association of India (FIMMDA) in September 2007. The Reserve Bank issued guidelines to its regulated entities to report their OTC trades on the FIMMDA platform. The Annual Policy Statement for the year 2008-09 announced that repos in corporate bonds would be introduced once the pre-requisites, *viz.*, efficient price discovery through greater public issuances and secondary market trading, and an efficient and safe settlement system based on delivery *versus* payment (DvP) III and straight through processing (STP) were met.

Developments in the Foreign Exchange Market

2.152 In line with the recommendations of the Committee on Fuller Capital Account Convertibility, a number of measures were taken during 2007-08 to further liberalise the foreign exchange transactions and simplify/ rationalise the associated procedures to facilitate prompt and efficient customer service. The RBI (Amendment) Act, 2006 empowered the Reserve Bank to regulate interest rate, foreign currency and credit derivatives. Accordingly, the Reserve Bank initiated several measures to further develop the derivatives market in the country.

2.153 The Reserve Bank permitted authorised dealers (ADs) to allow refund of export proceeds for goods re-imported into India on account of poor quality, subject to certain conditions. Import rules were liberalised for business process outsourcing companies, schedule air transport service companies and importers of rough diamonds/ precious/semi-precious stones. There was liberalisation of remittance schemes in respect of certain entities. The limits under Liberalised Remittance Scheme were further enhanced to US$ 200,000 in September 2007. In February 2008, guidelines for maintaining *Vostro* accounts abroad by foreign exchange houses under the rupee drawing arrangements were liberalised. In September 2008, the limit for advance remittance for all admissible current account transactions for import of services without bank guarantee was raised to US$ 500,000 from US$ 100,000.

2.154 AD category–I banks[8] were allowed to grant rupee loans to non-resident Indian (NRI) employees of Indian companies for availing employees stock option plan schemes, subject to certain conditions.

2.155 On September 23, 2008, the Reserve Bank operationalised the 'Issue of Foreign Currency Exchangeable Bonds (FCEB) Scheme' that was notified by the Government on February 15, 2008. A FCEB is a bond denominated in foreign currency, issued by an issuing company[9] and subscribed to by persons resident outside India. It is exchangeable into equity share of another company, to be called the offered company[10], in any manner, either wholly, or partly or on the basis of any equity related warrants attached to debt instruments.

2.156 The guidelines for ECBs were liberalised during the course of the year through various measures. In August 2007, ECBs of more than US$ 20 million per borrower per financial year were permitted only for foreign currency expenditure for permissible end-uses and those up to US$ 20 million were permitted under the automatic

8 Banks currently authorised to deal in foreign exchange are categorised 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.

9 The issuing company should be a part of the promoter group of the offered company and shall hold the equity share/s being offered at the time of issuance of the FCEB.

10 The offered company should be a listed company, which is engaged in a sector eligible to receive FDI and to issue/avail foreign currency convertible bond or ECBs.

route. The ECB proceeds in both the cases, however, needed to be parked overseas and not remitted to India. In September 2007, corporates were allowed to pre-pay ECB up to US$ 500 million, as against the earlier limit of US$ 400 million, subject to certain conditions. In May 2008, the limit for rupee expenditure for permissible end-uses under the approval route was enhanced to US$ 100 million for borrowers from the infrastructure sector (and further raised to US$ 500 million in September 2008, subject to conditions) while for other borrowers, it was set at US$ 50 million. In October 2008, the limit was raised to US$500 million for all borrowers and the requirement of minimum average maturity period of seven years for ECBs of more than US$ 100 million for rupee capital expenditure by the borrowers in the infrastructure sector was dispensed with. In June 2008, hotels, hospitals and software companies were allowed to avail ECBs up to US$ 100 million per financial year, for the purpose of import of capital goods under the approval route. With effect from July 11, 2008, AD category-I banks could convey 'no objection', without prior approval from the Reserve Bank, for procedures to secure the ECB to be raised by the borrower, subject to certain conditions. In October 2008, the definition of infrastructure for the purpose of availing ECB was expanded to include mining, exploration and refining while payment for obtaining license/permit for 3G spectrum by telecom companies was classified as eligible end-use for the purpose of ECB. Furthermore, borrowers were granted the flexibility to keep their ECB proceeds off-shore or keep it with the overseas branches/subsidiaries of Indian banks abroad or to remit these funds to India for credit to their rupee accounts with AD category-I banks in India, pending utilisation for permissible end-uses. During the course of the year, the all-in-cost ceiling for ECBs of various maturities was revised upwards. As at end-October 2008, the all-in-cost ceiling over 6-month LIBOR for ECBs with average maturity period between three to five years was 300 basis points and those with maturity period more than five years was 500 basis points. The all-in-cost ceiling for trade credit less than three years was enhanced to 6-month LIBOR plus 200 basis points.

2.157 Measures taken to facilitate foreign exchange hedging included increase in the eligible limit for booking of forward contracts by importers/exporters and resident individuals. The Reserve Bank increased the number of entities that AD banks could permit to hedge price risk based on specifications such as their underlying economic exposures, domestic purchases, imports and inventory volumes.

2.158 Pursuant to the announcement made in the Annual Policy Statement for 2007-08, an Internal Working Group on Currency Futures (Chairman: Shri Salim Gangadharan) was set up that studied the experiences of some emerging market economies where currency futures exchanges were functioning with capital controls. The draft Report of the Group incorporating the views expressed by the TAC for Money, Foreign Exchange and Government Securities Markets was placed on the Reserve Bank's website in November 2007 for wider dissemination and feedback. Based on the feedback/comments received from the public, banks, market participants, academicians and the Government of India, the final Report was posted on the Reserve Bank's website on April 28, 2008. A Reserve Bank-SEBI Standing Technical Committee on Exchange Traded Currency Futures was constituted to formulate operational aspects of currency futures trading. The Technical Committee submitted its Report on May 29, 2008.

2.159 On August 6, 2008, after consultation with the SEBI and representatives of various market participants, the Reserve Bank issued directives covering the framework for trading of currency futures in recognised exchanges and the prudential parameters for the participation of banks in the currency futures market. While members trading in currency futures required balance sheet net worth of Rs.1 crore, the clearing members required balance sheet net worth of Rs.10 crore. At the initial stage, currency futures contracts on dollar-rupee were permitted with a minimum contract size of US$ 1,000 and a maximum maturity of 12 months. The Report of the Working Group indicated that introduction of contracts on other currency pairs would be considered subsequently. The contracts could be settled in cash in rupees on the last working day of the month and the initial margin was stipulated at a minimum of 1.75 per cent on the first day of trading and 1.0 per cent thereafter. The gross open position limits could not exceed 6.0 per cent of the total open interest or US$ 5 million, whichever was higher, for clients and 15.0 per cent or US$ 25 million, whichever was higher, for trading members. No separate position limits were prescribed at the clearing member level. The Reserve Bank and SEBI Committee would hold periodic meetings to sort out any issue arising out of the overlap in jurisdiction of the currency futures market.

2.160 Exchange traded currency futures on US$-INR were launched on August 29, 2008 on the NSE and on October 1, 2008 on the BSE. Trading of currency futures commenced on the Multi Commodity Exchange of India on October 7, 2008.

2.161 The AML guidelines are revised from time to time on the basis of feedback received from authorised money changers. The limit for payment of cash towards encashment by foreign visitors/NRIs was raised from US$ 2,000 to US$ 3,000 in October 2007. Furthermore, the Reserve Bank advised that in addition to the documents in support of the name, address and business activity, permanent account number (PAN) card would also be accepted as a suitable document for establishing the relationship with the company/firm.

9. Customer Service in Banks

2.162 The Reserve Bank has been taking various initiatives for fair treatment and empowerment of customers. Banks have been sensitised to provide focussed attention to good and efficient customer service. To give adequate attention to customer service, a four-fold structure is in place in commercial banks, *viz.*, board-level Customer Service Committee for policy formulation, Standing Committee to review customer service, nodal department/ nodal officer for liaisoning with the Reserve Bank and the bank and branch level Customer Committee. Periodic meetings with nodal officers of banks by Banking Ombudsmen and the Reserve Bank's Customer Service Department are also held to communicate the importance of customer service. During the year 2007-08, several initiatives were taken by the Reserve Bank in the area of customer service in banks such as guidelines on engagement of recovery agents, strengthening of grievance redressal mechanism in banks, branch level committee on customer service, furnishing a copy of loan agreement to borrowers, settlement of claims in the case of missing persons, permission for appointed guardian of disabled persons (those afflicted by autism, cerebral palsy, mental retardation and multiple disabilities) to open and operate bank accounts and spread of banking facilities to the visually challenged.

2.163 The Reserve Bank has taken a number of steps to disseminate instructions relating to customer service and grievance redressal by banks through its multi-lingual website by placing all customer related notifications and press releases in a specific page titled 'For Common Person'. Customers of commercial banks can also approach the Reserve Bank with their grievances and queries through 'Contact Us' icon on the home page of the website. A complaint form for sending complaints to the Banking Ombudsman has also been made functional. The Banking Ombudsman Scheme 2006 has been made more customer-friendly by increasing the areas covered under the scheme, by allowing complainants to use e-mail or any other means including post cards for submitting their complaints and by permitting complainants to appeal against the decisions of the Banking Ombudsman.

Code of Bank's Commitment to MSEs

2.164 The BCSBI was set up in 2006 with the active support of the Reserve Bank and SCBs. The BCSBI, which has 60 SCBs as its members, continued its efforts to improve customer service in banks (Box II.16).

Reverse Mortgage Loans

2.165 It is recognised that senior citizens need a regular cash flow for supplementing their pension/other income. For most senior citizens, the house is often the largest component of their wealth and the secular increase in residential house prices has created considerable 'home equity' wealth. Reverse mortgage is a financial product that allows them to unlock the value of their most valuable asset, their home, by mortgaging it to a credit intermediary, thereby, enjoying the use of an assured cash flow during their lifetime while continuing to live in the house for as long as they wish (Box II.17). The reverse mortgage loan (RML) was introduced in the Indian financial market, following the announcement in the Union Budget for 2007-08.

Box II.16: Banking Codes and Standards Board of India

The BCSBI is a collaborative effort between the Reserve Bank and the banking industry with the objective of promoting good banking practices by setting minimum standards, increasing transparency, achieving higher operating standards and promoting cordial bank-customer relationship to enhance the common man's confidence in the banking system. In keeping with the issues relating to individual customers of banks, the Code of Bank's Commitment to Customers was brought out in July 2006. To assess the state of implementation of the Code, a survey of select bank branches was conducted by the BCSBI in five cities during June-August 2007. The survey found that banks needed, *inter alia*, to put up mechanisms for familiarising their customers with the contents of the Code and terms and conditions of their deposits and make available a system for grievance redressal. Further, banks needed to fulfill certain basic obligations towards their borrowers. The status of compliance of Code provisions as on December 31, 2007 was discussed with the chief executive officers/executive directors of each bank, against the backdrop of the sample survey findings. During the discussions, specific timeframes were agreed for setting right the deficiencies observed in each member bank. During 2007-08, the BCSBI has enhanced flow of information by adding a section on frequently asked questions (FAQs) in relation to credit cards and housing loans on its website.

In May 2008, the BCSBI evolved the Code of Bank's Commitment to MSEs. The Code reflects the positive commitment of banks to provide easy access to banking services to their MSE customers, who constitute the lower segment of the industrial and services sectors. Through the Code, banks are committed to provide information about (a) interest rates, fees and charges applicable to various products; (b) specific timeframe for disposal of loan applications and for disbursal of loan proceeds; (c) availability of collateral-free loans; (d) nursing of sick MSEs and debt restructuring; (e) parameters for credit assessment and post-disbursement services; (f) customers' obligations when faced with financial difficulties and how the banks could help; (g) internal procedures for dealing with complaints of customers; and (h) bank's policy for collection of dues/cheques, compensation and grievance redressal.

As a follow-up to the recommendations of the Working Group on Reasonableness of Bank Charges, in September 2007, the BCSBI made a preliminary sample study of a few select member banks' charges on most commonly availed banking services such as penalty for non-maintenance of minimum balance, charges for collection of outstation cheques/demand drafts and for closure of savings accounts. It was found that though charges for the above were broadly in alignment across banks, the penalty charged by foreign and new private sector banks for non-maintenance of minimum balance was on the higher side as compared with public sector and old private sector banks. The banks concerned were advised to re-examine the charges.

Box II.17: Reverse Mortgage

RMLs provide an opportunity to house owners to avail of a monthly stream of income against the mortgage of their house, while remaining the owner and occupying the house throughout their lifetimes, without repayment or servicing of the loan. Realising the potential benefits, the Union Budget for 2007-08 announced the proposed introduction of RMLs in India by the NHB. The NHB issued the final operational guidelines for RMLs on May 31, 2007.

Various public and private sector banks are currently offering RML in Indian markets. Typically, banks in India charge interest on the RML in the range of 10-12 per cent per annum. The loan (including the interest cost) to value ratio varies from 60-90 per cent and the maximum tenure of the loan ranges from 15-20 years. Thus, in the Indian context, if the borrower outlives the loan tenure, he can continue to stay in the house but he will no longer be eligible for any payments from the lender. Internationally, however, the period of such payments is not for a specified number of years, but for the remaining life time of the owner of the property (and his/her spouse), and therefore, reverse mortgage effectively is a life annuity in other countries.

2.166 It is believed that the lack of product awareness and Indian societal norms work against the scheme. India still has a strong joint family culture with the younger generation supporting the elderly, which to an extent, obviates the need for the elderly to opt for such schemes. Further, in India, borrowing, till some time ago, was generally not considered a very desirable option, more so for people in the older age bracket. Another reason for the slow offtake of the scheme in India has been the relatively low monthly payments due to the prevailing high interest rate scenario as also because banks keep higher margins (as reflected in the LTV ratio[11]). However, with gradual changes in the social fabric, this product could see greater acceptance. Banks would also need to create necessary safeguards to ensure that there is no mis-selling of the product to senior citizens.Besides, the norms pertaining to property valuation, maintenance and repossession need to be well-established.

Customer Service Meetings

2.167 In 2007, the Reserve Bank institutionalised the process of examining the feedback emanating out of the complaints received at the Banking Ombudsman offices. Customer Service Meetings are held on a quarterly basis to examine systemic issues reported by the Banking Ombudsmen and it also focuses on other customer service issues, including the Code of Bank's Commitment to its Customers and the Banking Ombudsman Scheme. The meetings have members at the senior level representing regulatory and supervisory departments of the Reserve Bank, Banking Ombudsmen, the IBA and the BCSBI. It adopts an integrated approach to ensure that appropriate corrective action is taken through self-regulation or regulations prescribed by the Reserve Bank in a time bound manner. The meetings have taken up important customer service related issues such as engagement of recovery agents by banks and setting up an internal grievance redressal mechanism within banks.

Guidelines on Recovery Agents Engaged by Banks

2.168 The Mid-term Review for 2007-08 had warned of the reputational risk to the banking sector on account of the increased number of complaints against the recovery agents engaged by banks. The policy and procedure involved in the engagement of recovery agents by banks was reviewed and draft guidelines in this regard were placed on the Reserve Bank's website for comments. Based on the feedback received from a wide spectrum of banks/individuals/organisations, final guidelines on recovery agents covering various aspects such as engagement, methods, training, complaints redressal and penalty were issued to banks in April 2008.

[11] The amount of instalment is sensitive to the interest rate. Protracted legal process of loan recovery causes banks to keep a lower LTV ratio.

2.169 Banks have been advised to exercise due diligence while engaging recovery agents. They should provide the borrower details of the recovery agency/firms/companies while forwarding default cases to the agency. Banks are not to forward cases to recovery agencies when a grievance/complaint lodged by the particular borrower is pending. This shall, however, not apply in cases where the borrower is continuously making frivolous/ vexatious complaints. Banks are required to devise a mechanism to address borrowers' grievances with regard to the recovery process.

2.170 Banks have been asked to desist from offering incentives that make recovery agents resort to uncivilised, unlawful and questionable behaviour/recovery process. Furthermore, banks have been advised to strictly adhere to the various guidelines issued by the Reserve Bank (such as Fair Practices Code for Lenders, Guidelines on Credit Card Operations) and Code of Banks' Commitment to Customers (formulated by the BCSBI) during the loan recovery process. Recognising the need for proper training of recovery agents, the Reserve Bank has requested the IBA to formulate, in consultation with the Indian Institute of Banking and Finance (IIBF), a certificate course for direct recovery agents. Pursuant to the introduction of the course, banks should ensure that all their recovery agents undergo the above training over a period of one year.

2.171 Banks have been advised that when relying on the re-possession clause in a contract for enforcing their rights, they should ensure that the said clause is legally valid and complies with the provisions of the Indian Contract Act. Furthermore, banks have been encouraged to use the forum of *Lok Adalats* for recovery of personal loans, credit card loans or housing loans of less than Rs.10 lakh, as suggested by the Hon'ble Supreme Court. Complaints regarding violation of the guidelines by a bank or its recovery agents would be taken seriously and the Reserve Bank may consider imposing a ban on such a bank from engaging recovery agents, in a particular area, either jurisdictional or functional, for a limited period. Similar supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any bank or its directors/officers/agents with regard to policy, practice and procedure related to the recovery process.

Grievance Redressal Mechanism in Banks

2.172 In May 2008, the Reserve Bank asked banks to ensure a suitable mechanism for fair and expeditious resolution of complaints from customers/constituents. It was advised that the mode of registering complaints and details of the person to register the complaint with, should be prominently displayed in bank branches. Complaints received through letters/forms should be acknowledged while timeframes for resolving the complaints received at different levels should be fixed. Complaints emanating from rural areas and those relating to financial assistance to the priority sector and the Government's poverty alleviation programmes should be covered under the grievance redressal mechanism. Banks have been offered an incentive for speedy redressal of complaints as they can exclude grievances that were redressed within the next working day from the statement of complaints that is disclosed along with banks' financial results. Banks were also advised that where the complaints were not redressed within one month, the concerned branch/ controlling office should forward a copy of the same to the nodal officer concerned under the Banking Ombudsman Scheme and keep him/ her updated regarding the status of the complaint. Further, the bank should also advise the customer about his/her rights to approach the Banking Ombudsman in case he/she is not satisfied with the bank's response.

Branch Level Customer Committees

2.173 Banks have been advised, from time to time, to constitute the branch level customer service committees. It was, however, understood that such committees were either non-existent or in a dormant state. With a view to giving shape to a formal channel of communication between customers and bank branches, in September 2007, the Reserve Bank advised banks to initiate steps for strengthening the branch level customer service committees with the involvement of their customers. Taking cognisance of the fact that senior citizens usually form an important customer segment of banks, it was advised that these committees should preferably include senior citizens. The committees may meet at least once a month to study complaints/suggestions, cases of delay, difficulties faced/reported by customers/members of the committee and evolve ways and means of improving customer service. They are required to submit quarterly reports giving inputs/suggestions to the Standing Committee on Customer Service.

Furnishing Copy of Loan Agreement to Borrowers

2.174 In May 2003, the Reserve Bank had issued the Fair Practices Code for Lenders which required banks and FIs to provide a copy of the loan agreement, along with a copy of all enclosures quoted in the loan agreement, to borrowers. It was reported that some banks were furnishing a copy of the loan agreement only when such a request was made by the borrower. The Reserve Bank, therefore, reiterated in August 2007 that banks/FIs should invariably furnish a copy of the loan agreement (and copies of all enclosures mentioned in the loan agreement) to all borrowers at the time of sanction/ disbursement of loans.

Settlement of Claims in Respect of Missing Persons

2.175 The issue of settlement of claims in respect of missing persons was examined based on a query received and banks were advised in May 2008 that the settlement of claims for missing persons would be governed by the provisions of Section 107/108 of the Indian Evidence Act, 1872. The nominee/legal heir was required to raise an express presumption of death of the customer, under the said rules, before a competent court. If the court presumed that he/she was dead, then the claim in respect of a missing person could be settled on the basis of the same. Banks were also advised to formulate a policy which would enable them to settle the claims for a missing person after considering legal opinion and taking into account the facts and circumstances of each case. Further, keeping in view the imperative need to avoid inconvenience and undue hardship to the common person, banks were advised that with due consideration of their risk management systems, they could fix a threshold limit, up to which claims in respect of missing persons could be settled without insisting on production of any documentation other than: (i) the first information report and the non-traceable report issued by police authorities; and (ii) the letter of indemnity.

2.176 In respect of inoperative accounts, banks were advised in August 2008 to consider launching a special drive for finding the whereabouts of the customers/legal heirs.

Facilitating Account Opening/Operating by Appointed Guardians of Disabled Persons

2.177 Banks were advised in November 2007 that legal guardians appointed by the district court under the Mental Health Act, 1987 or by the local level committees set up under the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 could open and operate the bank accounts of persons with disabilities covered under the Act. Banks were also advised to ensure that their branches gave proper guidance to the parents/relatives of the disabled persons so that they did not face any difficulties in that regard.

Banking Facilities to the Visually Challenged

2.178 It was brought to the notice of the Reserve Bank that visually challenged persons were facing problems in availing banking facilities. Banking facilities cannot be denied to the visually challenged as they are legally competent to contract. Furthermore, the Honourable Court of Chief Commissioner for Persons with Disabilities had observed that visually impaired persons cannot be denied the facility of cheque book, locker and ATM on account of the possibility of risk in operating/ using the said facility, as the element of risk is involved in case of other customers as well. Banks were, therefore, advised in June 2008 to ensure that all facilities such as cheque book including third party cheques, ATM, net banking, locker, retail loans, credit cards, *etc.*, were invariably offered to the visually challenged persons without any discrimination. Banks were also advised to instruct their branches to render all possible assistance to the visually challenged persons for availing their services.

Credit Card Operations of Banks

2.179 A study on the credit card operations of banks was undertaken, based on the complaints received by the Reserve Bank as also the offices of the Banking Ombudsman. Based on the recommendations made in the study, detailed guidelines were issued to banks on their credit card operations in July 2008. These included the gist of the recommendations of the study report, together with the existing instructions of the Reserve Bank on the subject and the action required to be taken by banks in this regard. Recommendations relating to recovery of credit card dues through recovery agents were covered in the guidelines issued earlier in April 2008.

2.180 On the issue of unsolicited cards, banks were advised that the person in whose name the card was issued could approach the Banking Ombudsman who would determine the amount of compensation payable by the bank to the recipient of the unsolicited credit card as per the provisions of the Banking Ombudsman Scheme, 2006, *i.e.*, for loss of complainant's time, expenses incurred, harassment and mental anguish suffered by him. Furthermore, it was clarified that any loss arising out of misuse of such unsolicited cards would be the responsibility of the card issuing bank only and the card recipient could not be held responsible for the same. Banks were also advised that in cases where they offered insurance cover to their credit card holders, through tie-ups with insurance companies, they should obtain from the credit card holder the details of nominee/s for the insurance cover in respect of accidental death and disablement benefits. Banks were also advised to ensure that the relevant nomination details were recorded by the insurance company. They should also consider issuing a letter to the credit card holder indicating the details regarding the name, address and telephone number of the insurance company that would handle the claims relating to the insurance cover.

Deposit Schemes with Lock-in Period

2.181 It was noted that some banks were offering special term deposit products with a duration of 300 days to five years, with lock-in periods ranging from 6-12 months. Rates of interest offered on these deposits were not in tune with rates on normal deposits, and premature withdrawal during the lock-in period was either not allowed or, if allowed, was not paid any interest. In October 2007, the Reserve Bank asked the banks offering such deposit schemes to discontinue them with immediate effect. Banks were also advised that before launching new domestic deposit mobilisation schemes, they should ensure that the provisions of the Reserve Bank's directives on interest rates on deposits, premature withdrawal of term deposits, among others, issued from time to time, were strictly adhered to. There should not be any discrimination in the matter of interest paid on deposits, accepted on the same date and for the same maturity. However, fixed deposit schemes specifically for resident Indian senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size and single term deposits of Rs.15 lakh and above continue to be exempted from the above directive.

National Do Not Call Registry

2.182 With a view to reducing the number of unsolicited marketing calls received by customers, the Reserve Bank, through circulars issued in July 2007 and September 2008, advised banks that all telemarketers, *viz.*, direct selling agents/direct marketing agents engaged by them should be registered with the Department of Telecommunications (DoT). Telemarketers are not supposed to make any selling/marketing calls without scrubbing their calling list with the National Do Not Call Registry, as envisaged in the Unsolicited Commercial Communications Regulations, 2007. Banks are required to furnish the list of all telemarketers engaged by them along with the registered numbers used for making the telemarketing calls to the IBA, which in turn, could be forwarded to the Telecom Regulatory Authority of India.

Acceptance of Cash Over the Counter

2.183 It was observed that some banks had introduced certain products whereby the customers were not allowed to deposit cash over the counter. In August 2008, the Reserve Bank advised banks to ensure that their branches invariably accepted cash over the counters from all their customers who desired to deposit cash at the counters. Further they were also advised to refrain from incorporating clauses in the terms and conditions which restrict deposit of cash over the counters.

Comprehensive Display Board

2.184 In August 2008, commercial banks were advised to categorise the instructions on their display boards under 'customer service information', 'service charges', 'grievance redressal' and 'others'. Only the important aspects or mandatory instructions relating to the above four categories were required to be placed in a comprehensive display, with detailed information made available in a booklet form. Furthermore, banks were required to display aspects such as 'working days, working hours and weekly off-days' outside the branch premises. In September 2008, banks were advised to display information relating to interest rates and service charges to enable customers to obtain the desired information at a quick glance.

10. Payment and Settlement Systems

2.185 A safe and efficient payment and settlement system is *sine qua non* for the proper functioning of the financial system. Payment systems also play an important role in the implementation of monetary policy as they provide the conduit through which policy signals are transmitted. The Reserve Bank, like other central banks, has been endeavouring to develop the payment and settlement systems in India on a safe, sound, secure and efficient basis. With these objectives in view, the Reserve Bank took several initiatives during 2007-08. The branch coverage both for national electronic funds transfer (NEFT) system as also the real time gross settlement (RTGS) system expanded during the year as a result of the combined efforts of the Reserve Bank and the banks.

Payment and Settlement Systems Act, 2007

2.186 A sound legal framework is an important requirement for the safe and efficient functioning of the payment and settlement systems. The Payment and Settlement Systems Act, 2007 was notified on December 20, 2007. The Act came into effect on August 12, 2008. The regulations framed under the Act *i.e.*, Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008, were also notified on August 12, 2008[12].

2.187 The Payment and Settlement Systems Act, 2007 has designated the Reserve Bank as the authority to regulate and supervise the payment systems in the country, including those operated by non-banks such as the CCIL, card companies, other payment system providers and all prospective organisations for payments. The netting procedure and settlement finality, earlier governed by contractual agreement/s, have been accorded legal recognition under the Act. The entities that want to operate or continue to operate a payment system would need to apply to the Reserve Bank for authorisation. The other powers vested with the Reserve Bank under the Act include laying down operational and technical standards for the various payment systems, calling for information and returns/ documents from the service providers and imposing fines on failure to do so or on providing false information. The Reserve Bank is empowered to issue directions and guidelines to the system providers, prescribe the duties to be performed by them and audit and inspect their systems/premises.

2.188 The Payment and Settlement Systems Regulations, 2008 cover: (a) authorisation of payment systems including the form and manner of submission of application for authorisation of commencement/ continuation of a payment system and grant of authorisation certificate; (b) payment instructions and determination of standards; (c) furnishing of returns, documents and other information; and (d) furnishing of accounts and balance sheets.

Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)

2.189 The BPSS, which was earlier constituted under the RBI Act, 1934, has since been reconstituted under the Payment and Settlement Systems Act, 2007. The BPSS Regulations 2008, cover: (a) composition of the Board; (b) functions and powers of the Board; (c) powers to be exercised on behalf of the Board; and (d) constitution of sub-committees and advisory committees. The BPSS meets regularly and gives directions for bringing in efficiency, safety and customer convenience in the payment and settlement systems. Some of the areas in which the Board has provided direction include preparation of a framework for payments through mobile phones, extension of the jurisdiction of magnetic ink character recognition (MICR) clearing houses and computerisation of non-MICR clearing houses, launching the Indo-Nepal remittance system, making use of electronic mode of payment mandatory for large value transactions, making all RTGS branches NEFT-enabled while upgrading the NEFT system into a round-the-clock type remittance system, exploring the feasibility of developing a domestic card to inject competition in the market in a non-discriminatory manner, facilitating optimum use of ATMs by rationalising cash withdrawal/balance

[12] The Reserve Bank is empowered under the provisions of the Payment and Settlement Systems Act, 2007 to make regulations to operationalise the provisions of the Act. Accordingly, the two sets of regulations were notified.

enquiry charges and disseminating information on major payment services offered by banks including the service charges and quantum of compensation to be paid by banks for deficiency in those services.

Retail Payment Systems

2.190 Paper-based payment system, electronic clearing services (ECS), NEFT and card payment system constitute the retail payment systems. The Reserve Bank has been emphasising migration of the paper-based transaction to electronic mode. However, as cheques still play an important role in the retail payment system, steps are regularly taken to sustain efficiency in the cheque clearing system. A new MICR cheque processing centre (CPC) was set up at Cuttack during the year, increasing the number of total MICR CPCs to 60. With a view to improving efficiency and safety, the Reserve Bank has encouraged the use of Magnetic Media Based Clearing System (MMBCS) technology in smaller clearing houses whose low volumes make the use of MICR technology unviable. The implementation of MMBCS in the smaller clearing houses has led to computerisation of their operations and increased the efficiency in the settlement process. As a result of implementation of the MMBCS system, the total number of computerised clearing houses has reached 993 (out of a total of 1094). The target is to computerise all the clearing houses by end-2008.

2.191 The Cheque Truncation System (CTS) implemented in February 2008 in the National Capital Region is another step taken for bringing in efficiency in paper-based clearing system. The CTS, which started with the participation of ten banks, now has all the members of the New Delhi Bankers' Clearing House as participants. The physical movement of cheques to all payee bank branches has been truncated. The choice of the point of truncation, whether at the collecting branch or at its service branch, has been left to the individual banks to decide. Clearing takes place based on the validation of cheque images.

Speed Clearing

2.192 Speed clearing leverages the CBS infrastructure in banks for faster clearing of outstation cheques. 'Speed-clearing' functions as follows: (a) member banks designate a local CBS-enabled branch (akin to commercial branch for payment of demand drafts) for accepting the cheques from other banks drawn on their own outstation CBS-enabled branches; (b) all cheques drawn on CBS branches are suitably branded for easy identification; and (c) the designated local branch use the CBS solution to take the pay/ no pay decision on cheques drawn on their outstation CBS-enabled branches.

Retail Electronic Payment System

2.193 Electronic payment systems like the ECS (debit and credit), NEFT, card based payment (debit and credit) are becoming increasingly popular. The availability of ECS at 70 centres as against 67 centres in the previous year and the National Electronic Clearing Services (NECS) that was operationalised for credit clearing on September 29, 2008 are efforts for ushering in further development of the retail electronic payment system. To encourage the use of electronic mode of payments, the Reserve Bank waived the processing charges for all electronic payment systems operated by it till March 2009. As the NEFT system, introduced in November 2005, has stabilised, the earlier electronic funds transfer system has been discontinued except for Government payments. NEFT offers 6 settlements on weekdays and 3 settlements on Saturdays[13]. A total of 87 banks through more than 50,000

[13] The revised timings of the six settlements on week days are 9.00 a.m., 11.00 a.m., 12.00 noon, 1:00 p.m., 3:00 p.m. and 5.00 p.m. and the timings of the three settlements on Saturdays are 9.00 a.m., 11.00 a.m. and 12.00 noon.

branches offer this facility. The NEFT system has now been enabled for three new transaction codes – cash remittance up to Rs.50,000 by walk-in customers not having accounts with the originating banks, Indo–Nepal remittance and card payments.

Mandatory Use of Electronic Mode

2.194 Banks were advised in March 2008 that all large value payments of Rs.1 crore and above, by the Reserve Bank-regulated entities and the markets regulated by it, should be mandatorily routed through the electronic payment systems with effect from April 1, 2008. It was observed in a review that such payments had more or less migrated to the electronic mode. Hence the Reserve Bank brought down the threshold limit to Rs.10 lakh with effect from August 1, 2008.

2.195 The Central Board of Direct Taxes, Government of India made electronic payment of tax mandatory for certain categories of taxpayers, *viz.*, companies and persons (other than a company) to whom provisions of Section 44AB were applicable, with effect from April 1, 2008. Accordingly, banks were advised by the Reserve Bank that the status of all corporate taxpayers could be identified from the name itself. Also, the fourth digit of the PAN of all corporate assesses would necessarily be “C”. Physical *challans* from such assessees should not be accepted across the counter. The bank concerned would need to acknowledge the e-payment immediately with the relevant transaction identity reflected in the bank’s statement. Banks should prominently display on their e-payment gateway page, the official/s to be contacted in case of difficulties encountered in the electronic payment process. They should also provide the Income Tax Department and the National Securities Depository Limited the contact particulars of officials to be contacted if the department/institution faced any problem.

Mobile Payment

2.196 With the rapid growth in the usage of mobile phones and their wider geographical coverage, banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services. Keeping this in view, the Reserve Bank placed on its website the guidelines for ‘mobile payments’ for public comments (Box II.18).

Automated Teller Machines

2.197 The number of ATMs is steadily increasing and the usage of ATMs has gone up substantially during the last few years. ATMs are primarily used for cash withdrawal and balance enquiry. It was observed that the service charges levied for use of ATMs were not uniform and transparent. Accordingly, the Reserve Bank, in March 2008, set guidelines for service charges. As per the guidelines, from April 1, 2008, customers would not pay any charge for use of their own bank’s ATMs. Use of other banks’ ATMs would also not attract any fee except when used for cash withdrawal for which the maximum charge levied should be brought down to Rs.20 per withdrawal by March 31, 2008. All cash withdrawals from all ATMs would be free with effect from April 1, 2009.

2.198 The National Financial Switch (NFS), established by the IDRBT, acts as the apex level switch and facilitates connectivity among ATM switches of all member banks. The NFS network connected 28,773 ATMs of 31 participating banks as on June 30, 2008.

Indo-Nepal Remittance

2.199 India has a large Nepalese migrant workforce. To facilitate these workers in sending money to their families/relatives in Nepal, need was felt for a remittance arrangement using the banking channel. The Indo-Nepal remittance system commenced

Box II.18: Mobile Banking Transactions in India - Operative Guidelines for Banks

Mobile phones as a delivery channel for extending banking services have assumed increased significance in recent years. The rapid growth in users and wider coverage of mobile phone networks have made this channel an important platform for extending banking services to customers. Many countries have identified the mobile phone as the ideal mode for providing banking facility to their remote territories. With the rapid growth in the number of mobile phone subscribers in India (about 261 million at end-March 2008 and growing at about 8 million a month), banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services.

In view of the relatively new technology and the need to ensure a level playing field, the Reserve Bank, on October 8, 2008, issued a set of operating guidelines for mobile banking transactions in the country after wide discussions with stakeholders. The major features of the guidelines are outlined below:

a) Only banks which are licensed and supervised in India, have a physical presence in the country and have implemented CBS would be permitted to offer mobile banking services. The services shall be restricted only to customers of banks and holders of debit/credit cards issued as per the extant guidelines.

b) Only Rupee-based domestic services would be provided. Cross-border transfers through mobile banking would be strictly prohibited.

c) The extant guidelines issued by the Reserve Bank on KYC, AML and CFT would be applicable to mobile based banking services also.

d) Document-based registration done with mandatory physical presence of the customers would be required for commencement of mobile banking service for any customer unless exempted by the Reserve Bank.

e) Banks could choose any technology to provide mobile banking facility to the public. However, to ensure security, it would be mandatory for the system to provide for two factor authentication.

f) To ensure inter-operability between banks and between their mobile banking service providers, banks should adopt message formats like ISO 8583, with suitable modification to address specific needs.

g) Banks would need to put in place appropriate risk mitigation measures such as transaction limit (per transaction, daily, weekly, monthly), transaction velocity limit, fraud checks and AML checks, among others, depending on the bank's own risk perception, unless otherwise mandated by the Reserve Bank.

The operating guidelines mandated that initially banks could offer the facility to their customers subject to a daily cap of Rs.5,000 per customer for funds transfer and Rs.10,000 per customer for transactions involving purchase of goods/services.

operations with effect from May 15, 2008. With due consideration of the target group (poor workers from Nepal), a concessional charge structure was devised for the facility. The salient features of the remittance system are: (i) it facilitates only one way remittances from India to Nepal using the banking system with a ceiling of Rs.50,000 per remittance with a maximum of 12 remittances in a year; (ii) the remittance facility is extended to both customers and non-customers of banks; (iii) all NEFT-enabled bank branches in India participate in this cross-border remittance initiative; (iv) remittances will be distributed to the beneficiaries in Nepal through the branches of Nepal State Bank and its approved agents.

Large Value Payment Systems

2.200 The large value payment systems include the RTGS, Government securities clearing and foreign exchange clearing. Recognising the importance of safety and efficiency in payment systems, the Reserve Bank has mandated the use of electronic mode of payment between entities regulated by it.

2.201 The RTGS system is in operation since March 2004. Apart from settling inter-bank transactions and time-critical transactions on behalf of customers, it facilitates settlement of all retail paper-based and electronic clearings taking place in Mumbai, and CCIL operated clearings including that related to the NFS in multilateral net settlement batch mode. RTGS is open till 4.30 p.m. for customer transactions and up to 6.00 p.m. for inter-bank transactions on week days. On Saturdays, the RTGS functions till 12.30 p.m. for customer transactions and till 2.00 p.m. for inter-bank transactions. The integration of the RTGS system with the Reserve Bank's internal accounting system (IAS) has enabled STP. The integration of RTGS-IAS and the securities settlement system has made automatic intra-day liquidity available.

2.202 The CCIL, set up by banks and FIs at the initiative of the Reserve Bank, clears and settles inter-bank trades in Government securities and foreign exchange as well as a money market product, *i.e.*, collateralised borrowing and lending obligations. The clearing and 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. These trades are settled on a D*v*P III basis, *i.e.*, the funds leg as well as the securities leg are settled on a net basis. The CCIL also provides guaranteed settlement facility for all dollar-rupee, inter-bank cash, Tom, Spot and Forward transactions[14] by becoming the central counterparty to every trade accepted for settlement, through the process of novation. The rupee legs of the transactions are settled through the members' current accounts with the Reserve Bank and the dollar leg through the CCIL's account with the Settlement Bank at New York. The CCIL also provides continuous linked settlement services for banks in India by availing third party services of a settlement bank. Currently, 13 banks are availing of this facility to settle cross currency trades.

2.203 The Reserve Bank implemented the Centralised Funds Management System (CFMS) which enables banks to ascertain their balances in accounts maintained with various offices of the Reserve Bank as also transfer funds from one office to another. This system has been functioning smoothly. The facility is now available at all the 16 offices of the Reserve Bank. At present, 71 member banks are using the facility.

Oversight of Payment Systems

2.204 To have a structured approach for conducting oversight of payment systems, the Minimum Standards for Operational Efficiency for paper-based systems (MICR CPCs and MMBCS operated clearing houses) were issued. The "Standards for Operational Efficiency in ECS Operation" and "Standards for Operational Efficiency in NEFT Operation", incorporating benchmark indicators, were also issued.

2.205 The Reserve Bank constituted an Internal Working Group to suggest norms for permitting various entities in accessing different payment systems available in the country. The Report on "Access Criteria for Payment Systems" was placed in the public domain for comments. On the basis of the recommendations and the feedback received, criteria for participation as a member in the clearing houses at MICR centres were finalised in November 2007 and were made effective from January 1, 2008. Furthermore, the criteria for participation in the national payment systems (RTGS and NEFT) were finalised in September 2008. The financial strength of an institution would be the guiding parameter for participation in the national payment system.

11. Technological and Other Developments

2.206 IT has played a significant role in transforming the functioning of the financial

[14] Cash delivery means delivery of foreign exchange on the day of transaction. Tom delivery means delivery of foreign exchange on the next working day after the day of transaction. Spot delivery means delivery of foreign exchange on the second working day after the day of transaction. Forward contract means a transaction involving delivery at a future date beyond cash/tom/spot delivery of foreign exchange.

sector in the country. Banks in India have not only used IT to improve their own internal processes but have also deployed it successfully to offer a range of services to customers. As IT's role has become pervasive, it provides a competitive advantage to organisations in attracting/servicing customers. Furthermore, with the large scale increase in the number of transactions handled by banks, IT has become a crucial factor in efficient handling of transaction processing.

2.207 The latest technological developments in the banking sector include the use of mobile phone technology to access banking-related products and services and the use of internet for banking transactions. These new modes of transactions require a safe and secure environment so that customers could be provided with a variety of options to choose, depending on their own specific requirements. The thrust areas during 2007-08 included the continued coverage of banks under core banking so as to provide the customer with facilities such as 'anywhere and anytime banking' and other efforts to enhance the availability of common inter-bank systems, for the benefit of banks as well as their clientele.

Technology in Banks and the Role of the Reserve Bank

2.208 The Financial Sector Technology (FST) Vision, issued in 2005, guides banks in taking their own IT initiatives based on the broad approaches planned by the Reserve Bank. The FST vision document was reviewed during 2007-08, and a draft revised document was made available for public comments. Based on the feedback received and after further examination by IT experts, the FST vision document was finalised and issued in February 2008. The FST vision document outlined technology related aspects with due emphasis on consolidation of IT systems and the increasing importance of data centres. After reviewing the achievements *vis-à-vis* the targets for the period 2005-08, the document outlined related factors such as attitudinal and other HR-related issues. Other aspects covered in detail include technology obsolescence, outsourcing related challenges, vision for the period 2008-10 and perspectives for the future.

2.209 An important development during the year was the commencement of operations from three state-of-the-art data centres of the Reserve Bank, which conformed to the Tier-IV Standard of the Uptime Institute[15], and provided for redundancy of all components. The critical payment system applications used by banks for their own transactions as well as those processed on behalf of their constituents such as the RTGS and the NDS now operate from these data centres. Furthermore, there was migration of the network based connectivity to the multi protocol label switching technology which is aimed at reducing costs for the users as well as ease of use and better availability.

Technology-based Services of Reserve Bank for Banks

2.210 The Reserve Bank continued to function as a business facilitator for deployment of new products and critical payment and settlement system services by banks. Some of the systems that it provides include the NDS for Government Securities, the RTGS and the CFMS, apart from the Structured Financial Messaging System over the INFINET (Indian Financial Network).

[15] The Uptime Institute is an internationally recognised institution, headquartered at Santa Fe, USA, that provides, *inter alia*, standards for classification of data centres. These are termed as Tiers, with Tier IV being the highest level currently available, providing for 99.999 per cent uptime of data centres.

2.211 The secured website of the Reserve Bank disseminates information through electronic means to the Government Departments as well as other commercial banks. During 2007-08, the transmission of clearing data, both for cheque clearing and for ECS, was done through the secured website in many centres. In addition, collation of inputs from the 4,500 currency chests in the country, as part of the Integrated Currency Chest Operations and Management System, was done using the website. This system also operates from the data centres now.

2.212 These initiatives have helped banks, FIs and the Government in using technology to the maximum extent aimed at better e-governance. With large scale dependence on IT, the need to ensure uninterrupted availability of such systems assumes significance for which the business continuity management is ascribed due importance by the Reserve Bank. While the Reserve Bank conducted periodical disaster recovery (DR) drills for the critical systems hosted by it, banks were also required to participate in these drills from their primary sites as well as using their DR systems. The existing IT system to process the requirements of the State and Central Governments for the accounting requirements was replaced by the Centralised Public Accounts Department System, which is more robust and user friendly than the earlier system. Specific guidelines on information systems/security policy to be followed by all the IT users in the Reserve Bank were issued and circulated amongst the employees, IT vendors and other stakeholders. The IAS, aimed at replacing the existing system at the Deposit Accounts Department of the Reserve Bank was made fully operational during 2007-08 at Mumbai.

2.213 The Reserve Bank implemented the ORFS for submission of certain important returns by commercial banks. As part of this, the Reserve Bank aims to adopt the international standards for data sharing among business entities through the XBRL in due course (Box II.19). The move towards the XBRL standards is taking place under a high level Steering Committee (Chairman: Shri V. Leeladhar). As part of the XBRL implementation, an exercise for rationalisation of returns has been initiated. By August 2008, the number of returns to be submitted by the SCBs (excluding RRBs) was reduced from 291 to 223. On August 14, 2008, the Reserve Bank placed on its website the list of returns to be submitted by banks and those that need not be submitted.

Challenges in IT Adoption

2.214 The adoption of IT provides competitive advantage to banks in their operations. However, banks, have to depend on outsourcing for most of their IT applications and infrastructure as this does not relate to the domain of banking operations. They, therefore, need to exercise caution and put in place mechanisms for vendor management to reap the advantages that adoption of IT can bring in their day-to-day operations (Box II.20).

12. Legal Reforms

2.215 In the light of the developments taking place in the financial sector in recent years, several legislative changes were undertaken during 2007-08 covering Government securities market, payment and settlement system and micro-finance, among others.

2.216 The Government Securities Act, 2006 (GS Act) replaced the Public Debt Act, 1944 and repealed the Indian Securities Act, 1920 in August 2006. The Government Securities Regulations, 2007 (GS Regulations) were framed by the Reserve Bank in terms of Section 32(1) of the GS Act. The main features

Box II.19: Standardised Reporting Structures

Electronic availability of financial information and transparency of data are key elements in monitoring and supervision of financial markets. XBRL, an electronic format for communication of business and financial data, is revolutionising business reporting around the world. XBRL addresses the way financial reporting data are communicated by using eXtensible Markup Language (XML), a globally recognised standard for transmitting data.

XBRL, a royalty-free and open-standard specification, is aimed at providing financial information in a format that can be easily viewed and used by management, investors, regulators and financial markets' participants in a cost-effective manner. It offers greater efficiency, improved accuracy and reliability to all those who supply or use financial data. This XML-based framework provides the financial community a standards-based method to prepare, publish in a variety of formats, reliably extract and automatically exchange the financial data.

XBRL builds upon XML by allowing accountants and regulatory bodies to identify items that are unique to the business reporting environment. The XBRL *schema* defines how to create XBRL documents and XBRL taxonomies and provides users with a set of tags that allow identification of business information in a consistent way. It is extensible as users are able to create their own XBRL taxonomies that define and describe tags unique to a given environment. XBRL is being developed by an international non-profit consortium of major companies, organisations and government agencies that include the world's leading accounting, technology, government and financial services bodies.

XBRL can be used to digitally publish financial information and other accounting disclosures for organisations of all kinds and sizes. Any XBRL-based financial information is digitally enhanced information that increases the possibility of information re-use and makes electronic media more useful for exchange of information. Instead of creating multiple report outputs for multiple agencies that request data, XBRL allows the same financial information to be 'reused' for different purposes.

Application of XBRL is not only restricted to financial statements such as balance sheet, profit and loss accounts, flow of funds or financial disclosures but also includes other types of financial reporting such as the Basel II system, statutory reporting and regulatory/supervisory reporting systems. "XBRL for Financial Statements" enables a dramatic improvement in the processing of financial reports.

Basel II statements are basically regulatory information of the financial entities involved in the banking business. By presenting the Basel II statements in XBRL, a supervisor not only benefits the regulators but also the entire domestic and international banking industry, by putting in place a transparent supervisory framework and robust banking backbone. In recent days, XBRL has been used for putting in place the Basel II framework across the banking industry, globally. One such popular framework, 'COREP' (common reporting framework) has been designed in XBRL for implementing Basel II system across the EU.

India has adopted the XBRL technology to design its own system for Basel II reporting. The new XBRL-based Basel II reporting system of the Reserve Bank would allow the commercial banks operating in Indian domestic territory to file their Basel II statements with the regulator. This system would also help the Reserve Bank to generate supervisory reports, thereby enhancing the efforts to establish a robust supervisory framework to monitor the banks more efficiently.

of the Act and the regulations which came into force on December 1, 2007, include: (i) investor friendly automatic redemption facility, *i.e.*, no physical discharge was required if the investors submitted bank account details for receiving redemption proceeds of Government security held in the form of bond ledger account (BLA), SGL or stock certificate; (ii) facility of pledge or hypothecation or lien of Government security; (iii) legal recognition of beneficial ownership of constituents in respect of Government securities held in the constituents' subsidiary general ledger account; (iv) simplified procedure/documentation for recognition of title to a Government security of a deceased holder; (v) nomination facility for Government securities held in the form of stock certificate and BLAs; (vi) stripping of a Government security separately for principal and interest and reconstitution thereof; (vii) simplified procedure for issue of duplicate Government securities; (viii) simplified procedure for making vesting order; and (ix) debarring holders of SGL account from trading in case of misuse of SGL account. The GS Act has empowered the Reserve Bank to seek information, inspect and issue directions in relation to Government securities as also to impose penalty up to Rs.5 lakh in case of

Box II.20: IT Vendor Management Related Issues and Perspectives

IT vendor management is an activity which has assumed significance in the context of banks and other institutions becoming highly dependent on IT-based systems for their normal day-to-day operations. While IT vendors take away the botheration of the banks by managing the activities which they themselves would otherwise have to undertake, there are certain challenges which have to be addressed in order to ensure that IT vendor management is done in a manner that is best suited to the banks' overall interests. Some of the important aspects in this regard are as follows:

- As the objectives of the IT vendors may not necessarily correspond with those of the banks, it needs to be ensured that the objectives of the banks are clearly intimated to the IT vendors and that these form a part of the contractual agreement between the banks and the IT vendors.
- Sometimes the IT vendors may offer systems which are not necessarily required by the banks. It is thus necessary for banks to review the IT vendors' offerings with care and ensure that they are offered systems/ services which meet their requirements at optimal costs and are not superfluous.
- In some cases, there may be multiple IT vendors performing services for a certain bank. In such a scenario, the tendency to pass the responsibility onto someone else is common and it should be ensured that the process of identification of the responsibility to each of the vendors and their collective responsibility is taken care of.
- As technology becomes obsolete at a very fast pace, it is necessary for banks to be regularly updated so that the offerings of the IT vendors continue to match up to the expectations of the banks juxtaposed with the developments in the industry.
- Factors such as choice of the right IT vendor, the capability of the vendor to offer services over a long service period, total costs of the system/services and escalation process for problem resolution, among others, are some of the other aspects which have to be adequately addressed by banks.

IT has made large inroads for hassle free operations, and if banks take care of the major factors mentioned above, the implementation of IT solutions through outsourcing would be more efficient.

contravention of the GS Act and a further penalty of Rs.5,000 for every day after the first day during which the contravention continues.

2.217 The Payment and Settlement Systems Act, 2007 received the assent of the President on December 20, 2007. The Act has given wide regulatory and supervisory powers to the Reserve Bank in respect of payment systems in the country (refer paras 2.186-2.189).

2.218 To enable the Reserve Bank to transfer its shareholding in SBI in favour of the Central Government, certain amendments were effected in the State Bank of India Act, 1955 through State Bank of India (Amendment) Ordinance, 2007, which came into force on June 29, 2007. The Ordinance was later replaced by the State Bank of India (Amendment) Act, 2007, which by a deeming provision also came into force on June 29, 2007.

2.219 The Micro Financial Sector (Development and Regulations) Bill, 2007 has been referred to the Standing Committee on Finance after introduction in the Lok Sabha on March 20, 2007. The Bill, *inter alia*, includes provisions for: (i) constitution of Micro Finance Development Council; (ii) registration of micro finance organisations with NABARD; (iii) settlement of disputes through micro finance ombudsman; and (iv) penalties relating to offences.

2.220 The Securities Contracts (Regulation) Amendment Act, 2007, passed in May 2007 by the Parliament, provides a legal framework for trading in securitised debt, including mortgage backed debt. The Act, *inter alia*, provides for: (a) including securitisation certificates or instruments under the definition of 'securities'; and (b) obtaining approval from the SEBI for issue of securitisation certificate or instrument and procedure thereof.

2.221 The State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007, came into effect on July 9, 2007. The major provisions of the Act include: (a) increasing the authorised capital of subsidiary banks of the SBI to Rs.500 crore; (b) fixing of their issued capital by the SBI with the approval of the Reserve Bank; (c) raising of such issued capital by issue of equity or preference shares through preferential allotment/private placement/ public issue in accordance with the specified procedure, with the approval of the SBI and the Reserve Bank; (d) issuance of bonus shares to the equity shareholders with the approval of the SBI and the Reserve Bank; and (e) reduction of SBI's mandatory shareholding from 55 per cent to 51 per cent of the issued capital consisting of equity shares.

Chapter III

Operations and Performance of Commercial Banks

Introduction

3.1 The business and financial performance of scheduled commercial banks (SCBs)[1] during 2007-08 continued to be shaped by the strong macroeconomic performance during the year. In line with the policy initiatives undertaken by the Reserve Bank, the growth in credit by SCBs exhibited some moderation during the year. The moderation in credit was observed across all the sectors, barring services. On the liability side, deposit growth continued to be strong, *albeit* it was marginally lower than that in the previous year mainly on account of deceleration in term deposits. Banks' investments in government and other securities recorded a higher growth during 2007-08, partly on account of a large issuance of MSS securities during the year. However, as percentage of net demand and time liabilities (NDTL), investment by banks in Government and other approved securities remained more or less at the previous year's level. Overall, the credit-deposit ratio of banks declined during the year as a result of continued strong growth in deposits combined with moderation in credit.

3.2 Net interest margins of banks continued to decline during the year, reflecting the increase in competitive pressures. However, sharp increase in non-interest income and subdued growth in operating costs resulted in sharp increase in net profits of SCBs during the year. Consequently, return on assets showed a marginal improvement in 2007-08. Despite increase in gross non-performing assets (NPAs) in absolute terms during the year, asset quality (gross NPAs as percentage of gross loans and advances) of banks in general and of public sector banks in particular continued to improve. The capital to risk-weighted assets ratio of the banking sector also showed marked improvement during the year, both on account of large capital raised by banks from the capital market during 2007-08 and increase in reserves.

3.3 Against this backdrop, 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 sheet operations of SCBs on an aggregate basis, while Section 3 delineates their off-balance sheet operations. Financial performance of SCBs is analysed in Section 4. Section 5 delineates the trends in soundness indicators. Operations of SCBs in the capital market are detailed in Section 6, while technological developments in banking during the year are covered in Section 7. Regional spread of banking is set out in Section 8. Section 9 presents an update on customer service and financial inclusion. Apart from the SCBs, 91 regional rural banks (RRBs)[2] and four local area banks (LABs) were also operating in the country. 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.

1 As at end-March 2008, SCBs comprised 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, 15 old private sector banks and 28 foreign banks.

2 As at end-March 2008.

2. Liabilities and Assets of Scheduled Commercial Banks

3.4 As the process of consolidation of banks continued during 2007-08, the number of SCBs declined from 82 at end-March 2007 to 79 at end-March 2008 due to merger of two old private sector banks and amalgamation of a foreign bank. The Sangli Bank Ltd. was amalgamated with ICICI Bank Ltd. under Section 44A of the Banking Regulation Act, 1949 effective April 19, 2007. Under the same Section, the Reserve Bank, on August 27, 2007 sanctioned the Scheme of Amalgamation of Lord Krishna Bank Ltd. with Centurion Bank of Punjab Ltd. The Scheme came into force with effect from the commencement of business on August 29, 2007. Subsequently, the Scheme of Amalgamation of Centurion Bank of Punjab Ltd. with HDFC Bank Ltd. was sanctioned by the Reserve Bank on May 20, 2008; the Scheme came into force with effect from the commencement of business on May 23, 2008.

3.5 Consequent upon the global acquisition of banking business (excluding credit card and travel related business) of American Express Bank Ltd. (AEBL) by Standard Chartered Bank as a stock sale, the Reserve Bank sanctioned amalgamation of the Indian branches of AEBL with the Indian branches of Standard Chartered Bank on March 5, 2008. Furthermore, American Express Banking Corporation (AEBC), the parent bank of AEBL, was issued a banking license under Section 22 of the BR Act, 1949 to open its maiden branch in New Delhi for conducting the business relating to credit cards, travel related services and institutional deposits of AEBL, which was transferred to it prior to the sale of AEBL's banking business to Standard Chartered Bank.

3.6 The aggregate balance sheet of SCBs expanded by 25.0 per cent during 2007-08 as compared with 24.2 per cent in the previous year (Table III.1). The continued higher growth in assets of SCBs than the growth rate of the economy resulted in the increase in the ratio of assets of SCBs to GDP (at current market prices) to 91.8 per cent at end-March 2008 from 83.5 per cent at end-March 2007. As banks improved their capital base during 2007-08, the leverage (measured by the equity multiplier, which is defined as total assets divided by the total equity) of the banking

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

(Amount in Rs. crore)

Item	As at end-March			
	2007		2008	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
Liabilities				
1. Capital	29,559	0.9	39,900	0.9
2. Reserve and Surplus	1,89,619	5.5	2,75,657	6.4
3. Deposits	26,96,936	77.9	33,20,054	76.7
3.1. Demand Deposits	3,54,895	10.3	4,42,055	10.2
3.2. Savings Bank Deposits	6,31,651	18.3	7,44,051	17.2
3.3. Term Deposits	17,10,388	49.4	21,33,947	49.3
4. Borrowings	2,43,010	7.0	2,97,349	6.9
5. Other Liabilities and Provisions	3,00,836	8.7	3,93,523	9.1
Total Liabilities/Assets	**34,59,961**	**100.0**	**43,26,486**	**100.0**
Assets				
1. Cash and Balances with RBI	1,95,265	5.6	3,22,997	7.5
2. Balances with Banks and Money at Call and Short Notice	1,58,302	4.6	1,10,326	2.6
3. Investments	9,50,981	27.5	11,76,154	27.2
3.1 Government Securities (a+b)	7,54,446	21.8	9,25,799	21.4
a) In India	7,50,722	21.7	9,20,241	21.3
b) Outside India	3,723	0.1	5,558	0.1
3.2 Other Approved Securities	12,764	0.4	10,587	0.2
3.3 Non-Approved Securities	1,83,771	5.3	2,39,767	5.5
4. Loans and Advances	19,81,236	57.3	24,77,039	57.3
4.1 Bills purchased and Discounted	1,24,292	3.6	1,50,983	3.5
4.2 Cash Credits, Overdrafts, *etc.*	7,09,803	20.5	8,89,663	20.6
4.3 Term Loans	11,47,140	33.2	14,36,391	33.2
5. Fixed Assets	31,362	0.9	42,395	1.0
6. Other Assets	1,42,812	4.1	1,97,573	4.6

Note : Data for 2006-07 are as reported in the balance sheets of banks for 2007-08 and hence may not match with those reported in the Report on Trend and Progress of Banking in India, 2006-07, as the figures for 2006-07 were revised by some banks.

Source: Balance Sheets of respective banks.

system during the year declined significantly to 13.7 at end-March 2008 from 15.8 a year ago.

3.7 The composition of assets of SCBs during 2007-08 remained more or less the same as in the previous year. On the liability side, the share of reserves and surplus increased, while that of deposits declined. Aggregate deposits of SCBs continued to show strong growth during 2007-08, though it was lower than the previous year. Capital and reserves grew at a significantly higher rate in 2007-08 in comparison with 2006-07. The growth rate of loans and advances moderated as compared with that in the previous year, partly reflecting the impact of measures taken by the Reserve Bank such as increase in cash reserve ratio (CRR), which, in turn, was reflected in the significant increase in cash and balances with the Reserve Bank. Banks' investments in Government securities grew at a much higher rate in comparison with the last year [Table III.1, Table III.2 and Appendix Table III.1 (A) to (C)].

3.8 Among the banks groups, the balance sheets of foreign and new private sector banks expanded at a higher rate as compared with other bank groups (Table III.2). As a result, the combined share of foreign and new private sector bank groups in total assets of SCBs

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

(Per cent)

Item	As at end-March									
	2007					2008				
	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	0.7	4.4	5.6	45.4	17.3	5.2	1.8	14.6	71.0	35.0
2. Reserve and Surplus	20.0	11.6	17.4	30.6	20.0	31.3	47.1	97.9	35.0	45.4
3. Deposits	22.9	6.0	38.8	32.5	24.6	23.1	19.8	23.1	26.8	23.1
3.1. Demand Deposits	19.3	3.9	36.7	19.3	21.1	20.4	23.4	38.6	28.3	24.6
3.2. Saving Bank Deposits	15.0	6.7	33.3	16.3	16.4	14.9	16.2	40.5	20.2	17.8
3.3. Term Deposits	27.3	6.1	40.6	47.1	28.7	27.0	20.2	16.0	27.7	24.8
4. Borrowings	5.7	22.3	42.8	33.0	19.6	24.1	8.0	26.1	14.2	22.4
5. Other Liabilities and Provisions	16.3	16.1	51.1	72.4	28.1	28.5	21.3	17.5	65.5	30.8
Total Liabilities/Assets	**21.1**	**7.1**	**38.7**	**37.6**	**24.2**	**23.9**	**21.2**	**27.5**	**32.7**	**25.0**
1. Cash and Balances with RBI	26.1	25.9	93.7	49.8	35.2	61.5	74.4	74.3	81.2	65.4
2. Balances with Banks and Money at Call and Short Notice	26.8	5.8	91.9	41.9	35.9	-31.7	-20.2	-33.7	-25.1	-30.3
3. Investments	4.9	-3.6	26.4	36.4	9.7	20.2	23.1	31.3	38.4	23.7
3.1 Government Securities (a+b)	3.6	-2.2	33.0	37.5	9.3	20.5	20.0	21.8	47.5	22.7
a. In India	3.6	-2.0	32.9	37.5	9.4	20.3	20.0	21.9	47.5	22.6
b. Outside India	-8.6	-100.0	125.0	0.0	-5.9	58.3	0.0	-53.6	0.0	49.3
3.2 Other Approved Securities	-7.8	-30.9	-10.3	0.2	-8.5	-16.7	-20.7	12.0	-60.9	-17.0
3.3 Non-Approved Securities	13.8	-7.6	11.4	32.8	13.3	22.6	37.7	57.0	5.2	30.5
4. Loans and Advances	30.2	12.0	39.9	29.5	30.6	24.8	20.2	26.4	27.5	25.0
4.1 Bills Purchased and Discounted	22.4	-15.4	20.7	21.3	19.9	16.3	36.9	36.8	36.5	21.5
4.2 Cash Credits, Overdrafts, *etc.*	25.6	11.6	42.3	20.9	25.6	24.3	20.3	31.0	33.8	25.3
4.3 Term Loans	34.6	16.5	40.7	38.7	35.3	26.2	18.3	24.6	21.2	25.2
5. Fixed Assets	37.7	-5.6	4.2	24.4	25.0	42.6	26.2	15.9	32.3	35.2
6. Other Assets	7.1	0.7	33.9	72.9	22.5	31.2	-1.5	28.1	67.0	38.3

Source : Balance Sheets of respective banks.

increased further to 25.6 per cent at end-March 2008 from 24.8 per cent at end-March 2007. The growth rates in the assets of public sector banks and old private sector banks during 2007-08 at 23.9 per cent and 21.2 per cent, respectively, were higher than those during the previous year. However, their assets grew at a lower rate than those of SCBs as a whole [Appendix Table III.1 (A) to (C)].

3.9 The impact of differential growth rate across different banks groups was broadly reflected in their market shares in terms of major indicators of balance sheets (Table III.3).

Deposits

3.10 Aggregate deposits of scheduled commercial banks showed a lower growth of 23.1 per cent during 2007-08 as compared with 24.6 per cent in the previous year. The deceleration in aggregate deposits was on account of moderation in the growth of term deposits (24.8 per cent) as compared with that in the previous year (28.7 per cent). Demand deposits and saving bank deposits showed a higher growth than that in the previous year.

3.11 The trend of increasing dependence of banks on certificates of deposit (CDs) continued during 2007-08. The amount of CDs outstanding increased by 58.5 per cent to Rs.1,47,792 crore by end-March 2008. CDs outstanding as percentage of aggregate deposits increased to 4.5 per cent as on March 28, 2008 from 3.5 per cent a year ago (Appendix Table III.2).

3.12 Bank groups-wise analysis reveals that deposits of foreign sector banks grew at the highest rate (26.8 per cent). While deposits of public sector banks and new private sector banks showed a growth of 23.1 per cent each, old private sector banks' deposits increased by 19.8 per cent during 2007-08. Though the growth in deposits of old private sector banks was significantly higher than that in the previous year, their share in aggregate deposits of SCBs declined further, *albeit* marginally during 2007-08. The share of foreign banks in aggregate deposits increased marginally during 2007-08, while that of public and new private sector banks remained at the previous year's level (Chart III.1).

Non-Deposit Resources

3.13 Among the non-deposit resources, borrowings by banks increased by 22.4 per cent during 2007-08 as compared with a growth of 19.6 per cent in the previous year (Table III.2). Resources raised from the capital

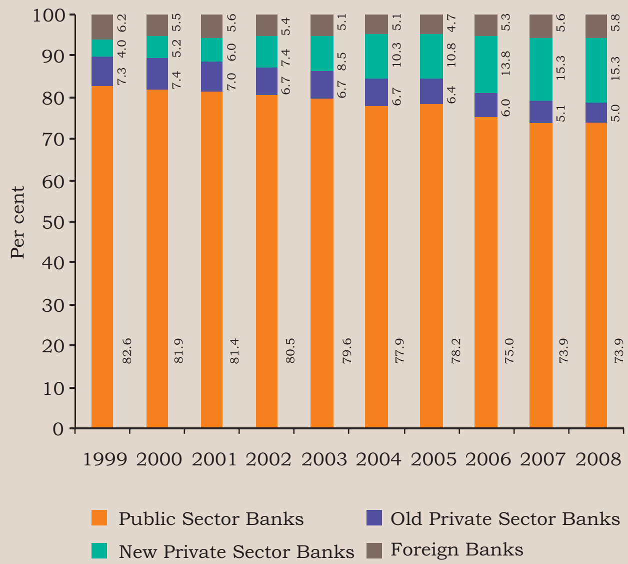
Table III.3: Major Components of Balance Sheets of Scheduled Commercial Banks - Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	Assets		Deposits		Advances		Investments	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
Public Sector Banks	70.5	69.9	73.9	73.9	72.7	72.6	69.9	67.9
Nationalised Banks	44.2	43.5	48.8	48.4	45.2	45.3	44.9	42.7
State Bank Group	23.3	23.4	23.5	23.3	24.3	24.0	22.3	22.4
Other Public Sector Bank	3.0	3.0	1.6	2.2	3.2	3.3	2.7	2.8
Private Sector Banks	21.5	21.7	20.5	20.3	20.9	20.9	22.6	23.7
Old Private Sector Banks	4.6	4.5	5.1	5.0	4.7	4.5	4.6	4.6
New Private Sector Banks	16.9	17.2	15.3	15.3	16.2	16.4	18.0	19.1
Foreign Banks	7.9	8.4	5.6	5.8	6.4	6.5	7.5	8.4
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.

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



market through public issues (excluding offer for sale) in the domestic capital market increased sharply by Rs.30,455 crore during 2007-08 as compared with Rs.1,066 crore during 2006-07. This was mainly on account of good performance of banking scrips in the secondary market, strong financial results of banks, increased need to raise capital in the face of sharp expansion of balance sheets, ensuing implementation of Basel II norms and tightening of capital adequacy norms for sensitive sectors (refer Section 6 for details).

International Liabilities of Banks

3.14 International liabilities of banks grew at a slower rate of 8.4 per cent during 2007-08 as compared with 17.6 per cent in the previous year. The slowdown was mainly due to decline in FCNR(B) deposits, NRE deposits, own issues of securities and lower growth in ADRs/GDRs and equities of banks held by non-residents. On the other hand, NRO rupee deposits, foreign currency borrowings, and capital/remittable profits of foreign banks in India increased at a higher rate (Table III.4).

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

(Amount in Rs. crore)

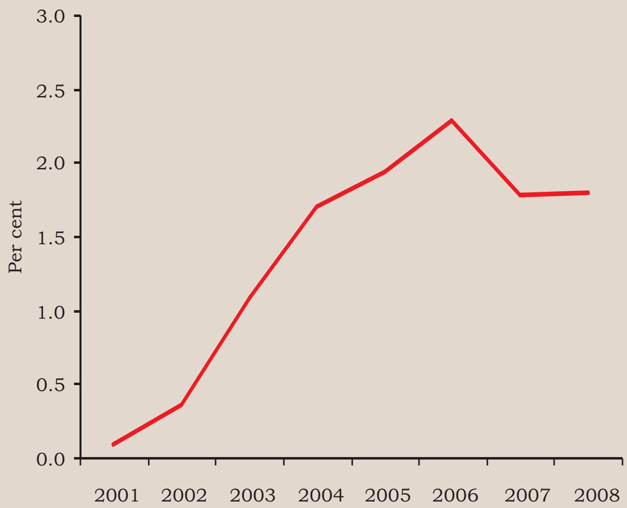
Item	As at end-March		
	2006	2007	2008
1	2	3	4
1. Deposits and Loans	**2,46,246 (80.3)**	**2,71,403 (75.2)**	**2,89,362 (74.0)**
of which:			
a) Foreign Currency Non-Resident Bank [FCNR(B)]	58,110 (19.0)	68,086 (18.9)	60,340 (15.4)
b) Foreign currency Borrowings *	63,722 (20.8)	61,470 (17.0)	77,257 (19.8)
c) Non-resident External Rupee (NRE) A/C	100,310 (32.7)	112,907 (31.3)	111,301 (28.5)
d) Non-Resident Ordinary (NRO) Rupee Deposits	5,449 (1.8)	6,855 (1.9)	11,387 (2.9)
2. Own Issues of Securities/Bonds (including IMD/RIBs)	**4,856 (1.6)**	**10,036 (2.8)**	**9,166 (2.3)**
3. Other Liabilities	**55,506 (18.1)**	**79,258 (22.0)**	**92,329 (23.6)**
of which:			
a) ADRs/GDRs	14,835 (4.8)	23,515 (6.5)	25,111 (6.4)
b) Equity of banks held by non-residents	28438 (9.3)	40328 (11.2)	45603 (11.7)
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	12,233 (4.0)	15,415 (4.3)	21,615 (5.5)
Total International Liabilities	**3,06,609 (100.0)**	**3,60,698 (100.0)**	**3,90,857 (100.0)**

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

3.15 The share of foreign currency deposits in total international liabilities continued to decline during 2007-08, whereas that of borrowings increased to 19.8 per cent from 17.0 per cent in the previous year (Chart III.2).

3.16 The share of foreign currency liabilities of scheduled commercial banks in their total liabilities in 2007-08 remained unchanged at the previous year's level (Chart III.3).

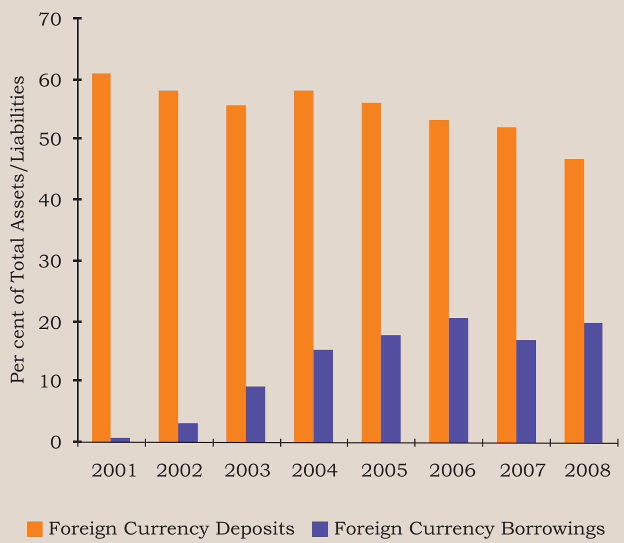
Chart III.3: Share of Foreign Currency Liabilities to Total Liabilities of SCBs
(As at end-March)



Bank Credit

3.17 Growth rate in aggregate loans and advances of SCBs decelerated to 25.0 per cent during 2007-08 from 30.6 per cent in 2006-07 and an average growth of 31.9 per cent during 2004-05 to 2006-07. This was mainly on account of sharp deceleration in growth of terms loans (which constituted 58.0 per cent of total loans and advances) to 25.2 per cent in 2007-08 from 35.3 per cent in the previous year. Notwithstanding the deceleration in terms loans, the ratio of term loans to gross domestic capital formation (GDCF) in the country increased to 89.9 per cent in 2007-08 from 77.1 per cent in the previous year (Chart III.4). Among the other major components, bills purchased and discounted witnessed a higher growth in the 2007-08, while cash credit and overdraft grew broadly at the same rate as in the previous year.

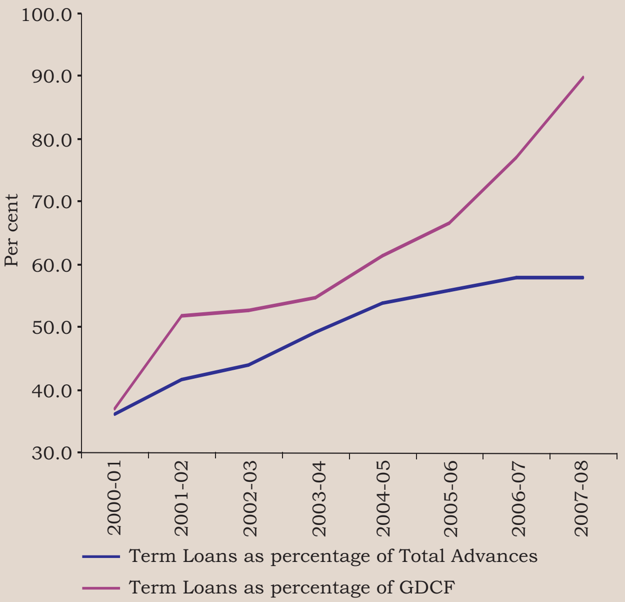
Chart III.2: Share of Foreign Currency Deposits and Borrowings in International Liabilities
(As at end-March)



Sectoral Deployment of Bank Credit

3.18 The overall deceleration in bank credit during 2007-08 was reflected in the flow of credit to all the major sectors, barring the services sector. The deceleration was more

Chart III.4: Term Loan and Capital Formation



pronounced in respect of agriculture and allied activities and personal loans, whereas credit to industry showed a marginal slowdown. Apart from general moderation of overall credit, drought in certain pockets of the country, lower demand for credit in anticipation of waiver under Debt Waiver Scheme, exclusion of loans to bodies such as Electricity Boards from the category of agricultural lending under the revised priority sector guidelines and lower investment credit may have contributed to the deceleration in credit to agriculture (Table III.5 and Appendix Table III.3).

3.19 Provisional data on sectoral deployment of credit up to September 28, 2008 indicate that, on a year-on-year basis, overall credit growth was higher at 26.9 per cent as compared with 22.2 per cent a year ago. Bank credit growth to agriculture and personal loans decelerated to 20.6 per cent and 15.3 per cent (23.2 per cent and 18.5 per cent a year ago), respectively, while credit to industry and services increased at a higher rate of 33.1 per cent and 32.2 per cent (23.2 per cent and 24.1 per cent a year ago), respectively. Credit growth to real estate remained high at 45.9 per cent, notwithstanding a sharp deceleration.

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

(Variations over the year)

(Amount in Rs. crore)

Sector	2006-07		2007-08	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture and Allied Activities	**56,426**	**32.4**	**43,260**	**18.8**
2. Industry (Small, Medium and Large)	**1,46,890**	**26.7**	**1,74,566**	**25.0**
Of which: Small	25,888	28.4	27,924	32.2
3. Personal Loans	**96,486**	**26.8**	**48,656**	**10.7**
Of which: Housing	45,791	24.7	24,659	10.7
4. Other Services	**96,596**	**30.2**	**1,29,743**	**31.1**
Of which:				
(i) Wholesale Trade (other than food procurement)	10,422	26.3	4,472	8.9
(ii) Real Estate Loans	18,483	69.2	17,070	37.8
(iii) Non-Banking Financial Companies	14,722	42.9	26,274	53.6
Total Non-Food Gross Bank Credit (1 to 4)	**3,96,399**	**28.2**	**4,01,799**	**22.3**
Of which, Priority Sector	1,23,404	24.2	1,04,544	16.5

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. Data include the figures of Bharat Overseas Bank, which was merged with Indian Overseas Bank on March 31, 2007.

2. Gross bank credit data include bills rediscounted with Reserve Bank, Exim Bank, other financial institutions and inter-bank participations.

Priority Sector Advances

3.20 The Reserve Bank has taken several initiatives in recent years to enhance the credit flow to the sectors considered to be constrained by the inadequate credit availability. The priority sector definition was modified from time to time to take into account the structural changes in the economy. As per the revised guidelines, the priority sector broadly comprises agriculture, small enterprises sector, micro credit, education and housing. The targets and sub-targets for all banks are now linked to the adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures (CEOBSE), whichever is higher (refer Chapter II).

3.21 The growth in priority sector lending by banks during 2007-08 decelerated to 16.9 per cent in line with the deceleration in overall bank credit. Among bank groups, the outstanding priority sector advances of public sector banks at end-March 2008 increased by 16.8 per cent as compared with a growth of 27.2 per cent a year ago. Deceleration in priority sector advances was mainly due to lower growth in lending to agriculture and other priority sector advances, including micro credit and housing. Advances to micro and small enterprises sector by PSBs, however, exhibited a significantly higher growth of 45.0 per cent in 2007-08 as compared with an increase of 24.4 per cent during 2006-07. Notwithstanding some deceleration, total priority sector advances by PSBs during 2007-08 as a percentage of their ANBC/CEOBSE improved significantly to 44.6 per cent as compared with 39.7 per cent in the previous year (Table III.6). Among the other priority sector advances by PSBs, advances to housing constituted the largest share (10.8 per cent ANBC/CEOBSE) followed by retail credit (3.0 per cent of ANBC/CEOBSE), education (1.5 per cent of ANBC/CEOBSE) and micro-credit (0.2 per cent of ANBC/CEOBSE) (Appendix Table III.4 and III.5). Total priority sector advances extended by private sector banks during 2007-08 grew by 12.9 per cent as compared with a rise of 35.6 per cent in the previous year. While advances to micro and small enterprises sector by private sector banks in 2007-08 increased by around two and half times, advances to agriculture registered a lower growth of 10.9 per cent as compared with 41.7 per cent in the previous year. Total priority sector advances by private sector banks, as on the last reporting Friday of March 2008, constituted 47.5 per cent of ANBC or CEOBSE (Appendix Table III.6 and III.7).

Table III.6: 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	
	2007	2008@	2007	2008@
1	2	3	4	5
Priority Sector Advances	**5,21,376**	**6,08,963**	**1,44,549**	**1,63,223**
	(39.7)	**(44.6)**	**(42.9)**	**(47.5)**
of which:				
Agriculture	2,02,614	2,48,685	52,034	57,702
	(15.4)	(17.4^)	(12.7)	(15.4)
Micro and Small Enterprises*	1,02,550	1,48,651	13,136	46,069
	(7.8)	(10.9)	(3.9)	(13.4)
Other Priority Sector#	2,06,661	2,11,627	76,919	59,452
	(15.7)	(15.5)	(22.9)	(17.3)

@ : Provisional.
* : The revised guidelines on priority sector advances issued on April 30, 2007 take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.
\# : Includes retail trade, micro-credit, education and housing.
^ : Indirect agriculture is reckoned up to 4.5 per cent of ANBC for calculation of percentage.
Note : Figures in parentheses represent percentages to net bank credit/ANBC/CEOBSE.

3.22 As on the last reporting Friday of March 2008, lending to the priority sector by foreign banks constituted 39.5 per cent of their ANBC/CEOBSE as against the target of 32 per cent. Of this, credit to the micro and small enterprises (MSE) and export sectors constituted 12.2 per cent and 22.8 per cent, respectively, of ANBC/CEOBSE (Table III.7 and Appendix Table III.8).

3.23 At individual bank-level, 12 banks achieved the overall target of lending to the priority sector and sub-targets of lending to agriculture and weaker sections. Twenty seven banks (12 public sector banks and 15 private sector banks) achieved the overall target, but did not achieve the sub-targets. Only two private sector banks did not achieve the overall target as also the sub-targets (Table III.8; Appendix Table III.5(A), III.7(A) and III8(A)].

Special Agricultural Credit Plans (SACP)

3.24 With a view to increasing the flow of credit to agriculture, the Reserve Bank in 1994-95 had advised public sector banks to prepare special agricultural credit plans (SACP) on an annual basis. Under SACP, banks are required to fix self-set targets for achievement during the year (April-March). The targets are generally fixed by the banks showing an increase of about 20-25 per cent over the disbursements made in the previous year. During 2005-06 and 2006-07, public sector banks disbursed Rs.94,278 crore and Rs.1,22,443 crore, respectively, surpassing the targets under the plan. The disbursements under the plan during 2007-08 aggregated Rs.1,33,226 crore, constituting 87.6 per cent of the target of Rs.1,52,133 crore. Drought in certain regions, lower investment credit, lower

Table III.7: Priority Sector Lending by Foreign Banks
(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	2006		2007		2008@	
	Amount	Percentage to ANBC/ CEOBSE	Amount	Percentage to ANBC/ CEOBSE	Amount	Percentage to ANBC/ CEOBSE
1	2	3	4	5	6	7
Priority Sector Advances	**30,439**	**34.4**	**37,831**	**33.4**	**50,301**	**39.5**
of which:						
Export credit	17,326	19.6	20,711	18.3	29,007	22.8
Micro and Small Enterprises*	8,430	9.5	11,637	10.3	15,489	12.2

@ : Provisional.
* : The revised guidelines on priority sector advances issued on April 30, 2007 take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

demand for credit in anticipation of waiver under Debt Waiver Scheme and general moderation of overall credit growth would have contributed to the shortfall. The SACP mechanism was also made applicable to private sector banks from 2005-06. The disbursements to agriculture by private sector banks under SACP during 2006-07 aggregated Rs.44,093 crore, surpassing the target of Rs.40,656 crore by 8.3 per cent. As against the target of Rs.41,427 crore for 2007-08, disbursements to agriculture by private sector banks aggregated Rs.47,862 crore, exceeding the target by 15.5 per cent.

3.25 Public sector banks were advised to earmark 5 per cent of their ANBC to women. At end-March 2008, aggregate credit to women by public sector banks constituted 6.12 per cent of their ANBC with 24 banks reaching the target. Eight PSBs opened 19 specialised women branches.

Table III.8: 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	12	-	12
2. Only Overall	12	15	27
3. Overall and Agriculture	3	6	9
4. Overall and Weaker Sections	3	-	3
5. Agriculture and Weaker Sections	-	-	-
6. Only Agriculture	-	-	-
7. Only Weaker Sections	-	-	-
8. None	-	2	2

- : Nil.

Micro finance

3.26 The SHG-Bank Linkage Programme has emerged as a major micro finance programme in the country. It is being implemented by commercial banks, RRBs and co-operative banks. At end-March 2008, 2.9 million SHGs were having outstanding bank loans of Rs.12,366 crore. During the year 2007-08, 552,992 new SHGs were provided with bank loans and 186,883 existing SHGs with repeat loans. Total bank loans disbursed during the year were Rs.4,228 crore, of which repeat bank loans existing SHGs were Rs.1,686 crore (see Chapter VI for details).

Credit to Industry

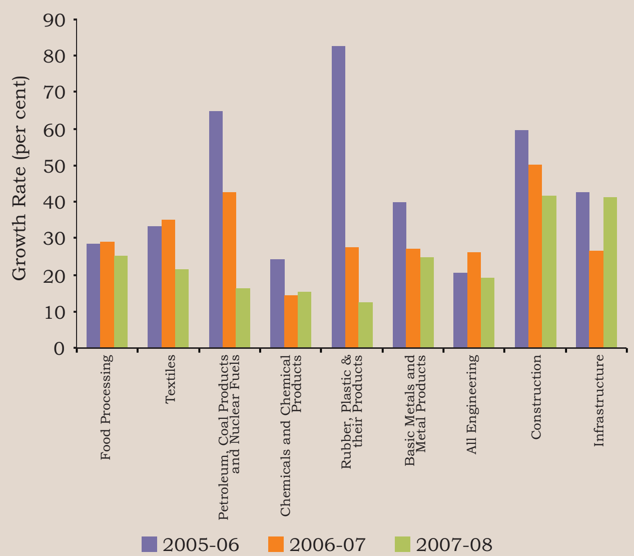
3.27 Growth in credit to industry (small, medium and large) decelerated marginally to 25.0 per cent in 2007-08 from 26.7 per cent in the previous year. As credit growth to industry grew faster than the overall credit growth, the share of outstanding credit to industry in non-food gross bank credit increased to 39.6 per cent at end-March 2008 from 38.7 per cent at end-March 2007.

Infrastructure, which has the largest share in credit outstanding, also accounted for the largest share of incremental bank credit to industry in absolute terms, followed by basic metals and metal products, and textiles. In terms of growth rates, credit to cement and cement products showed the highest growth rate (51.3 per cent), followed by construction (41.7 per cent) and infrastructure (41.5 per cent) (Chart III.5 and Appendix Table III.9). Compared to the previous year, credit growth to most of the sectors decelerated during 2007-08, barring a few sectors including infrastructure, leather and leather products, chemical and chemical products, and cement and cement products.

Credit to Micro and Small Enterprises (MSE) Sector

3.28 The total credit provided by public sector banks to the micro and small enterprises (MSE) as on last reporting Friday of March 2008 was Rs.1,48,651 crore, representing 10.9 per cent of ANBC/CEOBSE and 24.4 per cent of their total priority sector

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



advances. Within the MSE sector, advances to manufacturing enterprises and service enterprises were at Rs.1,14,146 crore and Rs.32,094 crore constituting 76.8 per cent and 21.6 per cent, respectively, of the total advances to the small enterprises sector. The total credit extended by private sector banks to the MSE sector as on last reporting Friday of March 2008 was Rs.46,069 crore, constituting 13.4 per cent of ANBC/CEOBSE and 28.2 per cent of their total priority sector advances. Out of these advances, advances to manufacturing enterprises and service enterprises amounted to Rs.16,526 crore (35.9 per cent of MSE advances) and Rs.29,178 crore (63.3 per cent of SME advances). The total credit provided by foreign banks to the MSE sector as on last reporting Friday of March 2008 was Rs. 15,489 crore, representing 12.2 per cent of ANBC/CEOBSE and 30.8 per cent of their total priority sector advances.

3.29 At end-March 2008, credit extended by scheduled commercial banks to 85,187 sick MSE units was at Rs.13,849 crore. Of these, 4,210 units with their outstanding bank credit at Rs.247 crore were found to be viable, of which, banks placed 1,262 units, involving an outstanding credit of Rs.127 crore under nursing programmes. 75,829 units with outstanding credit of Rs.13,462 crore were found non-viable. Credit extended by scheduled commercial banks to 14,754 sick medium enterprises (MEs) during the year was Rs.1,740 crore. Out of these, 495 MEs with outstanding bank credit at Rs.328 crore were found to be viable, of which, banks placed 50 MEs, involving an outstanding credit of Rs.185 crore under nursing programmes. 14,226 ME units with outstanding credit of Rs.1,302 crore were found non-viable .

Credit to Khadi and Village Industries Commission

3.30 A consortium of select public sector banks was formed with the State Bank of India as the leader of the consortium to provide credit to the *Khadi* and Village Industries Commission (KVIC). These loans are provided at 1.5 per cent below the average prime lending rates of five major banks in the consortium. At end-September 2008, an amount of Rs.306 crore was outstanding out of Rs.738 crore disbursed by the consortium of banks under the scheme.

Retail Credit

3.31 Growth in retail credit by banks decelerated further during 2007-08 to 17.1 per cent from 29.9 per cent in 2006-07 and 40.9 per cent in 2005-06. It also remained lower than the growth in overall credit by the banking sector (23.2 per cent). As a result, the share of retail credit in total loans and advances declined to 24.5 per cent at end-March 2008 from 25.8 per cent at end-March 2007. Deceleration in the retail portfolio of banks was on account of decline in credit for consumer durables and deceleration in the growth of auto loans, housing loans and other personal loans (Table III.9). The outstanding amount under credit card receivables, however, increased by almost 50 per cent during 2007-08 reflecting the increase in the usage of credit cards for various payments.

Lending to Sensitive Sectors

3.32 SCBs lending to sensitive sectors (capital market, real estate and commodities) showed a significant deceleration during 2007-08, though it was marginally higher than the overall credit growth. Lending to real estate, which constituted 87.4 per cent of total lending to sensitive sectors, showed a significantly lower growth during 2007-08, partly on account of tightening of prudential norms by the Reserve Bank. The lending to capital market increased significantly during 2007-08. While exposure to commodities showed a significant growth, it remained relatively low (Table III.10). The Reserve Bank in its Annual Policy Statement for 2008-09 had advised banks to exercise caution while extending advances to traders in agricultural commodities to ensure that bank finance was not used for hoarding (Box III.1) Overall exposure of SCBs to sensitive sectors as percentage of aggregate bank loans remained at the previous year's level (20.6 per cent) (Appendix Table III.11).

Table III.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation	
	2007	2008	2006-07	2007-08
1	2	3	4	5
1. Housing Loans	2,24,481	2,52,932	25.4	12.7
2. Consumer Durables	7,296	4,802	63.3	-34.2
3. Credit Card Receivables	18,317	27,437	47.3	49.8
4. Auto Loans	82,562	87,998	34.5	6.6
5. Other Personal Loans	1,55,204	1,97,879	31.1	27.5
Total Retail Loans (1 to 5)	**4,87,860**	**5,71,048**	**29.9**	**17.1**
	(25.8)	**(24.5)**		
Total Loans and Advances of SCBs	**18,93,775**	**23,32,490**	**28.5**	**23.2**

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

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

(Amount in Rs. crore)

Item	2007		2008	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
1. Capital Market	35,106 (57.4)	8.6	62,998 (79.5)	12.3
2. Real Estate Market	3,72,874 (42.3)	91.2	4,46,758 (19.8)	87.4
3. Commodities	862 (-39.0)	0.2	1,237 (43.5)	0.2
Total (1+2+3)	**4,08,842** **(43.1)**	**100.0**	**5,10,994** **(25.0)**	**100.0**

-: negligible.
Note: Figures in parentheses are percentage variations over the previous year.

3.33 Bank group-wise pattern of lending to sensitive sectors indicates that new private sector banks had the largest exposure to sensitive sectors in 2007-08 in terms of their share in total loans and advances, mainly on account of higher lending to the real estate sector, followed by foreign banks, old private sector banks and public sector banks (Table III.11 and Appendix Table III.11).

Investments

3.34 Investments by banks recorded a high growth of 23.7 per cent in 2007-08 as compared with 9.7 per cent in 2006-07 and a decline of 0.4 per cent in 2005-06 (Table III.12). This broadly reflected the pattern of banks' investment in SLR securities, which constitute the bulk of their investments. In relation to total assets of SCBs, the share of Government securities declined marginally to 21.4 per cent (27.8 per cent of NDTL) during 2007-08 from 21.8 per cent (27.9 per cent of NDTL) in the previous year whereas that of non-approved securities increased from 5.3 per cent as at end-March 2007 to 5.5 per cent as at end-March 2008 (Table III.1).

3.35 Although the banking sector held excess SLR investment at Rs.98,033 crore (above the then prescribed minimum requirement of 25.0 per cent) at end-March 2008, several banks were operating their statutory liquidity ratio portfolio very close to the prescribed minimum level. The prescribed SLR which was 25.0 per cent of NDTL since October 1997 was revised to 24.0 per cent of NDTL with effect from November 8, 2008. Excess SLR investments of SCBs increased to Rs.1,30,736 crore on November 21, 2008 (including the collateral securities received by banks from the RBI under LAF reverse repo). SLR investments in relation to NDTL declined to 26.9 per cent (Chart III.6).

Non-SLR investments

3.36 Banks' investments in non-SLR securities (*i.e.*, bonds/debentures/shares and commercial papers) increased by 14.3 per cent (Rs.11,961 crore) during 2007-08 as compared with a decline of 5.1 per cent (Rs.4,081 crore) in the previous year. While investments in bonds/debentures declined, those in shares (mutual funds in particular) and commercial paper increased (Table III.13). The total flow of funds from SCBs to the

Box III.1: Exposure of Banks to the Commodity Sector

The turnover in the commodity futures market has shown a significant growth in recent years. Along with the trading volumes, banking sector exposure to commodity market had also shown a noticeable growth. In view of the public policy concerns in regard to trading in food items, the Reserve Bank in the Annual Policy Statement for the year 2008-09 advised the banks to review their advances to traders in agricultural commodities including rice, wheat, oilseeds and pulses as also advances against warehouse receipts. Banks were further advised to exercise caution while extending such advances to ensure that bank finance was not used for hoarding. The first such review was required to be completed by May 15, 2008 and forwarded to the Reserve Bank for carrying out supervisory review.

Accordingly, banks had carried out review of their exposure to agricultural commodities as on March 31, 2008. The data submitted by banks revealed that the advances to traders in agricultural commodities including advances against warehouse receipts as on March 31, 2008 constituted less than one per cent of their gross advances. Banks have confirmed that they are exercising due caution while extending advances to agricultural commodities so as to ensure that bank finance is not used for hoarding. Another review carried out with reference to the position as on June 30, 2008 revealed no significant change in such exposure of banks.

Table III.11: Lending to the Sensitive Sectors - Bank Group-wise*
(As at end-March)

(Per cent)

Sector/Bank Group	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Sector Banks	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
Capital Market#	1.4	1.8	2.8	5.6	1.8	2.0	3.0	3.3
Real Estate Market@	15.3	15.3	32.3	28.5	16.8	16.5	26.5	23.1
Commodities	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.1
Total Advances to Sensitive Sectors	**16.7**	**17.2**	**35.1**	**34.1**	**19.1**	**18.9**	**29.5**	**26.4**

* : 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.

commercial sector comprising credit and non-SLR investments increased by 22.6 per cent (Rs.4,44,807 crore) in 2007-08 as compared with 27.3 per cent (Rs.4,22,363 crore) in the previous year.

3.37 In terms of instruments, bank's investments in bonds and debentures declined in recent years, while it increased in shares, commercial papers and units of mutual funds (Table III.14).

International Assets of Banks

3.38 Prevailing macroeconomic and financial market conditions globally have influenced international assets position of banks in India. Overall, there was a deceleration in international assets due to decline in 'nostro balances', holding of debt securities and other assets. Banks reduced their 'nostro balances' in 2007-08 partly on account of increase in domestic deposit rates. Banks' foreign currency loans to residents recorded a substantially higher growth during 2007-08. As a result, the share of foreign currency loans to residents in total international assets of SCBs increased to 48.7 per cent as at end-March 2008 from 37.0 per cent at end-March 2007. The share of outstanding export bills held by banks (drawn by residents on non-residents) also increased significantly between end-March 2007 and end-March 2008 (Table III.15).

Table III.12: Growth in Investments and Deposits of SCBs

(Per cent)

Year	SLR Investments as per cent of NDTL (end-March)	SLR Investments	Total Investments	Deposits	Loans
1	2	3	4	5	6
2002-03	38.8	24.9	17.9	12.7	14.5
2003-04	41.3	23.8	15.8	16.2	16.8
2004-05	38.2	9.1	8.3	16.6	33.3
2005-06	31.3	-2.9	-0.4	17.8	31.8
2006-07	27.9	10.3	9.7	24.6	30.6
2007-08	27.8	22.8	23.7	23.1	25.0

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

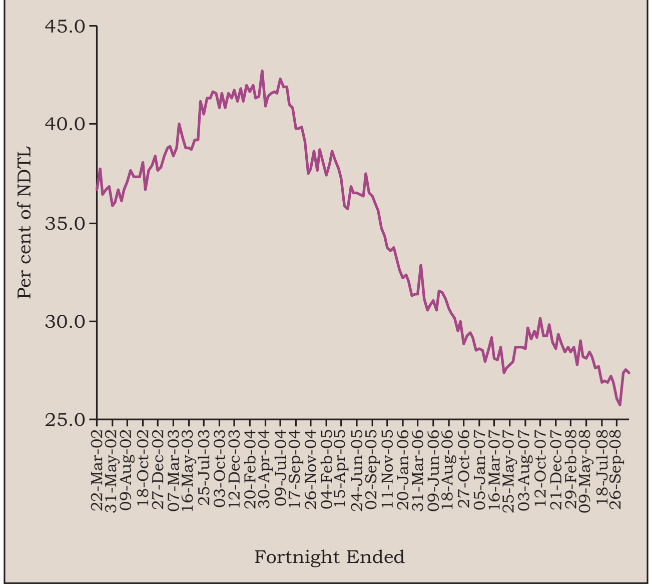


Table III.13: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Instrument	As on March 30, 2007	Per cent to Total	As on March 28,2008	Per cent to Total	As on Oct. 12, 2007	Per cent to Total	As on Oct. 10, 2008	Per cent to Total
1	2	3	4	5	6	7	8	9
1. Commercial Paper	8,978	9.0	13,045	11.4	6,582	4.7	10,640	10.5
2. Investment in shares	18,352	19.3	26,410	23.1	20,350	14.3	27,691	27.7
of which:								
a) Public sector undertakings	2,127	2.2	3,023	2.6	1,485	1.4	3,405	3.4
b) Private corporate sector	16,225	17.0	23,387	20.5	18,364	13.0	24,364	24.3
3. Investment in bonds/debentures	56,215	59.0	56,051	49.1	49,353	35.7	52,741	52.6
of which:								
a) Public sector undertakings	28,595	30.0	27,382	24.0	24,867	17.5	23,661	21.8
b) Private corporate sector	27,620	29.0	28,669	25.1	24,666	17.5	29,080	29.0
4. Units of MFs	11,659	12.3	18,692	16.4	64,628	45.8	9,124	9.1
Total Non-SLR Investment (1+2+3+4)	**95,204**	**100.0**	**1,14,198**	**100.0**	**1,25,399**	**100.0**	**1,00,244**	**100.0**

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

3.39 The consolidated international claims of banks, based on immediate country risk, showed a lower growth of 13.5 per cent during 2007-08 as compared with 61.0 per cent during 2006-07. The share of short-term claims (with residual maturity less than one year) in the consolidated international claims declined during 2007-08, with corresponding increase in long-term claims.

3.40 Sector-wise disaggregation of consolidated international claims of banks indicated a decline in the share of banks (36.8 per cent at end-March 2008 from 46.8 per cent at end-March 2007). The share of 'non-bank private' showed a corresponding increase of 10 percentage points during 2007-08 (Table III.16).

3.41 The country-wise consolidated international claims of banks, based on immediate country risk, showed some variations during 2007-08. Continuing the recent trend, the shares of claims on the US and the UK in total consolidated international claims declined, while those on Singapore and Germany increased. The claims on the US, the UK, Singapore, Germany and Hong Kong collectively accounted for over 50 per cent of total international claims (Table III.17).

Developments during 2008-09

3.42 During 2008-09 so far (up to October 24, 2008), aggregate deposits of SCBs increased by 21.0 per cent, year-on-year, as compared with 25.9 per cent a year ago. While

Table III.14: Composition of Non-SLR Investments

(Per cent)

Instrument	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	up to Oct 26, 2007	up to Oct 24, 2008
1	2	3	4	5	6	7	8	9	10
Commercial Paper	7.2	3.1	2.7	2.7	5.4	9.4	11.4	4.6	14.3
Bonds/debentures	81.7	84.2	81.5	79.2	68.9	59.0	49.1	34.2	47.5
Shares	6.6	7.9	7.3	9.4	14.2	19.3	23.1	13.9	25.7
Units of Mutual Funds	4.5	4.9	8.5	8.7	11.5	12.2	16.4	47.3	12.5

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

Table III.15: International Assets of Banks - By Type

(Amount in Rs. crore)

Asset	2006	2007	2008
1	2	3	4
International Assets (1+2+3)	**1,58,201**	**2,02,973**	**2,22,711**
1. Loans and Deposits	1,46,014	1,90,888	2,12,126
	(92.3)	(94.0)	(95.2)
of which :			
a) Loans to Non-Residents*	6,270	7,122	8,565
	(4.0)	(3.5)	(3.8)
b) Foreign Currency Loans to Residents **	63,231	75,000	108,440
	(40.0)	(37.0)	(48.7)
c) Outstanding Export Bills drawn on Non-Residents by Residents	31,556	40,846	49,011
	(19.9)	(20.1)	(22.0)
d) Nostro Balances@	44,515	67,487	45,752
	(28.1)	(33.2)	(20.5)
2. Holdings of Debt Securities	2,079	1,761	334
	(1.3)	(0.9)	(0.1)
3. Other Assets @@	10,109	10,324	10,250
	(6.4)	(5.1)	(4.6)

* : 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 parentheses are percentages to total.
Source : Locational Banking Statistics.

demand deposits increased by 15.1 per cent (14.8 per cent a year ago), time deposits increased by 22.0 per cent (28.0 per cent a year ago). Non-food credit growth accelerated

Table III.16: Classification of Consolidated International Claims of Banks - By Maturity and Sector
(As at end-March)

(Amount in Rs. crore)

Residual Maturity/Sector	2006	2007	2008
1	2	3	4
Total Consolidated International Claims	**92,711**	**1,49,258**	**1,69,481**
a) Maturity-wise			
1) Short-term (residual maturity less than one year)	73,176	1,09,481	1,17,279
	(78.9)	(73.4)	(69.2)
2) Long-term (residual maturity of one year and above)	18,627	39,775	50,232
	(20.1)	(26.6)	(29.6)
3) Unallocated	907	2	1,970
	(1.0)	(0.0)	(1.2)
b) Sector-wise			
1) Bank	43,050	69,781	62,394
	(46.4)	(46.8)	(36.8)
2) Non-Bank Public	1,248	871	748
	(1.3)	(0.6)	(0.4)
3) Non-Bank Private	48,413	78,607	106,339
	(52.2)	(52.7)	(62.7)

Notes : 1. Figures in parentheses 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 of companies/ institutions other than banks in which shareholding of state/central governments was at least 51 per cent, including state/central governments and their departments. From March 2005 quarter, '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.

Table III.17: Consolidated International Claims of Banks on Countries other than India
(As at end-March)

(Amount in Rs. crore)

Item	2006	2007	2008
1	2	3	4
Total Consolidated International Claims	**92,711**	**1,49,258**	**1,69,481**
of which:			
a) United States of America	23,176	32,875	35,374
	(25.0)	(22.0)	(20.9)
b) United Kingdom	14,212	22,598	21,899
	(15.3)	(15.1)	(12.9)
c) Singapore	4,182	8,921	11,918
	(4.5)	(6.0)	(7.0)
d) Germany	4,678	7,234	10,607
	(5.0)	(4.8)	(6.3)
e) Hong Kong	6,652	8,977	9,792
	(7.2)	(6.0)	(5.8)
f) United Arab Emirates	4,059	6,686	7,990
	(4.4)	(4.5)	(4.7)

Note : Figures in the parentheses are percentage shares in total international claims.
Source : Consolidated Banking Statistics - Immediate Country Risk Basis.

to 28.9 per cent, year-on-year, from 23.1 per cent a year ago. In view of the increased demand for credit, banks reduced their incremental investments in Government and other approved securities. As on October 24, 2008, the investments in Government and other approved securities showed a lower growth of 11.1 per cent, year-on-year, as compared with 25.0 per cent a year ago.

Quarterly Trends–Commercial Banking Survey[3]

3.43 A quarterly analysis of developments in scheduled commercial banks revealed several features during 2007-08 (Table III.18). Mobilisation of deposits by banks across all the quarters was higher than that during 2006-07. On the other hand, credit expansion, which was lower in the first two quarters, picked up during the third and fourth quarters of 2007-08. Banks' investments in other approved securities declined in all the quarters of the year.

3.44 During Q1 of 2007-08, notwithstanding a decline in demand deposits, aggregate deposits of SCBs increased. The decline in demand deposits mainly reflected the unwinding of large accretion during the previous quarter. Time deposits, however, increased sharply reflecting attractive interest rates on bank deposits. However, during the quarter, bank credit declined, while credit to government increased sharply. Banks also liquidated foreign currency assets.

3.45 In Q2 of 2007-08, bank credit picked up, but net accretion to deposits remained higher than the expansion of credit to the commercial sector, thus, accommodating an increase in credit to government as well. Higher growth in deposits was largely led by increase in time deposits. Banks increased their overseas borrowings and also reduced their investments in foreign currency assets.

3.46 In Q3 of 2007-08, accretion to aggregate deposits and credit offtake declined sharply. The outstanding demand deposits declined and time deposits increased at a much lower rate. Credit to the commercial sector was higher than the fresh accretions in aggregate deposits. To meet the increased credit offtake, banks slowed down their investments in government securities. Furthermore, the SCBs increased their overseas foreign currency borrowings and liquidated their foreign currency assets.

3.47 During Q4 of 2007-08, both aggregate deposits and credit to the commercial sector increased sharply. Accretion to deposits was higher than the expansion in credit to the commercial sector. Higher growth in deposits was led by time deposits, while demand deposits after remaining subdued for most part of 2007-08 recorded robust expansion

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

Table III.18: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 28, 2008	Variation									
		2006-07				2007-08				2008-09	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Components											
1. Aggregate Deposits of Residents (a+b)	31,40,004	30,677	1,66,396	31,469	2,66,158	58,993	2,08,191	67,544	2,60,803	53,155	1,86,384
a. Demand Deposits	5,24,310	-41,272	43,300	-8,905	71,967	-41,898	57,771	-7,894	86,600	-77,630	49,993
b. Time Deposits of Residents	26,15,695	71,949	1,23,096	40,374	1,94,190	1,00,890	1,50,420	75,439	1,74,204	1,30,785	1,36,391
2. Call/Term Funding from Financial Institutions	1,06,504	3,118	-1,576	-4,468	5,618	-2,984	5,756	7,441	10,455	-1,116	4,506
Sources											
1. Credit to the Government	9,58,661	23,238	10,723	602	40,753	50,067	68,965	27,436	36,136	33,245	-23,374
2. Credit to the Commercial Sector (a to d)	25,49,097	22,606	1,41,465	64,777	1,97,555	-13,527	1,34,775	94,969	2,42,980	40,471	1,27,214
a. Bank Credit	23,61,914	14,050	1,40,364	74,213	1,95,485	-36,348	1,42,638	87,012	2,37,422	31,325	1,49,229
i. Food Credit	44,399	607	-7,840	8,171	4,891	-2,564	-6,948	3,259	4,131	5,478	1,11,865
ii. Non-food Credit	23,17,515	13,443	1,48,204	66,042	1,90,593	-33,784	1,49,586	83,752	2,33,291	25,557	37,364
b. Net Credit to Primary Dealers	3,521	-1,963	3,988	-2,783	-812	-282	780	1,370	-1,146	-797	-1,500
c. Investments in Other Approved Securities	13,053	526	-1,132	-352	-297	-384	-1,010	-654	-357	-194	5,848
d. Other Investments (in non-SLR Securities)	1,70,609	9,993	-1,756	-6,301	3,178	23,487	-7,634	7,241	7,061	10.136	-26,363
3. Net Foreign Currency Assets of Commercial Banks (a-b-c)	-70,196	-21,137	10,844	13,322	1,974	2,817	-16,584	974	-16,793	-19,924	-4,481
a. Foreign Currency Assets	31,189	-13,919	8,830	11,781	8,567	-8,312	-9,934	-781	-8,537	-8,383	3,044
b. Non-resident Foreign Currency Repatriable Fixed Deposits	56,935	3,917	1,671	1,233	1,364	-4,202	-1,181	-3,490	-1,653	2,048	3,611
c. Overseas Foreign Currency Borrowings	44,451	3,301	-3,685	-2,774	5,229	-6,928	7,830	1,734	9,909	9,494	3,914
4. Net Bank Reserves	2,71,166	-6,090	20,381	-15,423	52,629	6,468	76,009	-22,695	21,268	28,526	35,163
5. Capital Account	2,72,622	12,025	6,168	2,250	4,630	26,813	24,184	6,887	11,937	47,618	1,479

Note : Data relate to last reporting Friday of each quarter.

particularly in January and February 2008, when there was also increased volatility in the equity market. Commercial banks increased their overseas foreign currency borrowings, while reducing their investment in foreign currency assets. The movements in bank reserves during the fourth quarter as also for the year as a whole, reflected, apart from movements in deposits, the increase in the cash reserve ratio (CRR).

3.48 During Q1 of 2008-09, accretion to aggregate deposits was lower than in the previous year while demand deposits registered a negative growth. Bank credit, however, remained strong compared with its first quarter performance in last year. Credit to government also remained strong. In order to finance the increased activity, banks resorted to drawdown of foreign currency assets and substantial recourse to overseas borrowings.

3.49 In the Q2 of 2008-09, accretion to aggregate deposits increased sharply led by both demand and time deposits. Increase in aggregate deposits, however, remained lower than the Q2 of last year. Bank credit also increased sharply. Banks reduced their investment in government securities and also in non-SLR securities. During the quarter, commercial banks reduced their investment in foreign currency assets and also overseas foreign currency borrowings.

Credit-Deposit Ratio

3.50 The credit-deposit ratio (CDR) and the investment-deposit ratio (IDR) of SCBs reflected the trend in the credit and deposit growth rates. On account of the strong credit growth during the previous three years (2004-05 to 2006-07), investment by banks showed a significantly lower average growth of about 6 per cent. In fact, banks liquidated some investments in 2005-06 leading to a sharp decline in incremental IDR. During 2007-08, however, with the moderation in credit growth and strong growth in deposits, the incremental credit-deposit ratio, as on March 28, 2008, declined to 73.6 per cent as compared with 84.3 per cent as on March 30, 2007. Incremental IDR, on the other hand, increased sharply to 30.8 per cent as on March 28, 2008 from 14.7 per cent as on March 30, 2007. The intra-year movement in the incremental CDR and IDR indicates that the gap between the two ratios, which narrowed during the last quarter of 2007, widened again after February 2008 (Chart III.7).

3.51 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 continued in 2007-08 as the CDR increased further to reach an all-time high level of 74.6 per cent at end-March 2008. The IDR, on the other hand, which had declined to a low of 30.3 per cent as at end-March 2007, increased to 35.4 per cent at end-March 2008 (Chart III.8).

3.52 Among bank-groups, the CDR (in terms of outstanding amount) of foreign banks was the highest at end-March 2008, followed by new private sector banks, public sector banks and old private sector banks (Chart III.9).

3.53 At individual bank level, the CDR at end-March 2008 showed significant variations, particularly in the case of foreign banks. The CDR of public sector banks ranged between 59.3 per cent (United Bank of India) and 71.6 per cent (State Bank of Travancore), barring IDBI Bank Ltd. whose CDR was 112.6 per cent. In the case of old private sector banks, the CDR ranged between 53.2 per cent (Ratnakar Bank) and 75.1 per cent

Chart III.7: Credit and Investment to Deposits Ratios of Scheduled Commercial Banks

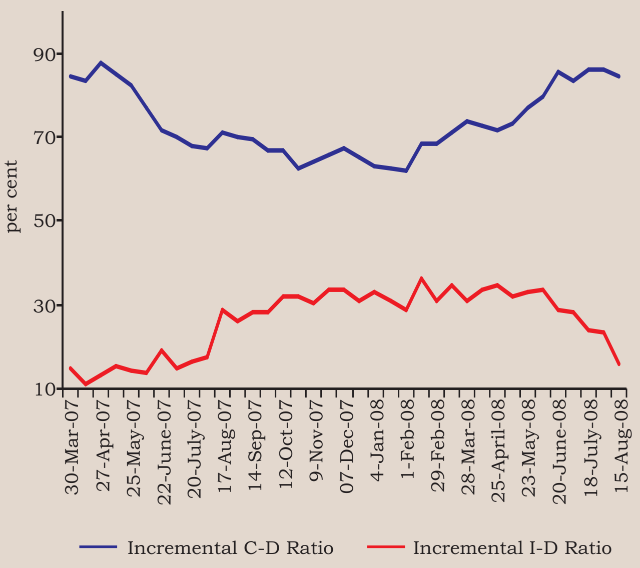


Chart III.8: C-D and I-D Ratios of Scheduled Commercial Banks
(As at end-March)

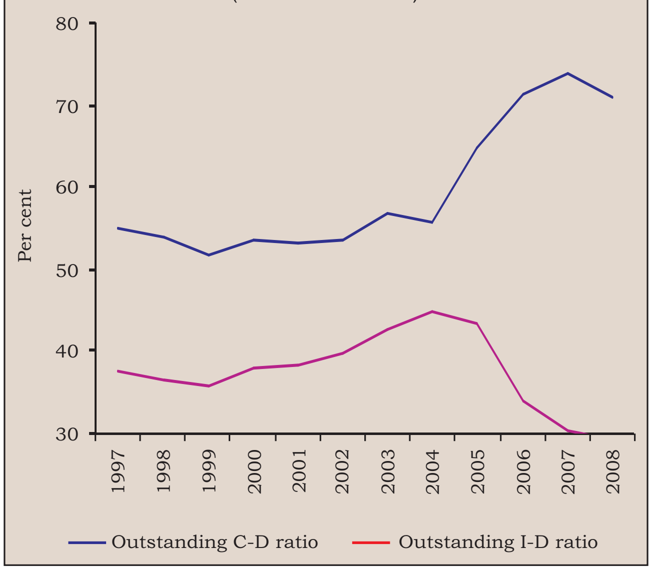
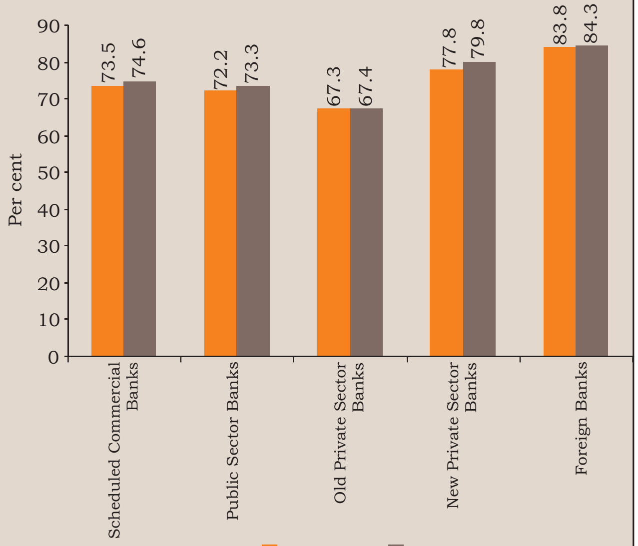


Chart III.9 : Credit-Deposit Ratios-Bank Group-wise
(As at end-March)



(Karur Vysya Bank). The CDR of new private sector banks ranged between 62.9 per cent (HDFC Bank) and 94.7 per cent (Kotak Mahindra Bank). In the case of foreign banks, the CDR ranged between a low of 0.8 per cent (Oman International Bank) to a high of 597.8 per cent (Antwerp Diamond Bank). Of the 28 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

3.54 The maturity structure of commercial banks' assets and liabilities at end-March 2008 remained broadly the same as in the previous year, barring minor variations (Table III.19). The share of deposits of up to one year maturity of all bank groups (barring new private sector banks) increased moderately, while that of other maturity buckets (1-3 years and 3-5 years) declined (except foreign banks whose share of deposits maturing between 3-5 years remained unchanged). The share of borrowings up to one year maturity increased across all bank groups (barring

Table III.19: Bank Group-wise Maturity Profile of Select Liabilities /Assets
(As at end -March)

(Per cent to Total)

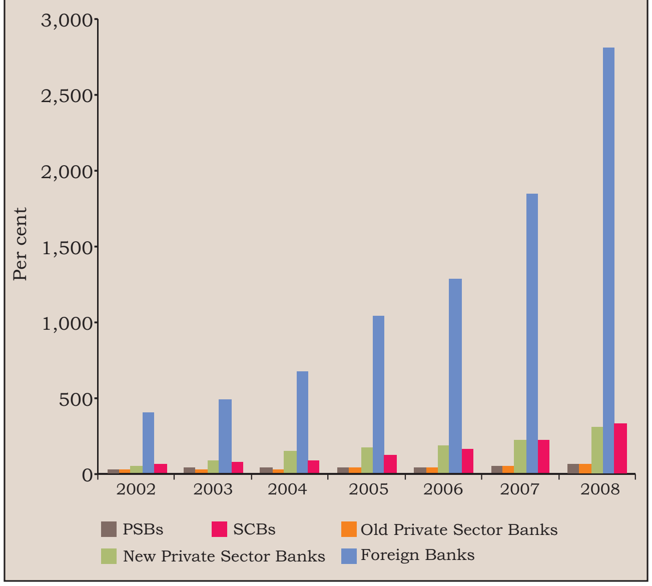
Assets/Liabilities	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	42.4	44.1	47.0	50.9	60.4	57.1	64.0	64.7
b) Over 1 year and up to 3 years	29.0	26.5	39.0	35.5	35.5	34.3	35.6	33.3
c) Over 3 years and up to 5 years	11.2	10.3	7.8	7.7	2.6	2.5	0.4	0.4
d) Over 5 years	17.5	19.1	6.1	6.0	1.5	6.0	0.0	1.6
II. Borrowings								
a) Up to 1 year	52.7	69.6	76.3	79.1	50.4	48.9	88.7	90.9
b) Over 1 year and up to 3 years	19.3	16.5	8.3	5.4	26.7	25.6	11.2	8.4
c) Over 3 years and up to 5 years	13.5	6.0	1.7	3.0	19.9	22.0	0.1	0.3
d) Over 5 years	14.5	7.9	13.7	12.5	3.0	3.5	0.0	0.3
III. Loans and Advances								
a) Up to 1 year	36.8	38.0	40.0	40.4	30.4	33.6	52.2	49.6
b) Over 1 year and up to 3 years	33.1	33.3	37.2	36.1	39.9	34.3	31.2	34.4
c) Over 3 years and up to 5 years	12.6	11.2	11.0	11.5	12.0	12.2	6.1	6.6
d) Over 5 years	17.5	17.6	11.9	12.0	17.6	20.0	10.5	9.4
IV. Investment								
a) Up to 1 year	13.6	19.0	20.4	21.3	51.1	55.8	52.2	62.2
b) Over 1 year and up to 3 years	14.6	19.0	11.5	16.5	25.0	21.1	29.7	25.9
c) Over 3 years and up to 5 years	15.1	13.8	9.9	12.2	7.6	5.4	11.2	4.1
d) Over 5 years	56.6	48.2	58.2	50.0	16.3	17.6	6.9	7.8

new private sector banks), with the increase being more pronounced in respect of public sector banks. The maturity pattern of loans and advances and investments of all bank groups remained broadly the same during 2007-08 as in the previous year. The share of loans and advances with up to one year maturity increased marginally in the case of all bank groups, barring foreign banks. Similar trend was observed in investments across all bank groups. On the whole, assets depicted a synchronous pattern with the liabilities. At end-March 2008, in general, public sector banks and old private sector banks had higher proportion of both liabilities and assets under longer maturity bucket. Furthermore, within the asset portfolio, while the maturity profile of loans and advances was nearly similar for all bank groups, barring foreign banks, investment pattern of new private sector banks and foreign banks was more tilted towards shorter term maturity profile.

3. Off-Balance Sheet Operations

3.55 In line with the trend observed in recent years, SCBs continued to expand their off-balance sheet (OBS) exposures. During 2007-08, off-balance sheet exposures increased sharply by 88.4 per cent on the top of an increase of 80.2 per cent during 2006-07. As a result, the total off-balance sheet exposure of SCBs at end-March 2008 was more than three times the size of their consolidated balance sheet as compared with more than two times at end-March 2007 (Chart III.10). Leveraged positions in derivatives as a means of diversifying income, improvements in technology (trading and information services) and increasing use of derivatives as tools for risk mitigation appear to have contributed to the growth in OBS exposures.

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



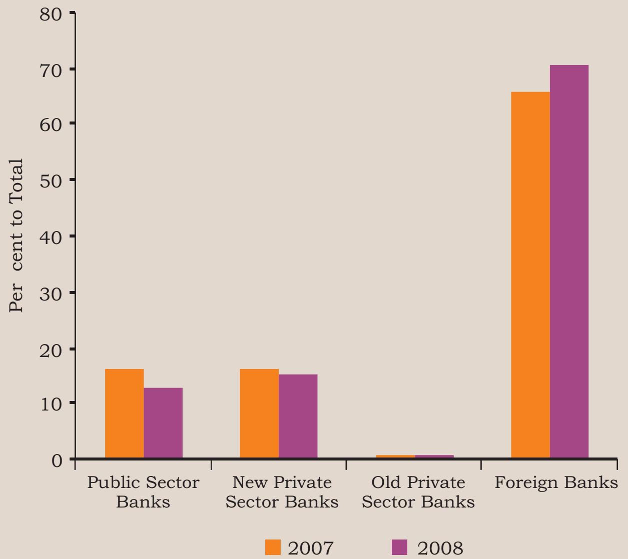
3.56 Among the bank groups, the off-balance sheet exposure of foreign banks was at 2,830.5 per cent of their total assets, followed by new private sector banks (301.8 per cent), public sector banks (61.5 per cent) and old private sector banks (57.1 per cent) (Appendix Table III.14).

3.57 Of the total off-balance sheet exposures of SCBs, foreign banks constituted the largest share (70.8 per cent), followed by new private sector banks (15.6 per cent) and public sector banks (12.9 per cent) (Chart III.11)

4. Financial Performance of Scheduled Commercial Banks

3.58 Financial performance of SCBs during 2007-08 was shaped by the movements in deposits interest rates across all maturities and lending interest rates along with growth in the volume of their activities. Reflecting hardening of interest rates, interest income increased sharply. Although deposit interest rates softened between end-March 2007 and end-March 2008, deposits contracted at

Chart III.11 Bank Group-wise Share in Off-Balance Sheet Exposure



higher interest rates at different points of time led to increase in interest expenditure. On the whole, net interest income declined in relation to assets. Non-interest income, however, grew significantly. Operating expenses of banks were contained. As a result, profits of banks increased considerably during the year. Overall, return on assets improved during the year, though return on equity declined marginally as banks enlarged their capital base partly by raising resources from the capital market and partly by ploughing back of profits.

Interest Rate Scenario

3.59 Lending rates of SCBs across various bank groups showed a generally upward movement during the year (Table III.20). Deposit rates across bank groups showed a general decline during 2007-08, though foreign and private sector banks marginally increased their rates in some of the maturity

Table III.20: Movements in Deposit and Lending Interest Rates

(Per cent)

Interest Rates	March 2006	March 2007	March 2008	June 2008	October 2008
1	2	3	4	5	6
Deposit Rates					
Public Sector Banks					
a) Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.50	2.75-9.00	2.75-10.25
b) 1 year up to 3 years	5.75-6.75	7.25-9.50	8.25-9.25	8.25-9.50	8.75-10.60
c) Over 3 years	6.00-7.25	7.50-9.50	8.00-9.00	8.00-9.35	8.50-9.75
Private Sector Banks					
a) Up to 1 year	3.50-7.25	3.00-9.00	2.50-9.25	3.00-8.75	3.00-10.50
b) 1 year up to 3 years	5.50-7.75	6.75-9.75	7.25-9.25	8.00-9.50	9.00-11.00
c) Over 3 years	6.00-7.75	7.75-9.60	7.25-9.75	8.00-10.00	8.25-11.00
Foreign Banks					
a) Up to 1 year	3.00-5.75	3.00-9.50	2.25-9.25	3.00-9.25	3.50-12.15
b) 1 year up to 3 years	4.00-6.50	3.50-9.50	3.50-9.75	3.50-9.75	3.50-10.50
c) Over 3 years	5.50-6.50	4.05-9.50	3.60-9.50	3.60-9.50	3.60-11.00
BPLR					
Public Sector Banks	10.25-11.25	12.25-12.75	12.25-13.50	12.50-14.00	13.75-14.70
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-16.50	13.00-17.00	13.75-17.75
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-17.00
Actual Lending Rates*					
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-18.00	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-24.00	4.00-25.00	-
Foreign Banks	4.75-26.00	5.00-26.50	5.00-28.00	5.00-25.50	-

- : Not Available

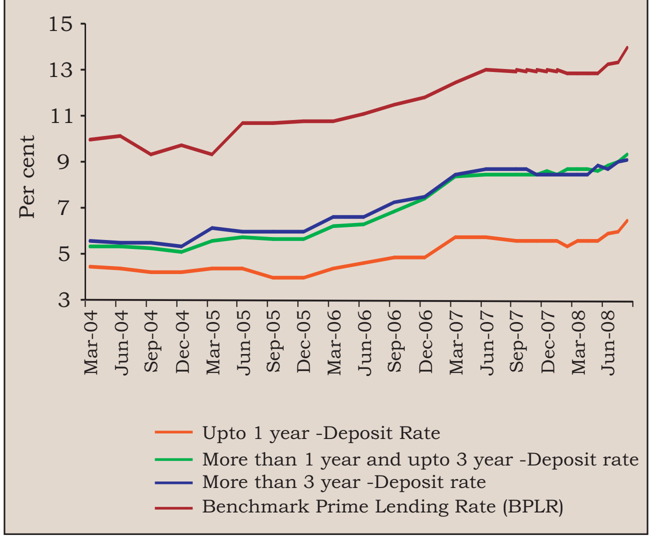
* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.

buckets. Public sector banks reduced the maximum rate on term deposits of all maturities (25 to 50 basis points), while they increased the minimum rates for deposits of 1 to 3 years (100 basis points). Private sector banks increased the maximum rates for deposits up to one year (by 25 basis points) and over three years (by 15 basis points), while they reduced their interest rate on for deposits of one to three maturity (by 50 basis points). The minimum rates for deposits up to one year and over three years were reduced (by 50 basis points each) by private sector banks, while they were increased for deposits of one to three years (by 50 basis points). Foreign banks, on the other hand, reduced their minimum rates for deposits up to 1 year (by 75 basis points) and over 3 years (by 45 basis points). Interest rates offered by public sector banks on deposits of maturity of one year to three years were placed in the range of 8.25-9.25 per cent in March 2008 as compared with the range of 7.25-9.50 per cent a year ago, while those on deposits of maturity of above three years were placed in the range of 8.00-9.00 per cent in March 2008 as compared with the range of 7.50-9.50 per cent a year ago. Similarly, interest rates offered by private sector banks on deposits of maturity of one year to three years were placed in the range of 7.25-9.25 per cent in March 2008 as compared with 6.75-9.75 per cent in March 2007, while those on deposits of maturity above three years were placed in the range of 7.25-9.75 per cent in March 2008 as compared with 7.75-9.60 per cent in March 2007. Interest rates offered by foreign banks on deposits of maturity of one year to three years were placed in the range of 3.50-9.75 per cent in March 2008 as compared with 3.50-9.50 per cent in March 2007.

3.60 During the first half of 2008-09, both the lending and deposits rates, in general, hardened. Interest rates of PSBs on deposits of maturity of one to three years were placed in the range of 8.25-9.50 per cent in June 2008 as compared with 8.25-9.25 per cent in March 2008 and further moved up to the range of 8.75-10.60 per cent in October 2008. The deposit rates of private sector banks on deposits of maturity of one to three years and above three years firmed up further to 9.00-11.00 per cent and 8.25-11.00 per cent, respectively, in October 2008 as compared with 7.25-9.25 per cent and 7.25-9.75 per cent, respectively, in March 2008.

3.61 The range of benchmark prime lending rates (BPLRs) of PSBs and private sector banks hardened somewhat during 2007-08. Overall, there was an increase of around 75 basis points in the BPLR of public sectors during 2007-08 as compared with that in the previous year (Chart III.12). The BPLR of PSBs and private sector banks were placed in the range of 12.25-13.50 per cent and 13.00-16.50 per cent, respectively, in March 2008 as compared with 12.25-12.75 per cent and 12.00-16.50 per cent, respectively, in March 2007.The

Chart III.12: Spread between Deposit and Lending Rates of Public Sector Banks



range of BPLRs of foreign banks, however, remained unchanged at 10.00-15.50 per cent during this period. The range of actual lending rates on demand and term loans (other than export credit) for the SCBs widened to the range of 4.00-28.00 per cent in March 2008 from the range of 3.15-26.50 per cent in March 2007 (Table III.20).

3.62 The share of sub-BPLR lending in total lending of commercial banks, excluding export credit and small loans, declined from 78 per cent at end-March 2007 to about 76 per cent at end-March 2008. 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 13.00-15.00 per cent at end-March 2008, while those of other private sector banks in the range of 15.25-16.50 per cent. As regards foreign banks, BPLRs of twelve banks were in the range of 10.00-13.00 per cent. BPLRs of nine other foreign banks were in the range of 13.25-14.00 per cent and another seven in the range of 14.25-15.50 per cent.

3.63 Yields in the Government securities market during 2007-08 hardened somewhat in the first quarter, partly in response to global trends, CRR hikes, increase in market stabilisation scheme (MSS) ceiling and issuance under the MSS. Yields softened after July 2007 on account of easy liquidity conditions, lower inflation, global trends in yields and expectations of a rate cut by RBI in the beginning of 2008. Yields, however, moved up after March 2008 on account of higher inflation(Table III.21). The money market remained largely orderly during 2007-08, barring occasional spells of volatility on account of large changes in capital flows and cash balances of the Central Government with the Reserve Bank. Call rates, which ruled easy from April 2008, edged up somewhat during May 2008, reflecting a decline in the surplus liquidity in the banking system due to the cumulative impact of a three-stage hike in the cash reserve ratio (CRR). CDs continued to be a preferred alternative for mobilising resources by some banks during 2007-08 and thereafter due to

Table III.21: Structure of Interest Rates*

(Per cent)

Instrument	March 2006	March 2007	March 2008	October 2008
1	2	3	4	5
I. Debt market				
1. Government Securities Market				
5 -Year	7.24	7.97	7.70	7.42
10 -Year	7.53	7.97	7.93	7.45
II. Money Markets				
2. Call Borrowing (Average)	6.57	14.07	7.37	9.90
3. Commercial papers				
WADR 61 - 90 days	8.72	11.65	10.79	16.27
WADR 91-180 days	8.54	11.81	10.01	12.57
Range	6.69-9.25	10.25-13.00	9.50-14.25	11.55-16.90
4. Certificates of deposit				
Range	6.50-8.94	10.23-11.90	9.00-10.75	8.92-21.00
WADR Overall	8.62	10.75	10.00	12.57
3 Months	8.72	11.35	10.73	10.45
12 Months	8.65	10.59	9.97	10.26
5. Treasury Bills				
91 days	6.11	7.98	7.36	9.06
364 days	6.42	7.98	7.35	9.18

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

the flexibility of their timing and returns (Details given in Chapter 7).

Cost of Deposits and Return on Advances

3.64 Though the deposit rates showed a marginal decline between end-March 2007 and end-March 2008, the cost of deposits of SCBs increased by one percentage point as compared with that during the previous year. This essentially reflected the average cost of contracting deposits of different types and different maturities at different points in time. Thus, the rise in cost of deposits during 2007-08 partly reflected the increase in deposit rate during the previous year. Though the cost of deposits increased across all bank groups, the increase was more pronounced in the case of new private sector banks (1.2 percentage points). Owing to higher lending rates, return of advances of SCBs showed a significant improvement of one percentage point during the year with the improvement being observed across all bank groups. The increase was significantly higher in the case of new private sector banks (1.7 percentage points). Return on investments by SCBs, however, declined marginally during 2007-08 from the previous year's level mainly reflecting the prevailing financial markets conditions. The decline in return on investments was observed across all bank groups, barring new private sector banks which showed an increase of 0.8 percentage points. The improvement in the overall return on funds was lower than the increase in the cost of funds, leading to a decline of around 20 basis points in the spread (returns of funds over cost of funds) of banks during 2007-08 (Table III.22).

Income

3.65 Overall income of SCBs during 2007-08 increased at a significantly higher rate of 34.3 per cent as compared with 24.4 per cent increase in the previous year. The income to assets ratio improved to 8.5 per cent after remaining unchanged at 7.9 per cent in the previous two years (Appendix Table III.15). Reflecting the higher lending rates, interest income of SCBs during 2007-08 increased by 33.6 per cent as compared with 25.0 per cent in the previous year (Table III.23). 'Other income' of SCBs during 2007-08 increased by 37.8 per cent as compared with 21.7 per cent during the previous year, reflecting the increasing diversification of sources of income by banks.

Table III.22: Cost of Funds and Returns on Funds - Bank Group-wise

(Per cent)

Indicator	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	4.5	5.4	4.9	5.7	4.7	5.9	3.1	3.8	4.4	5.4
2. Cost of Borrowings	2.8	3.6	3.4	4.6	3.1	3.1	4.7	4.5	3.3	3.7
3. Cost of Funds	4.4	5.3	4.8	5.7	4.5	5.5	3.5	4.0	4.3	5.3
4. Return on Advances	7.7	8.6	8.6	9.6	8.3	10.0	8.7	9.8	7.9	8.9
5. Return on Investments	7.1	6.8	7.0	6.5	5.7	6.5	7.5	7.1	6.9	6.7
6. Return on Funds	7.5	8.0	8.0	8.6	7.4	8.7	8.2	8.7	7.6	8.2
7. Spread (6-3)	3.1	2.7	3.2	2.9	2.9	3.2	4.7	4.8	3.2	3.0

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

Table III.23: Important Financial Indicators of Scheduled Commercial Banks

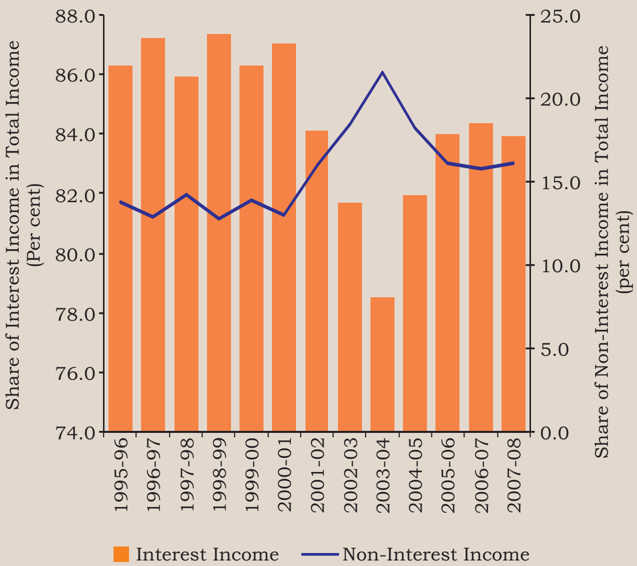
(Amount in Rs. crore)

Item	2005-06		2006-07		2007-08	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	2,20,756	7.9	2,74,716	7.9	3,68,886	8.5
a) Interest Income	1,85,388	6.7	2,31,675	6.7	3,09,570	7.2
b) Other Income	35,368	1.3	43,041	1.2	59,315	1.4
2. Expenditure	1,96,174	7.0	2,43,514	7.0	3,26,160	7.5
a) Interest Expended	1,07,161	3.8	1,42,420	4.1	2,08,001	4.8
b) Operating Expenses	59,201	2.1	66,319	1.9	77,220	1.8
of which : Wage Bill	33,461	1.2	36,148	1.0	39,806	0.9
c) Provision and Contingencies	29,812	1.1	34,775	1.0	40,939	0.9
3. Operating Profit	54,394	2.0	65,977	1.9	83,665	1.9
4. Net Profit	24,582	0.9	31,203	0.9	42,726	1.0
5. Net Interest Income/Margin (1a-2a)	78,227	2.8	89,255	2.6	1,01,570	2.3

Note: The number of scheduled commercial banks was 85 in 2005-06, 82 in 2006-07 and 79 in 2007-08.

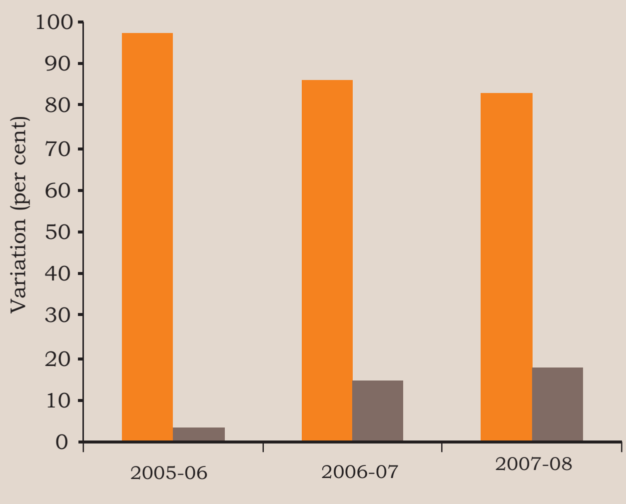
3.66 The relative contribution of interest and non-interest income in total income of SCBs showed significant variations in recent years. The share of interest income, which had declined to a low level of 78.5 per cent in 2003-04, increased during the following three years. In 2007-08, however, it declined marginally to 83.9 per cent as compared with 84.3 per cent in the previous year (Chart III.13). The share of non-interest incomes showed a corresponding increase.

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



3.67 There was a discernible change in the relative contribution of interest and non-interest income to total income during 2007-08. Non-interest sources contributed 17.3 per cent to incremental income of SCBs as compared with 14.2 per cent during the previous year. The interest component showed a corresponding decline during 2007-08 (Chart III.14). Non-interest income in relation to total assets increased from 1.2 per cent in 2006-07 to 1.4 per cent in 2007-08.

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



3.68 The composition of non-interest income of SCBs has undergone some changes in recent years, particularly in terms of fee based income (Box III.2). Income from trading, which increased significantly during 2001-02 to 2003-04, declined in recent years.

3.69 Among bank-groups, income of new private sector banks grew at the highest rate (45.8 per cent) during 2007-08, followed by foreign banks (40.0 per cent), public sector banks (30.9 per cent) and old private sector banks (28.8 per cent). The interest income to total assets ratio of new private sector banks and SBI group improved during the year, while it declined in the case of other bank groups [Appendix Table III.17(A to G)].

Expenditure

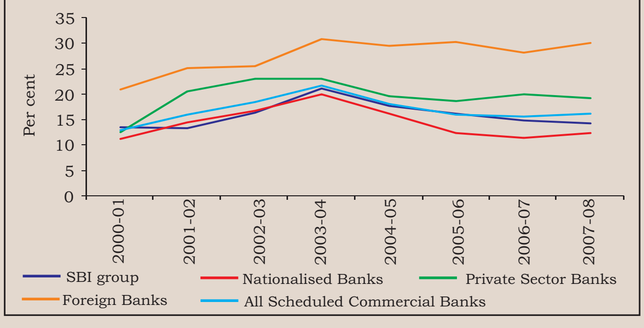
3.70 Expenditure of SCBs increased by 33.9 per cent during 2007-08 as compared with 24.1 per cent in the previous year. Among the major components of expenditure of SCBs, reflecting the impact of deposits contracted at different interest rates, interest expended increased sharply by 46.0 per cent as compared with 32.9 per cent in the previous year. Non-interest or operating expenses increased by 16.4 per cent as compared with 12.0 per cent in the last year. Provisioning made increased marginally (Table III.24).

3.71 In relation to assets, interest expenses increased to 4.8 per cent of total assets from

Box III.2: Sources of Non-interest Income of Scheduled Commercial Banks

With the increased competition brought about by financial liberalisation, banks began to diversify their activities and as such non-interest income of banks acquired greater significance in the income portfolio of banks in India. An analysis of data on scheduled commercial banks (excluding regional rural banks) from 2000-01 to 2007-08 suggests that the ratio of non-interest income to total income of scheduled commercial banks increased from 13.0 per cent in 2000-01 to 21.6 per cent in 2003-04. The ratio, however, declined thereafter to 15.7 per cent in 2006-07, before showing a marginal increase in 2007-08 to 16.1 per cent (Chart 1).

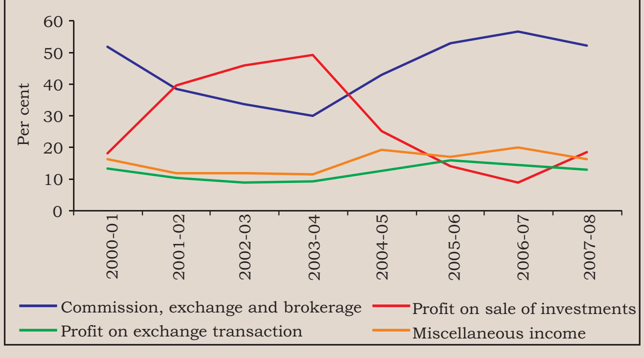
Chart 1: Bank Group-wise Ratios of Non-interest Income to Total Income



The share of non-interest income in total income was the highest in respect of foreign banks in each of the single year from 2000-01 to 2007-08, indicating their large exposure to off-balance sheet items. On the other hand, the share of non-interest income was the lowest in respect of nationalised banks.

Sources of non-interest income of SCBs comprise: (i) commission, exchange, and brokerage; (ii) profit on sale of investments; (iii) profit on exchange transaction; and (iv) miscellaneous income. The miscellaneous income of banks includes profit on revaluation of investments, profit on sale of fixed assets such as buildings. Of these, while profit on exchange transactions and miscellaneous income showed more or less a steady trend, commission, exchange and brokerage, and profit on sale of investments showed a divergent trend. The share of commission, exchange and brokerage declined sharply during 2003-04, in which year, however, the share of profit on sale of investments increased commensurately. During 2006-07, when the commission, exchange and brokerage increased sharply, that of profit on sale of investments showed a sharp decline (Chart 2).

Chart 2: Components of Non-interest Income-Share



References:

1. Reserve Bank of India (2008a), Statistical Tables Relating to Banks in India 1979-2007.

———— (2008b), Annual Accounts of Scheduled Commercial Banks, 2007-08.

Table III.24: Variation in Income-Expenditure of Scheduled Commercial Banks

(Amount in Rs. crore)

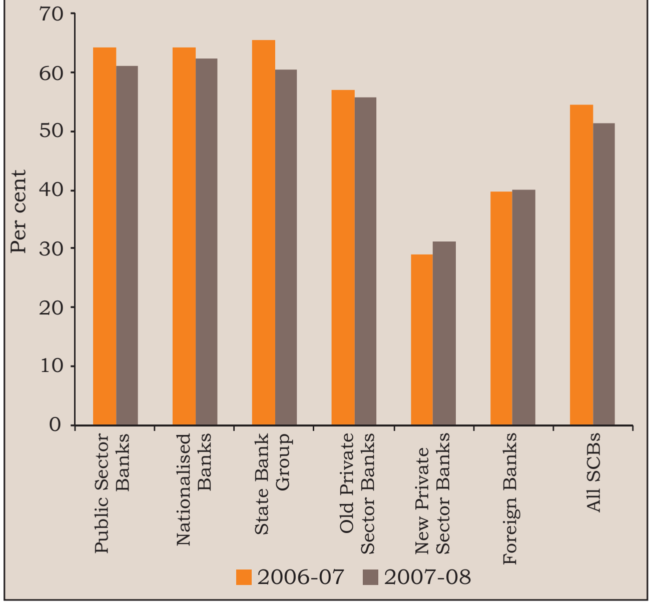
Item	2006-07		2007-08	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Income (a+b)	**53,961**	**24.4**	**94,169**	**34.3**
a) Interest Income	46,287	25.0	77,895	33.6
b) Other Income	7,673	21.7	16,274	37.8
2. Expenses (a+b+c)	**47,340**	**24.1**	**82,646**	**33.9**
a) Interest Expenses	35,259	32.9	65,581	46.0
b) Other Expenses	7,118	12.0	10,901	16.4
c) Provisioning	4,963	16.6	6,164	17.7
3. Operating Profit	**11,583**	**21.3**	**17,688**	**26.8**
4. Net Profit	**6,621**	**26.9**	**11,523**	**36.9**

Source : Balance Sheets of respective banks.

4.1 per cent in 2006-07. Operating expenses as percentage of total assets, however, declined marginally to 1.8 per cent in 2007-08 as compared with 1.9 per cent in the previous year (Appendix Table III.25). As a result, banks' burden (excess of non-interest expenditure over non-interest income) declined significantly to 0.4 per cent of total assets in 2007-08 as compared with 0.7 per cent in 2006-07 and 0.9 per cent in 2005-06. The efficiency ratio (operating expenses as percentage of net interest income plus non-interest income) improved to 48.0 per cent during 2007-08 from 50.1 per cent in 2006-07, reflecting the rise in non-interest income and decline in operating expenses, which combined together outweighed the decline in net interest income (in relation to total assets).

3.72 Wages by SCBs increased at a somewhat higher rate of 10.1 per cent in 2007-08 as compared with 8.0 per cent in the previous year. In terms of percentage to total assets, however, the wage bill of SCBs declined marginally to 0.9 per cent as compared with 1.0 per cent in 2006-07. A similar decline was also observed in the ratio of wage bill to operating expenses during 2007-08 (Chart III.15). Continuing the trend, the wage bill to operating expenses ratio was the lowest

Chart III.15: Wage Bill to Operating Expenses



in respect of new private sector banks (31.2 per cent) in 2007-08, followed by foreign banks (39.9 per cent), notwithstanding some increase in the ratio over the previous year. The wage bill to operating ratio of other bank groups showed a marginal decline during 2007-08, essentially reflecting the reduction in expenditure on wages due to continued emphasis on technological updgradation.

Net Interest Income

3.73 The difference between interest income and interest expenses, *i.e.*, net interest income, is an important indicator of efficiency of the intermediation process by banks. Lower net interest income in relation to assets is an indicator of higher efficiency. Continuing the trend that began in 2004-05, net interest income (spread) of SCBs as percentage of total assets declined to 2.3 per cent in 2007-08 from 2.6 per cent in the previous year. Among the bank groups, net interest margin of foreign banks and private banks increased, while that of PSBs declined during 2007-08 (Appendix Table III.23).

Operating Profits

3.74 Reflecting the buoyant growth in non-interest income on the one hand and a relatively subdued growth in operating expenses on the other, operating profits of SCBs increased by 26.8 per cent in 2007-08 as compared with an increase of 21.3 per cent in 2006-07. Though the operating profits increased across all bank groups, the increase was more pronounced in respect of new private sector and foreign banks. The operating profits to total assets ratio during 2007-08 remained almost unchanged at the previous year's level of 1.9 per cent. At the individual bank level, the operating profits to assets ratio showed large variations. The ratio varied between 11.1 per cent and (-)0.7 per cent in respect of foreign banks, between 2.8 per cent to 0.8 per cent in the case of private sector banks (barring Sangli Bank and Lord Krishna Bank which were merged during the year) and between 2.4 per cent to 0.8 per cent for public sector banks (Appendix Table III.19).

Provisions and Contingencies

3.75 Provisions and contingencies of SCBs during 2007-08 grew at a marginally higher rate of 17.7 per cent as compared with 16.6 per cent in the previous year. While provisions for loans during 2007-08 were higher by 5.3 per cent, provisions for depreciation in value of investments declined by 11.6 per cent. Bank-group wise, provisions and contingencies as percentage of total assets increased for private sector and foreign banks, while they declined for PSBs.

Net Profit

3.76 Net profits of SCBs showed a significant increase of 36.9 per cent during 2007-08 as compared with 26.9 per cent in the previous year despite the larger increase in provisions and contingencies (Table III.25).

Return on Assets

3.77 Return on assets (RoA) is an indicator of efficiency with which banks deploy their assets. During 2007-08, the net profits to assets ratio of SCBs improved moderately to 1.0 per cent from 0.9 per cent in 2006-07. Though net profits as percentage of total assets improved across all bank groups, the improvement was more pronounced in the case of old private sector banks (Chart III.16). Foreign banks continued to show the highest returns on assets.

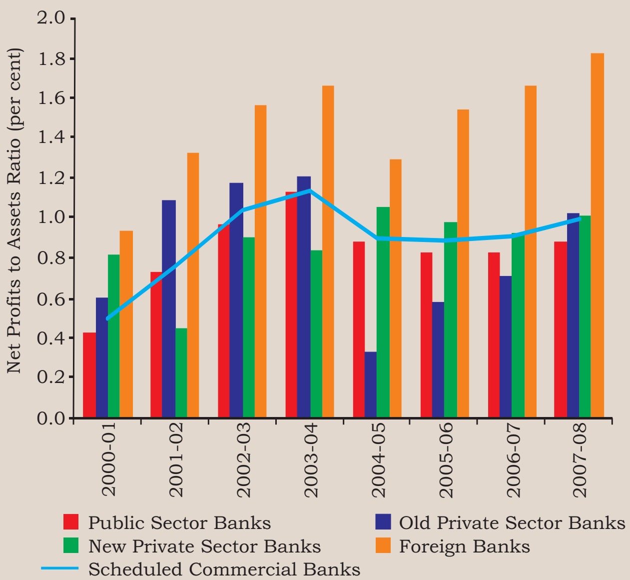
Table III.25: Operating Profit and Net Profit - Bank Group-wise

(Amount in Rs. Crore)

Bank Group	Operating Profit				Net Profit			
	2006-07	Percentage Variation	2007-08	Percentage Variation	2006-07	Percentage Variation	2007-08	Percentage Variation
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**65,977**	**21.3**	**83,665**	**26.8**	**31,203**	**26.9**	**42,726**	**36.9**
Public Sector Banks	42,655	12.3	50,441	18.3	20,152	21.8	26,592	32.0
Nationalised Banks	27,456	24.0	31,663	15.3	12,950	29.2	16,856	30.2
State Bank Group	14,292	-4.9	17,444	22.1	6,572	10.3	9,006	37.0
Other Public Sector Bank	907	13.2	1,333	47.0	630	12.4	729	15.7
Old Private Sector Banks	3,021	33.8	3,605	19.3	1,122	29.6	1,978	76.3
New Private Sector Banks	10,682	42.2	15,632	46.3	5,343	30.0	7,544	41.2
Foreign Banks	9,619	44.5	13,988	45.4	4,585	49.4	6,612	44.2

Source : Balance sheets of respective banks.

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



Return on Equity

3.78 Return on equity (RoE), an indicator of efficiency with which capital is used by banking institutions, declined to 12.5 per cent as at end-March 2008 from 13.2 per cent at end-March 2007, reflecting mainly the impact of increase in resources raised from the capital market during the year and reserves and surplus (Chart III.17).

5. Soundness Indicators

3.79 A sound and efficient banking system is a *sine qua non* for maintaining financial stability. Therefore, considerable emphasis has been placed on strengthening the capital requirements in recent years. The capital to risk-weighted assets ratio (CRAR) of SCBs, a measure of the capacity of the banking system to absorb unexpected losses, improved further to 13.0 per cent at end-March 2008 from 12.3 per cent at end-March 2007. Asset quality of SCBs also improved consistently in the past few years as reflected in the decline in non-performing assets (NPAs) as percentage of total advances. During 2007-08, while overall gross NPAs of SCBs declined to 2.3 per cent of gross advances from 2.5 per cent in the previous year, net NPAs as percentage of net advances remained at the previous year's level of 1.0 per cent. Thus, in terms of the two crucial soundness indicators, *viz.*, capital and asset quality, the Indian banking sector showed further improvement during 2007-08 (Chart III.18).

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

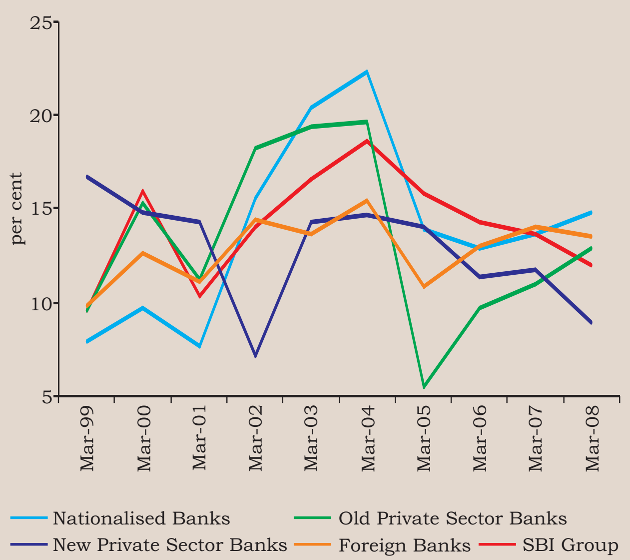
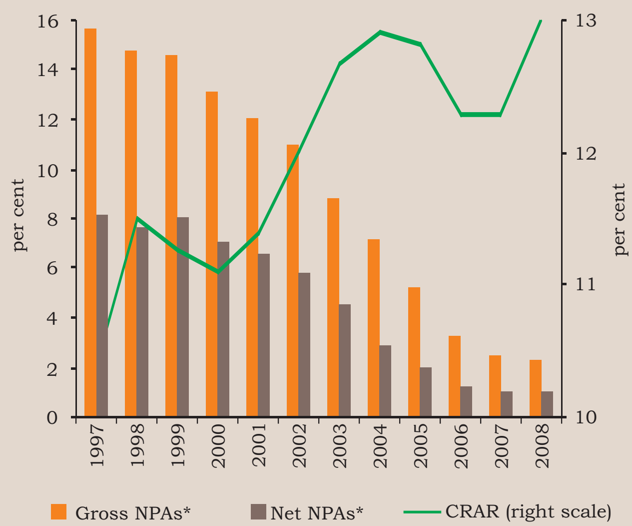


Chart III.18: Movements in CRAR and NPAs of SCBs
(As at end-March)



* As percentage of advances.

Asset Quality

3.80 The trend of improvement in the asset quality of banks continued during the year. Indian banks recovered a higher amount of NPAs during 2007-08 than that during the previous year. Though the total amount recovered and written-off at Rs.28,283 crore in 2007-08 was higher than Rs.26,243 crore in the previous year, it was lower than fresh addition of NPAs (Rs.34,420 crore) during the year. As a result, the gross NPAs of SCBs increased by Rs.6,136 crore in 2007-08. This is the first time since 2001-02 that gross NPAs increased in absolute terms (Table III.26). In this context, it may be noted that banks had registered rapid credit growth during the previous three years. Some slippage in NPAs, therefore, could be expected. Besides, some other developments such as hardening of interest rates might have also resulted in increased NPAs. Banks had extended housing loans at floating interest rates. The hardening of interest rates might have made the repayment of loans difficult for some borrowers, resulting in some increase in NPAs in this sector. It may be noted that the increase in gross NPAs was more noticeable in respect of new private sector and foreign banks, which have been more active in the real estate and housing loans segments. Gross NPAs (in absolute terms) of nationalised banks and old private sector banks continued to decline during the year. Gross NPAs of State Bank group showed an increase. Notwithstanding increase in gross NPAs of the banking sector, gross NPAs as percentage of gross advances

Table III.26: Movements in Non-performing Assets - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Gross NPAs							
As at end-March 2007	50,299	38,968	26,292	12,676	2,810	6,286	2,233
Addition during the year	34,420	24,093	14,617	9,476	1,249	6,412	2,664
Recovered during the year	28,090	22,466	15,791	6,675	1,501	2,272	1,849
Written off during the year	193	0	0	0	1	0	191
As at end-March 2008	56,435	40,595	25,117	15,478	2,557	10,426	2,856
Net NPAs							
As at end-March 2007	20,207	15,324	8,965	6,359	831	3,136	913
As at end-March 2008	24,733	17,836	9,328	8,508	740	4,906	1,250
Memo:							
Gross Advances							
(end-March 2008)	25,07,885	18,19,074	12,18,554	6,00,521	1,13,404	4,12,441	1,62,966
Net Advances							
(end-March 2008)	24,77,039	17,97,504	12,03,782	5,93,722	1,11,670	4,06,733	1,61,132
Gross NPAs/Gross Advances Ratio							
End-March 2007	2.5	2.7	2.7	2.6	3.1	1.9	1.8
End-March 2008	2.3	2.2	2.1	2.6	2.3	2.5	1.9
Net NPAs/Net Advances Ratio							
End-March 2007	1.0	1.1	0.9	1.3	1.0	1.0	0.7
End-March 2008	1.0	1.0	0.8	1.4	0.7	1.2	0.8

* : Includes IDBI Bank Ltd.

Note : Figures in parentheses are the number of banks.

Source : Balance sheets of respective banks.

declined further to 2.3 per cent at end-March 2008 from 2.5 per cent a year ago. The NPAs ratio (gross NPAs to gross advances) of new private sector banks increased significantly during the year, while that of foreign banks increased marginally. The NPAs ratio of all other bank groups declined.

3.81 Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the debt recovery tribunals (DRTs) have been the most effective in terms of amount recovered. The amount recovered as percentage of amount involved was the highest under the SARFAESI Act, followed by DRTs (Table III.27).

3.82 In the case of direct agricultural advances, the recovery rate (percentage of recovery to demand) declined to 79.7 per cent for the year ended June 2007 from 80.1 per cent a year ago (Table III.28).

3.83 The Reserve Bank has so far issued certificate of registration (CoR) to eleven securitisation companies/reconstruction companies (SCs/RCs), of which six have commenced their operations. At end-June 2008, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank was at Rs.41,414 crore, showing an increase of 45.1 per cent during the year (July 2007 to June 2008). While security receipts subscribed to by banks/FIs amounted to Rs.8,319 crore, security receipts redeemed amounted to Rs.1,299 crore (Table III.29).

Table III.28: Recovery of Direct Agricultural Advances of PSBs

(Amount in Rs. crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
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
2007	73,802	58,840	14,958	79.7

Movements in Provisions for Non-performing Assets

3.84 Provisioning for non-performing assets tends to follow a cyclical pattern. In the expansionary phase of business cycle, impairment to balance sheets of banks tends to be relatively lower requiring lower provisioning even as credit increases at a faster pace. The downturn phase of business cycle, on other hand, increases the possibility of credit losses, leading to higher provisioning requirements. The higher provisioning in the downturn phase may, thus, put pressure on the credit availability and accentuate the contraction phase of business cycle.

3.85 Provisioning made during 2007-08 was higher than write-back of excess provisioning during the year. Still, however, net NPAs increased during the year due to increase in gross NPAs. Among bank groups, provisions made during the year were higher than write-back of excess provisions for new private sector banks and foreign banks whereas they were lower for public sector banks and old private sector banks. Thus, the cumulative

Table III.27: NPAs recovered by SCBs through various Channels

(Amount in Rs. crore)

Recovery Channel	2006-07				2007-08			
	No. of cases referred	Amount involved	Amount Recovered	Col. (4) as % of Col. (3)	No. of cases referred	Amount involved	Amount Recovered	Col.(8) as % of Col.(7)
1	2	3	4	5	6	7	8	9
i) Lok Adalats	160,368	758	106	14.0	186,535	2,142	176	8.2
ii) DRTs	4,028	9,156	3,463	37.8	3,728	5,819	3,020	51.9
iii) SARFAESI Act	60,178#	9,058	3,749	41.4	83,942#	7,263	4,429	61.0

: Number of notices issued.

Table III.29: Details of Financial Assets Securitised by SCs/RCs

(Rs. crore)

Item	End-June 2007	End-June 2008
1	2	3
1. Book Value of Assets Acquired	28,544	41,414
2. Security Receipts issued	7,436	10,658
3. Security Receipts subscribed by		
(a) Banks	6,894	8,319
(b) SCs/RCs	408	1,647
(c) FIIs	-	-
(d) Others(QIBs)	134	692
4. Amount of Security Receipts completely redeemed	660	1,299

provisions at end-March 2008 were higher than their respective levels a year ago in respect of new private sector and foreign banks whereas they were lower for public sector and old private sector banks. Cumulative provisions as percentage of NPAs declined marginally to 52.4 per cent at end-March 2008 from 56.1 per cent at end-March 2007. Bank-group wise, the ratio was the highest for old private sector banks (64.9 per cent), followed by PSBs, new private sector banks and foreign banks (Table III.30 and Appendix Table III.24).

3.86 Notwithstanding an increase in the fresh accretions to gross NPAs (Rs.34,420 crore) of SCBs during 2007-08, gross NPAs as percentage of gross advances declined during the year. The net NPA ratio (net NPAs as percentage of net advances) declined in respect of public sector and old private sector banks, while it increased in respect of new private sector banks and foreign banks. The net NPAs to net advances ratio at end-March 2008 was highest (1.2 per cent) in respect of new private sector banks, followed by public sector, foreign and old private sector banks at 1.0 per cent, 0.8 per cent and 0.7 per cent, respectively (Table III.31 and Appendix Table III.27 and III.28).

3.87 The net NPAs to net advances ratio at end-March 2008 of 75 banks (76 last year) out of 79 (82 last year) was less than 2 per cent. The net NPAs ratio of only one foreign bank was higher than 5 per cent (Table III.32). During 2007-08, the net NPA ratio of six banks each in the public sector and private sector improved (Appendix Table III.27 and III.28).

3.88 Apart from decline in the NPA ratios, the improvement in asset quality of SCBs during 2007-08 was also reflected in the different loan asset categories. The share of

Table III.30: Movements in Provisions for Non-performing Assets - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Provisions for NPAs							
As at end-March 2007	28,188	22,139	15,851	6,288	1,807	3,087	1,152
Add : Provisions made during the year	15,240	9,810	6,541	3,269	416	3,846	1,166
Less : Write-off, write back of excess during the year	13,750	10,769	8,006	2,763	564	1,574	841
As at end-March 2008	29,678	21,180	14,387	6,793	1,659	5,359	1,478
Memo:							
Gross NPAs	56,435	40,595	25,117	15,478	2,557	10,426	2,856
Outstanding Provisions to Gross NPAs (per cent)							
End-March 2007	56.1	56.8	57.4	49.6	66.0	49.1	51.1
End-March 2008	52.6	52.2	57.3	43.9	64.9	51.4	51.7

* : Includes IDBI Bank Ltd.
Note : Figures in parentheses indicate the number of banks in that group at end-March 2008.
Source : Balance sheets of respective banks.

Table III.31: 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								
2005	11,52,682	59,373	5.2	2.5	11,15,663	21,754	1.9	0.9
2006	15,51,491	51,097	3.3	1.8	15,16,812	18,543	1.2	0.7
2007	20,12,510	50,486	2.5	1.5	19,81,237	20,101	1.0	0.6
2008	25,07,885	56,435	2.3	1.3	24,77,039	24,734	1.0	0.6
Public Sector Banks								
2005	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.0	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	14,40,146	15,145	1.1	0.6
2008	18,19,074	40,595	2.2	1.3	17,97,504	17,836	1.0	0.6
Old Private Sector Banks								
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	92,887	891	1.0	0.6
2008	1,13,404	2,557	2.3	1.3	1,11,670	740	0.7	0.4
New Private Sector Banks,								
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
2008	4,12,441	10,426	2.5	1.4	4,06,733	4,907	1.2	0.7
Foreign Banks								
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
2008	1,62,966	2,857	1.8	0.8	1,61,133	1,250	0.8	0.3

Source : Balance sheets of respective banks.

'sub-standard' loans showed a marginal increase to 1.1 per cent from 1.0 per cent in the previous year. However, the shares of loans in 'doubtful' and 'loss' categories,

Table III.32: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(Number of banks)

Bank Group	As at end-March				
	2004	2005	2006	2007	2008
1	2	3	4	5	6
Public Sector Banks	**27**	**28**	**28**	**28**	**28**
Up to 2 per cent	11	19	23	27	28
Above 2 and up to 5 per cent	13	7	5	1	0
Above 5 and up to 10 per cent	3	2	0	0	0
Above 10 per cent	0	0	0	0	0
Old Private Sector Banks	**20**	**20**	**20**	**17**	**15**
Up to 2 per cent	2	4	11	15	15
Above 2 and up to 5 per cent	9	12	7	1	0
Above 5 and up to 10 per cent	7	4	2	1	0
Above 10 per cent	2	0	0	0	0
New Private Sector Banks	**10**	**9**	**8**	**8**	**8**
Up to 2 per cent	4	5	6	7	7
Above 2 and up to 5 per cent	5	3	2	1	1
Above 5 and up to 10 per cent	0	1	0	0	0
Above 10 per cent	1	0	0	0	0
Foreign Banks	**33**	**31**	**29**	**29**	**28**
Up to 2 per cent	22	23	25	27	25
Above 2 and up to 5 per cent	2	2	0	1	2
Above 5 and up to 10 per cent	3	2	0	0	1
Above 10 per cent	6	4	4	1	0

which represent lower quality of assets than sub-standard assets, continued to decline during 2007-08. Among these two categories ('loss' and 'doubtful'), while NPAs in 'loss' category continued to show decline in absolute terms, NPAs in 'doubtful' category showed a marginal increase in 2007-08. More or less a similar trend was observed across all bank groups, barring new private sector banks in whose case the NPAs in all the three categories, *viz.*, sub-standard, doubtful and loss increased during the year (Table III.33).

Sector-wise NPAs

3.89 The sector-wise analysis of NPAs of public and private sector banks indicates that the NPAs in the priority sector increased by 11.1 per cent during 2007-08 (4.8 per cent in the previous year) mainly due to increase in NPAs in the agriculture sector (32.1 per cent) and in the non-priority sector (10.3 per cent). At the aggregate level, the share of priority sector NPAs in total NPAs at 54.4 per cent was broadly same as in the previous year (54.0 per cent) [Table III.34, Appendix Table III.29 (A) and 29 (B); and Appendix Table 30 (A) and 30 (B)].

Table III.33: Classification of Loan Assets - Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Total Gross NPAs		Total Gross 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
2008	24,51,217	97.7	26,541	1.1	24,507	1.0	5,619	0.2	56,668	2.3	25,07,885
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
2008	17,78,476	97.8	17,290	1.0	19,291	1.1	4,018	0.2	40,598	2.2	18,19,074
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
2008	1,10,847	97.7	816	0.7	1,346	1.2	395	0.3	2,557	2.3	1,13,404
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
2008	4,02,013	97.5	6,473	1.6	3,106	0.8	849	0.2	10,428	2.5	4,12,441
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
2008	1,59,882	98.1	1,962	1.2	764	0.5	358	0.2	3,084	1.9	1,62,966

Note : Constituent items may not add up to the total due to rounding off.
Source : Off-site returns (Balance sheet returns) submitted by respective banks.

Table III.34: Sector-wise NPAs - Bank Group-wise*

(Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9
A. Priority Sector	22,954	25,287	1,416	1,338	1,468	2,080	25,838	28,705
i) Agriculture	6,506	8,268	249	243	612	1,225	7,367	9,735
ii) Small Scale Industries	5,843	5,805	490	359	155	292	6,488	6,456
iii) Others	10,604	11,214	677	737	702	563	11,983	12,514
B. Public Sector	490	299	0	0	3	0	493	299
C. Non-Priority Sector	15,158	14,163	1,553	1,219	4,800	8,339	21,510	23,721
Total (A+B+C)	**38,602**	**39,749**	**2,969**	**2,557**	**6,271**	**10,419**	**47,841**	**52,725**

* : Excluding foreign banks.
Source : Based on off-site returns submitted by banks (pertaining to domestic opertaions only).

Movements in Provisions for Depreciation on Investments

3.90 The provisions for depreciation on investments declined by 11.6 per cent at end-March 2008 from their level at end-March 2007 as a result of lower provisions made during the year than the write-offs and write-back of excess provisions. The reduction in provisions was despite the increase in investments during the year (Table III.35).

Capital Adequacy

3.91 The overall CRAR of all SCBs improved to 13.0 per cent at end-March 2008 from 12.3 per cent a year ago, reflecting a relatively higher growth rate in capital funds maintained by banks than risk-weighted assets. While the growth in risk-weighted assets moderated in line with overall deceleration in credit growth during 2007-08, capital funds increased at a higher rate on account of raising of resources by banks from the capital market and increase in resources required for ensuing implementation of Basel II norms. Thus, the CRAR of the banking system at 13.0 per cent was significantly above the stipulated minimum of 9.0 per cent (Table III.36).

3.92 As a result of resources raised by banks from the capital market during 2007-08 and increase in reserves, the Tier I capital ratio of SCBs improved to 9.1 per cent at end-March 2008 from 8.3 per cent a year ago. However,

Table III.35: Movements in Provisions for Depreciation on Investment - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (79)	Public Sector Banks (28)	Nationalised Banks (20*)	State Bank Group (8)	Old Private Sector Banks (15)	New Private Sector Banks (8)	Foreign Banks (28)
1	2	3	4	5	6	7	8
Provision for Depreciation on Investment							
As at end-March 2007	11,492	8,904	6,616	2,288	321	819	1,448
Add : Provision made during the year	3,229	2,539	1,691	848	67	427	196
Less : Write-off, write-back of excess during the year	4,566	3,881	2,120	1,762	72	317	296
As at end-March 2008	10,155	7,561	6,187	1,374	316	929	1,349

*: Includes IDBI Bank Ltd.
Note : Figures in parentheses indicate the number of banks for 2007-08.
Source : Balance sheets of respective banks.

Table III.36: Scheduled Commercial Banks - Component-wise CRAR

(Amount in Rs. crore)

Item / End-March	2006	2007	2008
1	2	3	4
A. Capital Funds (i+ii)	2,21,363	2,96,191	4,06,835
i) Tier I Capital	1,66,538	2,00,386	2,83,339
of which:			
Paid-up Capital	25,142	29,462	41,178
Unallocated/Remittable Surplus	11,075	20,387	23,846
Deductions for Tier-I Capital	11,271	13,662	21,933
ii) Tier-II Capital	54,825	95,794	1,23,496
of which:			
Discounted Subordinated Debt	43,214	63,834	73,297
B. Risk-weighted Assets	17,97,207	24,12,236	31,28,093
of which:			
Risk-weighted Loans and Advances	12,38,163	17,17,810	21,66,234
C. CRAR (A as per cent of B)	12.3	12.3	13.0
of which:			
Tier I	9.3	8.3	9.1
Tier II	3.1	4.0	3.9

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

the Tier II capital declined marginally to 3.9 per cent at end-March 2008 from 4.0 per cent a year ago (Chart III.19). Tier I CRAR was more than the present stipulated 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.

3.93 During 2007-08, the improvement in CRAR was observed across all bank groups. The improvement was, however, more pronounced in respect of new and old private sector banks, followed by SBI and associates. As at end-March 2008, the CRAR of nationalised banks at 12.5 per cent was below the industry average (13.0 per cent), while that of all other groups was above the industry level (Table III.37).

3.94 The CRAR of the five largest banks showed an improvement during 2007-08 barring a marginal decline in the CRAR of Canara Bank. All the five banks, however, maintained a CRAR of more than 12 per cent. Of the five largest SCBs, four are in the public sector, while ICICI Bank is in the private sector (Chart III.20).

3.95 At the individual bank level, the CRAR of all SCBs was above the prescribed requirement of 9 per cent at end-March 2008. While the CRAR of as many as 77 banks was

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

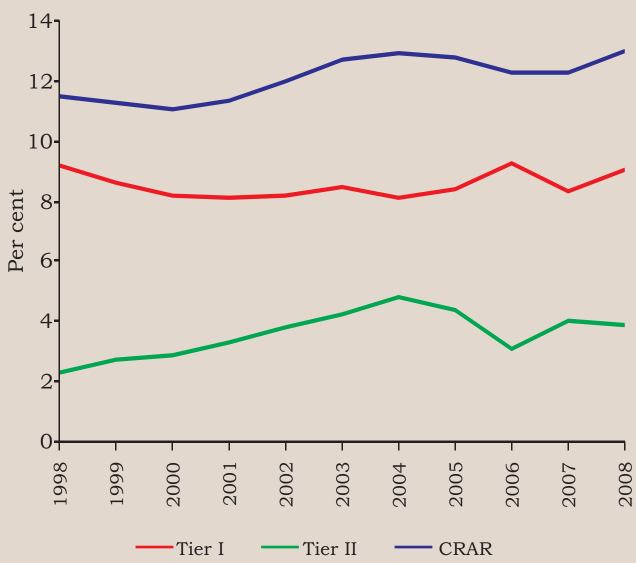


Chart III.20: CRAR of Five Largest Banks
(As at end-March)

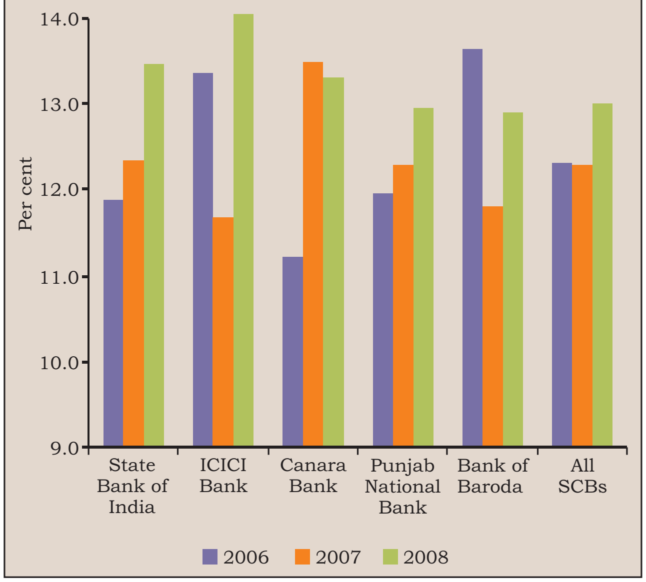


Table III.37: Capital Adequacy Ratio - Bank Group-wise

(Per cent)

Bank Group/End-March	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7	8	9	10
Scheduled Commercial Banks	11.1	11.4	12.0	12.7	12.9	12.8	12.3	12.3	13.0
Public Sector Banks	10.7	11.2	11.8	12.6	13.2	12.9	12.2	12.4	12.5
Nationalised Banks	10.1	10.2	10.9	12.2	13.1	13.2	12.3	12.4	12.1
SBI Group	11.6	12.7	13.3	13.4	13.4	12.4	11.9	12.3	13.2
Old Private Sector Banks	12.4	11.9	12.5	12.8	13.7	12.5	11.7	12.1	14.1
New Private Sector Banks	13.4	11.5	12.3	11.3	10.2	12.1	12.6	12.0	14.4
Foreign Banks	11.9	12.6	12.9	15.2	15.0	14.0	13.0	12.4	13.1

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

above 10 per cent, that of two other banks was in the range of 9 to 10 per cent (Table III.38 and Appendix Table III.31).

6. Banks' Operations in the Capital Market

Resources raised by Banks from the Primary Capital Market

3.96 During 2007-08, scheduled commercial banks, both in the public and private sectors, raised significantly higher resources from the domestic primary market as compared with the previous year. Total resource mobilisation by banks through public issues (excluding offer for sale) in the domestic capital market amounted to Rs.30,455 crore during 2007-08 as against Rs.1,066 crore during 2006-07. In view of good performance of banking scrips in the secondary market, strong financial results of banks, the need to raise capital in the face of the ensuing Basel II norms and tightening of prudential norms for sensitive sectors, five banks entered the capital market with six issues during 2007-08. Out of six issues, five were equity issues, of which two were floated by public sector banks for Rs.17,552 crore (including premium) and four issues by private sector banks (including one debt issue) for Rs.12,903 crore (including premium on equity issues) (Table III.39).

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

(Number of banks)

Bank Group	2006-07					2007-08				
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Between 10-12 per cent	12 per cent & above	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Between 10-12 per cent	12 per cent & above
1	2	3	4	5	6	7	8	9	10	11
Nationalised Banks	-	-	-	8	12	-	-	-	11	9
State Bank Group	-	-	-	3	5	-	-	-	2	6
Old Private Sector Banks	1	-	2	5	9	-	-	1	3	11
New Private Sector Banks	-	-	-	4	4	-	-	-	2	6
Foreign Banks	-	-	-	7	22	-	-	1	3	24
Total	1	-	2	27	52	-	-	2	21	56

- : Nil/Negligible

* : Includes data for IDBI Bank Ltd.

Source: Balance sheets of respective banks

Table III.39: Public Issues by the Banking Sector

(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
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
2007-08	17,552	-	12,403	500	29,955	500	30,455
2007 (April-Oct)	816	-	10,063	500	10,879	500	11,379
2008 (April-Oct)	-	-	-	-	-	-	-

-: Nil/Negligible

3.97 Total premium raised by public sector banks was Rs.17,367 crore and that by private sector banks was Rs.12,179 crore (Table III.40).

3.98 Resources raised by banks through debt issues in the private placement market during 2007-08 declined by 15.5 per cent to Rs.26,199 crore (Table III.41).During April-September 2008, resources mobilised by public sector banks declined considerably by 58.3 per cent to Rs.4,558 crore, while resource mobilisation by private sector banks increased substantially by 203.0 per cent to Rs.2,251 crore.

Performance of Banking Stocks in the Secondary Market

3.99 During 2007-08, the banking stocks as represented by the Bankex (comprising 18 banking scrips) underperformed the BSE Sensex, the broad-based index - the BSE 500, and other major sectoral indices, except IT and consumer durables. Banking stocks, however, performed better than the BSE Sensex, BSE 500 and the sectoral indices like capital goods and consumer durables during the current financial year so far (up to December 08, 2008) (Table III.42). Slowdown in GDP growth, particularly industrial growth and sharp rise in domestic inflation appeared to have adversely affecting the banking stocks. Banking sector stock also came under pressure due to concerns over the global financial turmoil.

3.100 Banking stocks also showed significantly higher volatility during 2007-08 than volatility in the BSE Sensex (Table III.43). However, during 2008-09 so far (up to December 08, 2008), volatility in BSE Sensex exceeded that of BSE Bankex.

3.101 Notwithstanding the under-performance at the industry level, at an individual bank level, the stocks of public

Table III.40: Resources Raised by Banks through Public Issues - 2007-08

Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
Public Sector Bank					
Central Bank of India	10	92	80	736	816
State Bank of India	10	1,580	105	16,631	16,736
A. Sub-total		-	**185**	**17,367**	**17,552**
Private Sector Banks					
ICICI Bank Ltd.	10	940	107	9,956	10,063
ICICI Bank Ltd. (Debt Issue)	-	-	500	-	500
Federal Bank of India	10	250	85	2,056	2,141
Dhanalakshmi Bank Ltd.	10	62	32	167	199
B. Sub-total	-	-	**724**	**12,179**	**12,903**
Total (A+B)	-	-	**909**	**29,546**	**30,455**

-: Not Applicable.
Source : Securities and Exchange Board of India (SEBI).

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

(Amount in Rs. crore)

Category	Public Sector Banks		Private Sector Banks		Total	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5	6	7
2006-07	26	6,639	64	24,355	90	30,994
2007-08	10	2,090	58	24,109	68	26,199
2007 (April-Sept)	6	743	21	10,924	27	11,687
2008 (April-Sept)	6	2,251	12	4,558	18	6,809

Source: Merchant Bankers and Financial Institutions.

Table III.42: 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	16.2	-23.6	-20.4	10.1	26.4	-15.1
2003-04	83.4	109.4	118.6	31.3	29.2	148.1	147.3	68.4
2004-05	16.1	21.9	28.6	11.6	59.5	8.1	39.9	50.5
2005-06	73.7	65.2	36.8	109.9	49.2	44.0	156.0	115.4
2006-07	15.9	9.7	24.3	-21.4	21.6	-3.2	11.1	11.1
2007-08	19.7	24.2	18.0	31.7	-27.6	25.4	54.4	8.8
2008-09 (up to December 08, 2008)	-41.4	-45.9	-38.0	-15.5	-32.7	-37.6	-53.4	-56.1

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

sector banks witnessed handsome gains during 2007-08. Among public sector banks, the major gainers during 2007-08 were UCO Bank (72.7 per cent), State Bank of India (61.0 per cent), State Bank of Travancore (58.8 per cent), Bank of India (50.7 per cent), State Bank of Bikaner and Jaipur (49.3 per cent) and State Bank of Mysore (45.8 per cent) (Table III.44). Among the private sector banks, the major gainers during 2007-08 included Bank of Rajasthan (155.0 per cent), ING Vysya Bank (94.7 per cent), Indusind Bank (87.6 per cent), Axis Bank (59.4 per cent), South Indian Bank Ltd. (40.6 per cent) and HDFC Bank (39.0 per cent). However, share prices of City Union Bank declined by 82.7 per cent during the year.

3.102 The price/earning (P/E) ratio of both public and private sector banks showed wide variations. At end-March 2008, while the P/E ratio of public sector banks ranged between 3.4 (Allahabad Bank) and 10.1 (State Bank of India), the P/E ratio of private sector banks ranged between 6.8 (Federal Bank) and 52.7 (Centurion Bank of Punjab Ltd., which was later merged with HDFC Bank in May 2008) (Table III.44).

3.103 Bank stocks continued to constitute a significant portion of market capitalisation of the Indian equity market with their share increasing to 7.2 per cent at end-March 2008 from 6.8 per cent at end-March 2007. The market capitalisation of bank stocks constituted 8.8 per cent of total market capitalisation on December 03, 2008. The share of turnover of bank stocks in total turnover also increased from 5.3 per cent during 2006-07 to 6.6 per cent during 2007-08 and further to 11.5 per cent during the current financial year (up to December 03, 2008) (Table III.45).

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

Indices	Returns*			Volatility@		
	2006-07	2007-08	2008-09#	2006-07	2007-08	2008-09#
1	2	3	4	5	6	7
BSE Bankex	24.2	18.0	-38.0	17.5	18.1	18.3
BSE Sensex	15.9	19.7	-41.4	11.1	13.7	19.0

* : Percentage variations in indices on a point-to-point basis.
@ : Defined as coefficient of variation.
# : Up to December 08, 2008.
Source : Bloomberg.

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

Bank	End-March Closing Prices (Rs.)			Percentage Variation (Per cent)	P/E Ratio (End-March)		
	2006	2007	2008	End-March 2008 over end-March 2007	2006	2007	2008
1	2	3	4	5	6	7	8
Public Sector Banks							
Allahabad Bank	38.95	72.7	76.65	5.43	5.0	4.3	3.4
Andhra Bank	80.8	76.05	74.1	-2.56	8.1	6.8	6.1
Bank of Baroda	230.3	215.4	283.9	31.80	10.1	6.9	6.7
Bank of India	132	167.8	252.9	50.72	9.2	7.4	6.4
Bank of Maharashtra	30.65	39.1	50.05	28.01	26.0	6.2	6.6
Canara Bank	266.9	194.7	225.2	15.67	8.2	5.2	5.1
Corporation Bank	381.7	288.9	283.05	-2.02	12.3	8.0	5.4
Dena Bank	36.4	35	50.85	45.29	20.3	5.0	4.0
Indian Overseas Bank	96.95	103	135.2	31.26	6.7	5.6	6.1
Oriental Bank of Commerce	232.85	187.55	176.65	-5.81	7.4	8.1	5.3
Punjab National Bank	471.2	471.65	508.15	7.74	10.3	9.2	7.3
Syndicate Bank	89.35	63.95	75.05	17.36	8.7	4.3	4.5
Union Bank of India	121.85	103.9	141	35.71	9.1	6.2	5.1
Vijaya Bank	52.55	42.5	49.65	16.82	18.0	5.6	6.5
State Bank of India	968.05	992.9	1598.85	61.03	11.6	8.2	10.1
State Bank of Bikaner and Jaipur	4,164.35	3,348.00	4,998.00	49.28	14.4	5.5	7.9
State Bank of Mysore	6,326.75	5,143.25	7,500.00	45.82	10.5	7.4	8.5
State Bank of Travancore	4,151.95	3,008.35	4,775.95	58.76	8.0	4.6	6.2
UCO Bank	26.55	21.4	36.95	72.66	10.8	5.4	7.1
Other Public Sector Banks							
IDBI Bank Ltd.	78.3	77.55	89.05	14.83	10.1	9.6	8.6
Private Sector Banks							
Axis Bank	356.35	490.15	781.15	59.37	20.5	20.0	22.5
Bank of Rajasthan Ltd.	44.2	38.8	98.95	155.03	39.8	3.8	11.6
City Union Bank Ltd.	112	161.45	27.9	-82.72	4.8	5.4	8.9
Centurion Bank of Punjab Ltd.	26.55	37.55	43.35	15.45	152.0	45.8	52.7
Dhanalakshmi Bank	31.1	58.55	63.05	7.69	10.5	11.7	7.1
Federal Bank Ltd.	201.65	215.55	216.3	0.35	7.7	6.3	6.8
ING Vysya Bank	142.8	174.35	339.4	94.67	143.6	17.7	17.9
Indusind Bank Ltd.	46.85	41.95	78.7	87.60	36.9	18.1	33.5
Jammu and Kashmir Bank Ltd.	451.4	643.75	681.9	5.93	12.4	11.4	9.1
Karnataka Bank Ltd.	100.15	171.05	199.95	16.90	6.9	11.7	10.0
Karur Vysya Bank Ltd.	491.5	256.95	335.85	30.71	6.5	7.9	8.6
Kotak Mahindra Bank Ltd.	278	479.65	628.55	31.04	72.7	28.9	21.1
South Indian Bank Ltd.	61.65	99	139.2	40.61	8.5	6.7	7.4
HDFC Bank Ltd.	773.5	949.4	1319.95	39.03	27.8	26.1	28.7
ICICI Bank Ltd.	589.25	853.1	770.1	-9.73	21.8	27.6	23.9
Yes Bank	100.4	140.7	168.75	19.94	49.0	40.5	24.0

Source : BSE and Bloomberg.

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

(Per cent)

Year	Share of turnover of bank stocks in total turnover	Share of capitalisation of bank stocks in total market capitalisation*
1	2	3
2005-06	6.8	7.1
2006-07	5.3	6.8
2007-08	6.6	7.2
2008-09		
(up to December 03, 2008)	11.5	8.8

* : 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.46: Private Shareholding in Public Sector Banks*

(As at end-March)

Category	2007	2008
1	2	3
Up to 10 per cent	3	2
More than 10 and up to 20 per cent	1	2
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 Bank Ltd.

Shareholding Pattern in Public Sector Banks

3.104 The process of diversification of ownership of public sector banks made further progress during 2007-08. The number of public sector banks with private shareholding up to 10 per cent declined from three at end-March 2007 to two at end-March 2008, while those with more than 10 per cent and up to 20 per cent increased from one to two (Table III.46 and Appendix Table III.32).

3.105 The shareholding of foreign financial institutions (FFIs) in Indian banks increased further during the year. While the FFIs shareholding in public sector banks at end-March 2008 was broadly same as at end-March 2007, it increased in the case of old as well as new private sector banks. In the case of old private sectors banks, FFIs shareholding was more than 20 per cent in nine banks at end-March 2008 as against four a year ago. In four new private sector banks, FFI holding was more than 60 per cent as against three banks in the last year (Table III.47).

7. Technological Developments in Banks

3.106 Technological developments and the use of information technology (IT) have transformed the functioning of the financial sector in the country. Banks in India have

Table III.47: 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	
	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7
Nil	8	8	-	-	4	2
Up to 10 per cent	5	5	-	-	9	2
More than 10 and up to 20 per cent	13	13	-	-	-	2
More than 20 and up to 30 per cent	2	2	1	1	1	4
More than 30 and up to 40 per cent	-	-	-	1	1	2
More than 40 and up to 50 per cent	-	-	1	1	-	-
More than 50 and up to 60 per cent	-	-	3	1	1	2
More than 60 and up to 70 per cent	-	-	2	4	-	-
More than 70 and up to 80 per cent	-	-	1	-	1	1
Total	**28**	**28**	**8**	**8**	**17**	**15**

used IT not only to improve their own internal processes but also to increase facilities and services to the customer. Furthermore, the large scale increase in the number of transactions handled by banks has enhanced the dependence of banking sector on modern technology, including use of computers. Apart from reducing transactions costs, the use of technology has also provided new avenues to banks to expand their outreach, especially in the remote and rural areas.

3.107 The process of computerisation, which marked the starting point of all technological initiatives, is reaching near completion for most of the banks. Public sector banks continued to provide adequate resources for computerisation and development of communication networks. The cumulative amount spent from September 1999 to March 2008 aggregated Rs.15,016 crore (Appendix Table III.33). A major development during 2007-08 was a significant increase in coverage of the number of branches providing core banking solution (CBS) from 22,804 at end-March 2007 to 35,464 at end-March 2008. In terms of percentage to total branches, the share of branches under CBS increased to 67.0 per cent at end-March 2008 from 44.4 per cent a year ago. At end-March 2008, the number of fully computerised branches was 93.7 per cent as against 85.6 per cent at end-March 2007 (Table III.48).

Table III.48: Computerisation in Public Sector Banks

(As at end-March)

(Per cent of total bank branches)

Category	2007	2008
1	2	3
Fully Computerised Branches (i+ii)	85.6	93.7
i) Branches Under Core Banking Solution	44.4	67.0
ii) Branches already Fully Computerised #	41.2	26.6
Partially Computerised Branches	13.4	6.3

: Other than branches under Core Banking Solution.

3.108 The total number of Nodes/PCs in the computerised branches (fully and partially) increased by 61,437 during 2007-08 representing an increase of 11.1 per cent. Public Sector banks recorded significant progress in fully computerising their branches. Of the twenty seven public sector banks, 20 banks have computerised their branches fully, while 5 banks have computerised between 70 to less than 100 per cent of their branches. Only two banks, *viz*., Punjab and Sind Bank and UCO Bank are yet to computerise more than half of their branches (Table III.49).

3.109 During 2007-08, the total number of ATMs installed by the banks grew by 28.4 per cent to 34,789 at end-March 2008. While, the ATMs installed by foreign banks and new private sector banks were nearly four and three times of their respective branches, the ATM to branch ratio was much lower for public sector (41.2 per cent) and old private sector banks (47.2 per cent) (Table III.50). At individual bank level, the number of ATMs exceeded branches in respect of all new private sector banks, except Centurion Bank of Punjab Ltd., which was later merged with HDFC Bank Ltd. In the case of old private sector banks, the ATM to branch ratio was

Table III.49: Computerisation of Branches - Public Sector Banks

(As at end-March)

(Number of banks)

Extent of Computerisation	2007	2008
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	1	-
More than 30 and up to 40 per cent	1	-
More than 40 and up to 50 per cent	1	1
More than 50 and up to 60 per cent	-	-
More than 60 and up to 70 per cent	1	-
More than 70 and up to 80 per cent	1	1
More than 80 and up to 90 per cent	4	3
More than 90 and less than 100 per cent	2	1
Fully Computerised	15	20
Total*	**27**	**27**

*: Excludes IDBI Bank Ltd.

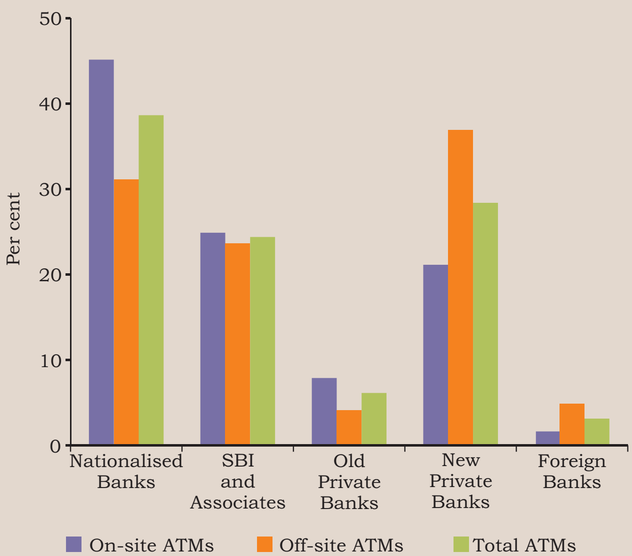
Table III.50: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2008)

Bank Group	Number of Bank/Branches					Number of ATMs			Off-site ATMs as percentage of total ATMs	ATMs as percentage 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	13,198	8,140	8,440	7,997	37,775	8,320	5,035	13,355	37.7	35.4
ii) State Bank Group	5,328	4,545	2,820	2,421	15,105	4,582	3,851	8,433	45.7	55.8
iii) Old Private Sector Banks	808	1,498	1,270	874	4,450	1,436	664	2,100	31.6	47.2
iv) New Private Sector Banks	223	870	1147	1285	3,525	3,879	5,988	9,867	60.7	279.9
v) Foreign Banks	0	2	48	224	274	269	765	1,034	74.0	377.4
Total (i to v)	**19,557**	**15,055**	**13,725**	**12,801**	**61,129**	**18,486**	**16,303**	**34,789**	**46.9**	**56.9**

less than 100 per cent for all banks barring two, *viz*., SBI Commercial and International Bank Ltd. and Karur Vysya Bank Ltd. As most foreign banks operated with limited branches in urban and metropolitan areas, the number of ATMs operated by them, in general, far exceeded the number of branches (Appendix Table III.35).

3.110 Of all the ATMs installed in the country at end-March 2008, 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.21).

Chart III.21: ATMs - Bank Group-wise Share
(As at end-March 2008)



3.111 The use of electronic payments, both retail and card-based, increased in recent years, reflecting the increased adoption of technology. The electronic payment systems such as electronic clearing service (ECS) – both debit and credit, national electronic funds transfer system (NEFT), card based payment (credit and debit) are becoming increasingly popular as indicated by the increase in transactions through retail electronic payment methods. Both the variants of ECS, *i.e.*, ECS (credit) and ECS (debit) for direct credit such as salary and pension payments and the other for direct debit such as collection of bills, insurance *premia* and equated monthly installment payments of loans are being increasingly preferred. ECS is now available at all bank branches at 70 centers. The volume of electronic transactions increased by 41.4 per cent in 2007-08 as compared with 32.9 per cent in the previous year. Transactions in terms of value increased by almost three and half times during 2007-08 mainly on account of large increase in transactions through ECS-credit (Table III.51).

3.112 The use of ECS (credit) and ECS (debit), in particular, increased sharply during 2007-08 [Chart III.22(a) and III.22(b)]. While the ECS (credit) volumes increased by 13.5 per cent in 2007-08, value increased by more than eight

Table III.51: 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)	
	2005-06	2006-07	2007-08	2006-07	2007-08	2005-06	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
1. ECS-Credit	44,216	69,019	78,365	56.1	13.5	32,324	83,273	7,82,222	157.6	839.3
2. ECS-Debit	35,958	75,202	127,120	109.1	69.0	12,986	25,441	48,937	95.9	92.3
3. EFT/ NEFT	3,067	4,776	13,315	55.7	178.8	61,288	77,446	1,40,326	26.4	81.2
4. Credit Cards	156,086	169,536	228,203	8.6	34.6	33,886	41,361	57,984	22.1	40.2
5. Debit Cards	45,686	60,177	88,306	31.7	46.7	5,897	8,172	12,521	38.6	53.2
Total	**285,013**	**378,710**	**535,309**	**32.9**	**41.4**	**1,46,381**	**2,35,693**	**10,41,990**	**61.0**	**342.1**

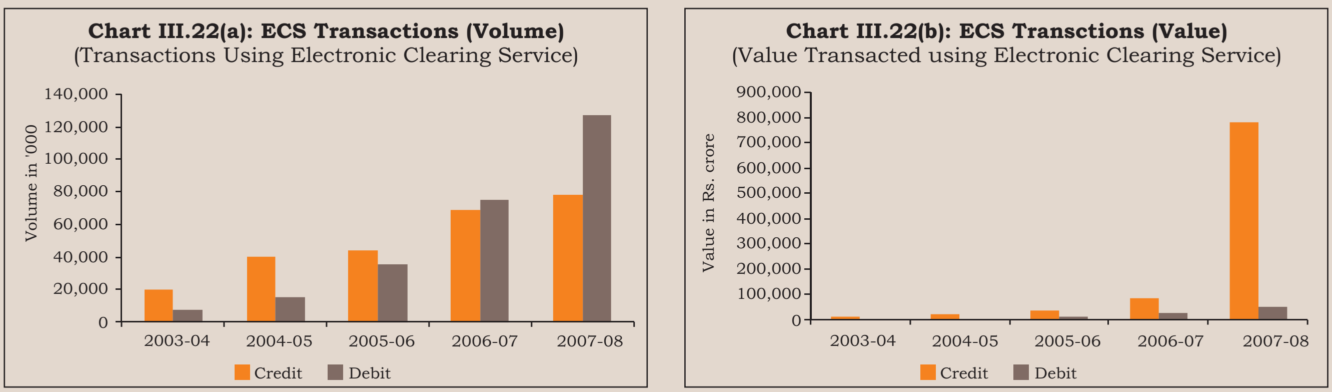
times. The substantial increase was due to the use of ECS for refund of initial public offering (IPOs). The volumes under ECS (Debit), which is mostly used for payment of utility bills and regular *premia*, increased by 69.0 per cent in 2007-08 and by 92.3 per cent in value.

3.113 The large value payment systems include the real time gross settlement (RTGS), Government securities clearing and forex clearing. The RTGS has been working smoothly since its operationalisation in March 2004. As at end-September 2008, 107 participants (99 banks, 8 primary dealers, the Reserve Bank and the Deposit Insurance and Credit Guarantee Corporation) were members of the RTGS system. The reach and utilisation of the RTGS is consistently increasing. The bank/branch network coverage increased to 51,095 branches at more than 10,000 centres leading to increased usage of this mode of funds transfer (Chart III.23). The daily average volume of transactions is 38,000 for about Rs.1,15,600 crore of which 30,900 transactions for about Rs.69,123 crore pertain to customer transactions as at end-September 2008.

8. Regional Spread of Banking

3.114 The role of financial and banking services in the equitable growth process is widely recognised. In this context, the availability of information on regional spread of banking services is a pre-requisite for appropriate policy formulation. It has been the endeavour of the Reserve Bank to enrich information on the progress of banking services and operations across country.

Chart III.22: Electronic Transactions



Accordingly, the Basic Statistical Return (BSR) system, which provides comprehensive information on the banking operations across country, has been suitably modified recently to take into account the changed requirements (Box III.3).

3.115 The total number of branches of SCBs (including RRBs and LABs) increased from

Box III.3: Basic Statistical Returns (BSR) System

The Basic Statistical Returns System (BSR) was introduced in December 1972 adapting the then existing system of Uniform Balance Book (UBB). The UBB system of reporting, designed to provide a detailed and up-to-date picture of the sectoral and regional flow of bank credit, was introduced in December 1968 in the context of the setting up of the National Credit Council with twin objectives of ensuring a steady flow of information while minimising the reporting load on branches. The UBB proforma collected account-wise information on credit limits sanctioned and advances outstanding according to the type of account, type of borrower, occupation, purpose, security and rate of interest charged on a monthly basis from all the bank offices. After nationalisation of major Indian banks, the need was felt for comprehensive information with a minimum time lag for policy purposes. The Reserve Bank of India constituted a 'Committee on Banking Statistics' in April 1972 to look into various aspects of statistical reporting by banks and make appropriate suggestions. The overall pattern of the statistical reporting system envisaged by the committee, was designated as Basic Statistical Returns (BSR) and was designed to provide a steady flow of information without undue strain on banks. The Reserve Bank accepted the recommendations of the committee and introduced BSR returns, as also constituted a 'Committee of Direction on Banking Statistics' (CDBS) in the Reserve Bank to have overall charge of the Basic Statistical Returns. The BSR system has been improved from time to time, in view of the changes in banking environment and in data requirements.

Currently, the BSR system has seven returns encompassing data on deposits, credit, investment and employment in scheduled commercial banks (SCBs), collected both on census and sample survey basis. Annual BSR-1 return submitted by all the branches of SCBs (in two parts, *viz*., BSR 1A and 1B) collects comprehensive information on credit. BSR-1A seeks account level data for credit accounts with credit limit above a cut-off level. The cut-off limit is revised periodically. Currently the limit is Rs.2 lakh (since March 2000). It collects information on various attributes of the account, like type of account, organisation, occupation and interest rate, among others, besides information on the district and population group of the place of utilisation of credit. Information on place of utilisation of credit is useful for analysing the migration of credit across different districts/States. The BSR-1B return collects branch level credit data according to broad occupation groups. BSR-2 return, collected annually from all offices of SCBs, pertains to deposits and employment. Data on deposits are collected according to type of deposits, and those on term deposits by size, interest rates and maturity (both original and residual). Employment data are obtained category-wise. Gender-wise statistics on deposits, credit and employment are included in BSR-1 and 2 returns. A Handbook of instructions relating to BSR-1 and 2 returns has been prepared for use by the branches and is revised periodically. The results of BSR-1 and 2 surveys are published annually. BSR-3 is a monthly return on advances against security of selected sensitive commodities. BSR-4 is a sample survey on ownership of deposits and includes data by type of deposits. The survey is conducted on an annual basis to obtain estimates on ownership pattern of deposits according to different economic sectors. Annual BSR-5 return relates to investment profile of SCBs (excluding regional rural banks) by type of investment (dated securities and others) as also investment in State-level securities. BSR-6 is quinquennial sample survey of debits to deposit and credit accounts and provides data on turnover rates for deposit/credit accounts of SCBs. The results of BSR-4 and 5 surveys are released in the 'Reserve Bank of India Bulletin'. The reference date for BSR-1, 2, 4 and 5 returns is March 31 and for BSR-3, last Friday of the month. BSR-6 survey covers April-March year data. BSR-7 is a quarterly return as on March 31 and on last Friday of June, September and December, on aggregate deposits and gross bank credit and submitted for all the branches of SCBs by the bank's head offices. Detailed tabulations covering geographical and spatial distribution of deposits and credit, by different characteristics, *viz*., State/District/Centre, population group and bank group, based on this return are published as a quarterly publication titled 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks'. A Master Office File on bank offices serves as a repository of location and other details of all branches/offices of banks. The BSR data based publications are accessible through the Reserve Bank's website, including user-friendly 'Data Base on Indian Economy' facility.

Major revisions in BSR-1 Return

The BSR-1 system has been revised with effect from March 2008 to take into consideration the changes in the banking/economic environment as well as to meet the emerging data requirements. The occupation classification has been modified in line with updations in National Industrial Classification (NIC)-2004 and proposed International Standard Industrial classification (ISIC) rev. 4 (draft), 2007. The definition and concept of Small Enterprises (SE), comprising small and micro enterprises engaged in manufacturing and services, have been introduced in place of Small Scale Industries (SSI). The kisan credit cards, general credit cards and other credit cards have been included as the type of accounts along with the existing personal credit cards. The organisation codes of the borrowers have been restructured. Financial and non-financial organisations have been separately defined under public, private and co-operative sectors. Separate codes have been included for self-help groups (SHGs)/micro-finance institutions (MFIs). Loans to non-banking financial companies (NBFCs) have been classified based upon on-lending to agriculture and allied activities, small and micro enterprises, housing sector, educational purposes and other general purposes. A new characteristic 'category of borrowers', based on the size of the borrowing unit, has been introduced in place of 'nature of borrowal account'. A new parameter 'security pledged/guarantee status for loans' has been introduced to capture the secured/unsecured loans. Information on 'fixed/floating rate of interest on loans' has also been included. The occupation/activity codes in BSR-1B return have been modified in line with changes in BSR-1A return.

Chart III.23: Progress in RTGS

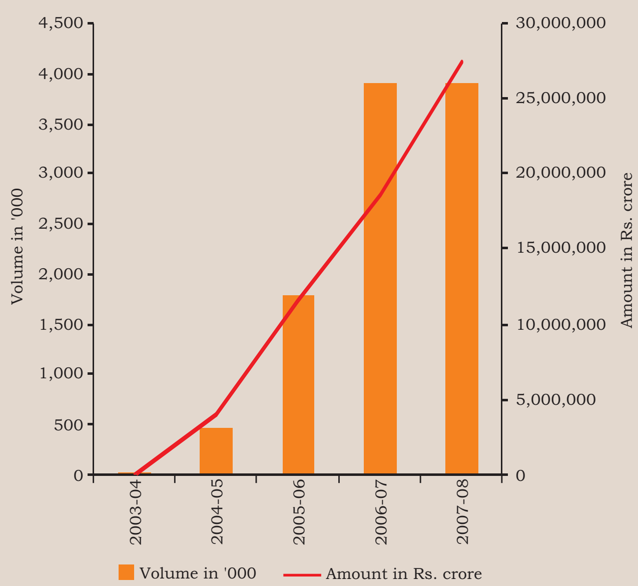
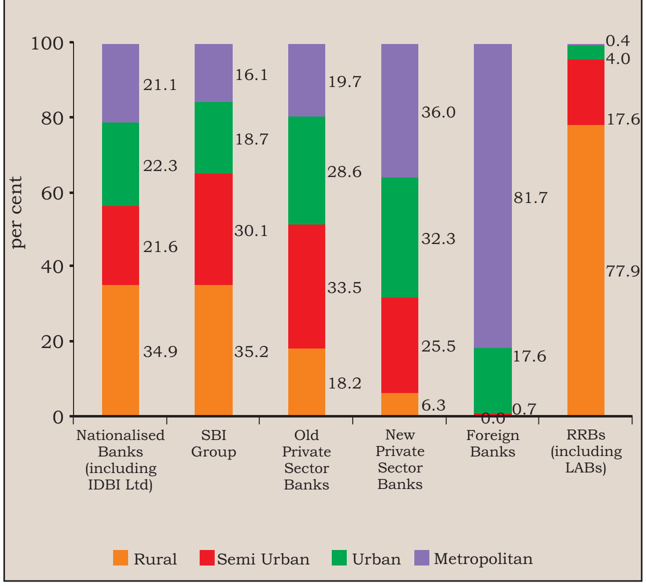


Chart III.24: Bank Group-wise Distribution of Branches of Scheduled Commercial Banks



72,752 at end-June 2007 to 76,518 at end-June 2008, registering a growth of 5.2 per cent during the year. These comprised 31,127 rural branches, 17,858 semi-urban branches and 27,533 urban and metropolitan branches. The share of rural branches declined further to 40.7 per cent at end-June 2008 from 42.1 per cent at end-June 2007, while the shares of all other population groups increased. Nearly half (49.6 per cent) of the total branches of all bank groups are operated by nationalised banks (including IDBI Bank Ltd.), followed by SBI and associates (19.9 per cent) and RRBs (19.3 per cent). The share of branches operated by new private sector banks increased to 4.9 per cent at end-June 2008 from 3.9 per cent at end-June 2007. While the share of branches operated by old private sector banks declined marginally during 2007-08 to 5.9 per cent at end-June 2008, the number of their branches increased across all population groups, reversing the trend observed in the previous year. Foreign bank branches were mostly concentrated in the urban and metropolitan areas with negligible presence in rural and semi-urban areas (Chart III.24 and Appendix Table III.36).

3.116 The top hundred centres arranged according to the size of deposits accounted for 69.7 per cent of total deposits, while the top hundred centres arranged according to the size of bank credit accounted for 77.8 per cent of total bank credit at end-March 2008. The shares of top hundred centres in total deposits and total bank credit have increased in recent years and the increase has been relatively sharper in the case of deposits (Table III.52).

Table III.52: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(Per cent)

End-March	Deposits		Credit	
	Offices	Amount	Offices	Amount
1	2	3	4	5
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
2008	25.7	69.7	25.6	77.8

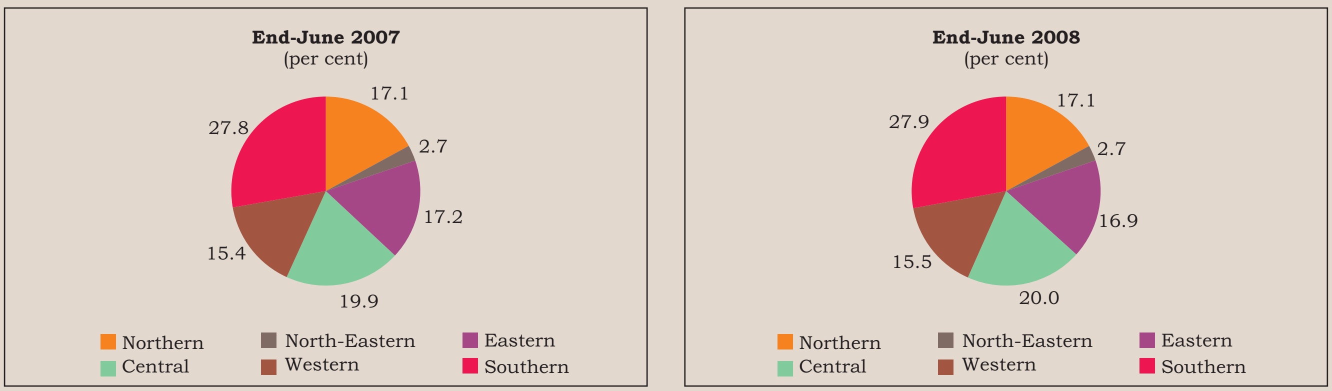
Source : Basic Statistical Return-7.

3.117 The Southern region continued to account for the largest percentage of existing bank branches during 2007-08, followed by the Central, Northern, Eastern, and the Western regions (Chart III.25). The share of North-Eastern region remained low at 2.7 per cent at end-June 2008. During July 2007 to June 2008, most of the new branches were opened in the Southern (1,147 or 29.9 per cent of incremental branches) and Central (854 or 22.3 per cent) regions. As the total number of bank branches expanded by 5.2 per cent during the 2007-08, the average population served by a single bank branch declined to about 15,000 at end-March 2008 from about 16,000 at end-March 2007. The decline was observed across all regions, barring Northern and Eastern regions where it remained unchanged (Appendix Table III.37).

3.118 An important factor in the geographical expansion of banking services is the population size of residential settlements. Many small residential settlements spread across country may not be able to sustain the business operations of more than one bank branch in a financially viable manner. These residential settlements/centres are often served by a single bank branch, *i.e.*, single office banked centres (Box III.4). Thus, single office banked centres have played an important role in the expansion of banking services to a wider population, particularly in the remote areas. The advancement in technology is, however, likely to change the typology of bank branch network in the country.

3.119 The all-India credit-deposit ratio (CDR) declined marginally to 74.2 per cent at the end-March 2008 from 75.0 per cent a year ago, reflecting some deceleration in the overall credit growth. The CDR (as per sanction) as well as investment *plus* credit to deposit ratio of the Southern region remained higher than the all-India level. The CDR (as per sanction) for the Western region was higher than all-India level, but investment *plus* credit to deposit ratio was a shade below than the all-India level. Both the ratios for other regions were below the all-India level (Chart III.26). As at end-March 2008, the CDR (as per sanction) was higher than all-India level in Rajasthan, Chandigarh, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu. The investment *plus* credit-deposit ratio at end-March 2008 in these States (except Maharashtra) and in Orissa, Gujarat, Dadra and Nagar Haveli, was higher than the all-India level (Appendix Table III.38).

Chart III.25: Regional Distribution of Bank Branches



Box III.4: Single Office Banked Centres

As per the Basic Statistical Return (BSR) system, a centre is defined as a revenue unit classified and delineated by the respective State government, *i.e.*, a revenue village/city/town/municipality/municipal corporation, *etc*. In general, a district consists of several centres. Accordingly, if a centre has one or more offices of scheduled commercial banks is termed as 'banked centre'. The banked centres are grouped into four population groups based on the population of the centre as per decennial census data. The total number of centres, served by scheduled commercial banks as on March 31, 2008 was 34,426.

An interesting attribute of any banked centre is the number of bank offices located in it. As at end-March 2008, out of the 34,426 banked centres served by SCBs, 28,529 had only one bank office ('single office centres'), while 37 centres had 100 or more bank offices (Table 1).

Table 1: Single Office Centres

(End-March)

Item	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7
Total number of banked centres	35,257	35,036	34,816	34,511	34,399	34,426
Number of single office centres	29,980	29,696	29,390	29,054	28,812	28,529
Share of single office centres in total banked centres (per cent)	85.0	84.8	84.4	84.2	83.8	82.9

Source: Basic Statistical Return (BSR)-7

The number of single office centres and share of single office centres in total banked centres has shown a decline over the years. As on March 31, 2008 single office centres accounted for 38.3 per cent of bank offices, but accounted for 8.1 per cent of deposits and 7.0 per cent of credit outstanding. Classification of banked centres according to population size indicated that 91.5 per cent of single office centres belonged to the rural population group. In rural areas, 84.9 per cent of the banked centres were single office centres and collectively such centres accounted for 74.2 per cent of deposits and 79.6 per cent of credit outstanding in rural areas. The 28,529 single-office centres are spread across all 35 States/UTs. Among the States/UTs, the highest number (4,283) of such centres was in Uttar Pradesh at end-March 2008. In Bihar, Andhra Pradesh, West Bengal and Maharashtra, single office centres were in the range of 2,027-2,309, while Karnataka, Tamil Nadu and Rajasthan each had more than of 1,500 such centres. Delhi and Chandigarh had 61 and 12 single-office centres, respectively, out of 69 and 14 banked centres, respectively. At end-March 2008, 615 districts out of the 621 districts in the country had 'single-office centres'. The 28,529 single-office centres showed a large variability, both in terms of their outstanding deposits and outstanding credit as on March 31, 2008 (Tables 2). While some of the recently opened branches are having low amount of business, others are functioning at highly specialised centres or for special purposes. Typical examples are project sites, food credit disbursing branches, *etc*.

Table 2: Distribution of Single Office Centres by Deposit/Credit Size

(Number of branches)

Deposit/Credit size class	Rural	Semi-urban	Total
Deposits			
Less than Rs.2 crore	1,483	45	1,528
Rs.2 crore to Rs.4 crore	6,322	203	6,525
Rs.4 crore to Rs.5 crore	3,143	139	3,282
Rs.5 crore to Rs.7.5 crore	5,594	373	5,967
Rs.7.5 crore to Rs.10 crore	3,237	333	3,570
Rs.10 crore to Rs.12.5 crore	1,891	292	2,183
Rs.12.5 crore to Rs.15 crore	1,176	208	1,384
Rs.15 crore to Rs.20 crore	1,388	285	1,673
Above Rs.20 crore	1,865	552	2,417
Total	**26,099**	**2,430**	**28,529**
Credit			
Less than Rs.2 crore	5,875	237	6,112
Rs.2 crore to Rs.4 crore	8,071	447	8,518
Rs.4 crore to Rs.5 crore	2,632	197	2,829
Rs.5 crore to Rs.7.5 crore	4,310	376	4,686
Rs.7.5 crore to Rs.10 crore	2,169	338	2,507
Rs.10 crore to Rs.12.5 crore	1,268	266	1,534
Rs.12.5 crore to Rs.15 crore	678	186	864
Rs.15 crore to Rs.20 crore	608	202	810
Above Rs.20 crore	488	181	669
Total	**26,099**	**2,430**	**28,529**

Source: Basic Statistical Return (BSR)-7

Foreign Banks' Operations in India

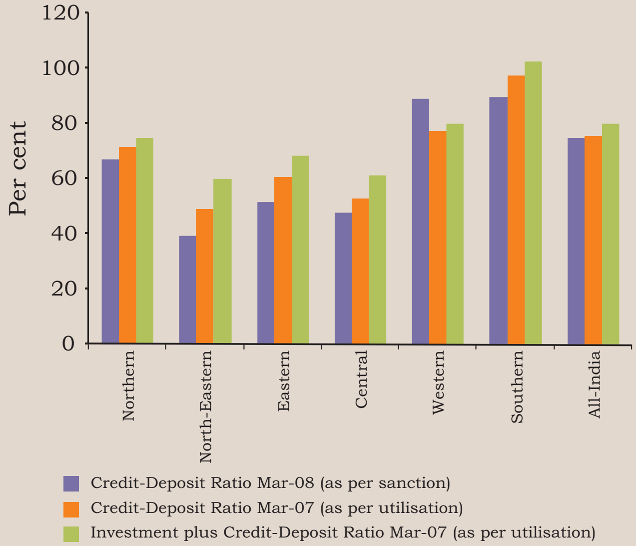
3.120 At end-June 2008, 30 foreign banks were operating in India with 279 branches (Table III.53). These banks originated from 21 countries. In addition, 41 foreign banks operated in India through representative offices. During the period from July 2007 to June 2008, approvals were given to 3 existing foreign banks to open 18 branches and to 11 foreign banks to open representative offices in India. Besides, an approval was also given to one new foreign bank *viz*., JSC VTB Bank to open its maiden branch in India.

3.121 Five foreign banks *viz*., Deutsche Bank AG, Standard Chartered Bank, Barclays Bank PLC, Citibank N.A. and JSC VTB Bank together set up 7 branches during July 2007 to June 2008. Besides, seven foreign banks, *viz*., Woori Bank, First Rand Bank Ltd., Royal Bank of Canada, Skandinaviska Enskilda Banken AG, Bayerische Landesbank AG, Westpac Banking Corporation and HSH Nordbank AG opened seven representative offices in India during the same period.

Indian Banks' Operations Abroad

3.122 Indian banks continued to expand their presence overseas. Seventeen Indian banks (12 from public sector and 5 from private sector) operated a network of 203 offices (131

Chart III.26: Region-wise Credit-Deposit Ratio and Investment plus Credit-Deposit Ratio of Scheduled Commercial Banks



branches, 22 subsidiaries, 7 joint venture banks and 43 representative offices) abroad at end-June 2008. During the period between July 1, 2007 to June 30, 2008, Indian banks opened 8 branches, 3 subsidiaries and 6 representative offices abroad. Bank of Baroda continued to have largest overseas presence, followed by State Bank of India and Bank of India (Table III.54).

9. Customer Service and Financial Inclusion

3.123 In recent years, the Reserve Bank has placed special emphasis on improving the customer service and expanding the banking outreach to wider sections of the society. Accordingly, it initiated several measures, including enhancing customer protection and disclosure, code of ethics and grievance redressal, among others. During 2007-08, the Reserve Bank further fine-tuned its guidelines

Table III.53: List of Foreign Bank Branches Operating in India - Country-wise

(As at end-June 2008)

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	AB Bank Ltd.	Bangladesh	1
4	American Express Banking Corporation	USA	1
5	Antwerp Diamond Bank N.V.	Belgium	1
6	Bank Internasional 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	The Bank of Tokyo- Mitsubishi UFJ Ltd.	Japan	3
11	BNP Paribas	France	8
12	Bank of Ceylon	Sri Lanka	1
13	Barclays Bank PLC.	United Kingdom	5
14	Calyon Bank	France	5
15	Citibank N.A.	USA	40
16	Chinatrust Commercial Bank	Taiwan	1
17	Deutsche Bank	Germany	11
18	DBS Bank Ltd.	Singapore	2
19	HSBC Ltd	Hong Kong	47
20	J.P. Morgan Chase Bank N.A.	USA	1
21	JSC VTB Bank	Russia	1
22	Krung Thai Bank Public Co. Ltd.	Thailand	1
23	Mizuho Corporate Bank Ltd.	Japan	2
24	Mashreq Bank PSC.	UAE	2
25	Oman International Bank SAOG	Sultanate of Oman	2
26	Shinhan Bank	South Korea	2
27	Standard Chartered Bank	United Kingdom	92
28	Sonali Bank Ltd.	Bangladesh	2
29	Societe Generale	France	2
30	State Bank of Mauritius	Mauritius	3
	Total		**279**

Note : The JSC VTB Bank began its operation in India on April 25, 2008 and American Express Banking Corporation was issued banking licence dated February 27, 2008.

Table III.54: Overseas Operations of Indian Banks

(Actually Operational)

Name of the Bank	Branch		Subsidiary		Representative Office		Joint Venture Bank		Total	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
I. Public Sector Banks	**116**	**121**	**19**	**19**	**26**	**28**	**7**	**7**	**168**	**175**
1 Allahabad Bank	1	1	-	-	1	1	-	-	2	2
2 Andhra Bank	-	-	-	-	1	1	-	-	1	1
3 Bank of Baroda	43	45	8	8	4	4	1	1	56	58
4 Bank of India	22	23	2	3	3	4	1	1	28	31
5 Canara Bank	2	2	1	-	1	1	-	-	4	3
6 Indian Bank	3	3	-	-	-	-	-	-	3	3
7 Indian Overseas Bank	6	6	1	1	2	3	-	-	9	10
8 Punjab National Bank	1	2	1	1	4	3	1	1	7	7
9 State Bank of India	33	33	6	6	7	7	4	4	50	50
10 Syndicate Bank	1	1	-	-	-	-	-	-	1	1
11 UCO Bank	4	4	-	-	2	2	-	-	6	6
12 Union Bank	0	1	-	-	1	2	-	-	1	3
II. New Private Sector Banks	**9**	**10**	**3**	**3**	**13**	**15**	**-**	**-**	**25**	**28**
13 Axis Bank	3	3	-	-	1	2	-	-	4	5
14 Centurion Bank of Punjab Ltd.	-	-	-	-	1	-	-	-	1	-
15 HDFC Bank Ltd.	-	-	-	-	1	2	-	-	1	2
16 ICICI Bank Ltd.	6	7	3	3	8	8	-	-	17	18
17 IndusInd Bank Ltd.	-	-	-	-	2	2	-	-	2	2
18 Federal Bank Ltd.	-	-	-	-	-	1	-	-	-	1
Total	**125**	**131**	**22**	**22**	**39**	**43**	**7**	**7**	**193**	**203**

-: Nil

Note: Data for 2006-07 relate to end-August 2007 while that for 2007-08 relate to end-June 2008.

for improving customer service and expanding financial inclusion.

3.124 The Reserve Bank has institutionalised the offices of Banking Ombudsman (BO) at 15 centres across the country. BO offices receive the complaints relating to grievances against commercial banks, regional rural banks and scheduled primary co-operative banks. Complainants have the facility to send the complaints by email, online or by post. The complaints are tracked by BO offices by means of a complaint tracking software. During 2007-08, 47,887 complaints were received by 15 BO offices as against 38,638 complaints received during 2006-07. All the complaints were 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. The maximum complaints were received in respect of credit cards across all bank groups, barring nationalised and old private sector banks. This was followed by complaints relating to failure on commitments made, deposit accounts, remittances and loans and advances (general). A significant number of complaints also related to pension (especially for public sector banks) and direct selling agents (especially for new private sector banks). The number of complaints per office was low for all bank groups barring foreign banks group (Table III.55 and Appendix Table III.39).

3.125 Region-wise, the maximum complaints during 2007-08 were received at New Delhi, thereby surpassing Mumbai as the centre with the largest number of complaints. The number

Table III.55: Bank-Group-wise Complaints received at Banking Ombudsman Offices - 2007-08@

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 Complaints Received (1 to 10)	**45,772**	**25,694**	**12,163**	**13,531**	**13,950**	**929**	**13,021**	**6,128**
1) Deposit Accounts	5,500	2,866	1,685	1,181	2,113	140	1,973	521
2) Remittances	5,077	3,422	1,713	1,719	1,330	97	1,233	315
3) Credit Cards	10,107	3,936	697	3,239	3,084	49	3,035	3,087
4) Loans/Advances (a+b)	5,773	3,740	2,147	1,593	1,550	154	1,396	483
a) General	5,042	3,348	1,929	1,419	1,290	131	1,159	404
b) Housing Loans	731	392	218	174	260	23	237	79
5) Charges without Prior Notice	3,700	1,659	815	844	1,618	111	1,507	423
6) Pension	1,573	1,519	599	920	45	3	42	9
7) Failure on Commitments Made	6,222	3,521	1,805	1,716	2,145	193	1,952	556
8) Direct Selling Agents	3,044	1,902	979	923	801	37	764	341
9) Notes and Coins	133	91	47	44	30	5	25	12
10) Others	4,643	3,028	1,676	1,352	1,234	140	1,094	381
Memo :								
Complaints per Branch*	0.7	0.5	0.3	0.9	1.7	0.2	3.7	22.1

@ : Excluding RRBs and scheduled primary co-operative banks.
* : As per number of branches excluding administrative offices as at end-March 2008.

of complaints received in Chennai, Guwahati, Bhubaneswar, Kolkata and Ahmedabad also increased sharply during 2007-08 (Table III.56).

3.126 In terms of the Banking Ombudsman Scheme 2006 (as amended up to May 2007), bank customers and banks can appeal to the Appellate Authority against the decisions given by Banking Ombudsman. During 2007-08, 186 such appeals were received which include 17 appeals against awards and 169 appeals against decisions of BO. The Reserve Bank has evaluated the progress for improvement of customer services by various bank groups in some centres (Box III.5)

Table III.56: Region-wise Complaints received at Banking Ombudsman Offices

Sr.no.	Office	No. of complaints received 2006-07	2007-08
1	2	3	4
1	Ahmedabad	2,107	2,855
2	Bangalore	2,406	2,975
3	Bhopal	2,731	3,405
4	Bhubaneswar	689	998
5	Chandigarh	2,006	2,331
6	Chennai	2,387	4,545
7	Guwahati	170	282
8	Hyderabad	2,767	2,843
9	Jaipur	2,976	3,369
10	Kanpur	4,321	5,340
11	Kolkata	2,011	2,815
12	Mumbai	5,525	6,070
13	New Delhi	5,481	6,742
14	Patna	1,481	1,480
15	Thiruvananthapuram	1,580	1,840
	Total	**38,638**	**47,890**

3.127 Financial Inclusion is 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. The Reserve Bank has made concerted efforts, particularly in recent years, to promote financial inclusion. In November 2005, banks were advised to make available a basic 'no-frills' account with low or nil minimum balances as well as charges. In order to ensure that persons belonging to low income group, both in urban and rural areas, do not encounter difficulties in opening bank accounts, the know your customer (KYC) procedure for opening accounts were simplified for those accounts with balances not exceeding Rs. 50,000 and

Box III.5: Customer Satisfaction Survey

In view of the importance given by the Reserve Bank on customer services of banks and the recent initiatives in this respect, the Local Board (Southern Region) desired that a survey should be conducted to evaluate the satisfaction level of customer on various services rendered by the banks. Accordingly, Department of Statistics and Information Management (DSIM), Chennai Regional Office conducted a Customer Satisfaction Survey at four major districts of Tamilnadu, *viz*., Chennai, Coimbatore, Madurai and Tiruchirapalli, covering 2,800 customers from 149 bank branches selected using systematic sampling method (Table 1). Care was taken to adequately cover different types of customers across different population groups. A detailed questionnaire used for the survey covered various aspects such as: (a) demographic details of the respondents; (b) common factors influencing satisfaction level such as branch infrastructure, working hours, number of employees, *etc*.; and (c) specific banking services influencing satisfaction level such as: (i) basic services like deposit and withdrawal; (ii) loan facilities; (iii) payment and other similar services, *etc*. To measure the satisfaction level, respondents were asked to rate their satisfaction level with various services on a five-point scale from *'Highly Dissatisfied'* to *'Highly Satisfied'*.

Branch-wise analysis showed that only 68.5 per cent bank branches were under Core Banking Solution (CBS) and the remaining were either under total branch automation or partial computerisation. The overall average staff strength per branch is 15 and about 80 per cent of selected branches' staff strength was below the overall average. In all, nine bank branches had received ISO 9000 certification, of which two branches were from rural centre.

Table 1: Sample of the Survey

District	Rural	Semi-Urban	Urban	Metro-Politian	Total
1	2	3	4	5	6
Number of Branches					
Chennai	-	-	-	28	28
Coimbatore	17	27	18	-	62
Madurai	12	7	9	-	28
Tiruchirapalli	13	9	9	-	31
Total	**42**	**43**	**36**	**28**	**149**
Number of Respondents					
Chennai	-	-	-	597	597
Coimbatore	280	425	382	-	1,087
Madurai	249	141	180	-	570
Tiruchirapalli	199	161	186	-	546
Total	**728**	**727**	**748**	**597**	**2,800**

Analysis of the survey showed that courtesy and friendliness extended by bank staffs in rural centres were rated better compared to semi-urban, urban and metro centres. It was observed that bank staff knowledge on various banking services and willingness to help customers was comparatively low in semi-urban centres. Most of the respondents (87.5 per cent) were satisfied with the way bank's staff treat them and agreed that there was no discrimination based on caste, gender, status, *etc*. Complaint handling and redressal mechanism were rated better for private sector banks compared to other bank groups. Around 40 per cent respondents were dissatisfied with services charges levied by banks. This factor showed the least average satisfaction score. Respondents were, in general, satisfied with bank's responses to their telephonic queries and confidentiality and privacy of their bank accounts maintained by the banks.

Survey showed that infrastructure facility had the third lowest average rating among the common factors and around 40 per cent of the rural respondents were dissatisfied with infrastructure facilities. Furthermore, nationalised banks were rated low on infrastructure facilities. In general, respondents were satisfied with the overall operating of savings bank accounts, while most of the respondents from public sector banks were satisfied with the minimum balance requirement, around 25 per cent of respondents from private sector banks and foreign banks were dissatisfied. The analysis indicated that compared to public sector and foreign banks, private sector banks provide quick and fast services to savings bank account holders. With regard to cheque collection, most of the banks have introduced the drop box facility for depositing cheques to avoid any time delay to their customers. Analysis showed that more than 75 per cent of urban and metropolitan respondents were satisfied with the drop box facility. However, satisfaction was comparatively low in rural and semi-urban centres. Few respondents were dissatisfied with commission/charges and processing time taken for issuing a demand draft.

More than 75 per cent of the respondents were satisfied with the credit card facility, but for interest rates. Around 44 per cent of the respondents, mostly from private sector and foreign banks, were dissatisfied with interest rate applicable to credit cards. The Survey showed that more than 85 per cent of the respondents were satisfied with ATM facility, of which 35 per cent were highly satisfied. There were, however, many suggestions from rural customers regarding the extension of ATM facility to them.

Regarding the loan facilities offered by the banks, respondents of SBI and associates and private sector banks showed higher satisfaction level compared to nationalised and foreign banks. It was observed that the proportion of respondents highly satisfied with loan facilities from SBI and associates and private sector banks were 31 per cent and 43.9 per cent, respectively. In general, respondents had no complaints against the procedural formalities followed in sanctioning and disbursement of loans. Furthermore, 75.5 per cent of the respondents were satisfied with settlement and recovery procedures followed by the banks.

Even though 88.1 per cent of respondents had indicated that overall they were satisfied/highly satisfied with banking services, in specific areas, respondents had expressed their dissatisfaction. Furthermore, it was observed that respondents who took neutral stance (neither satisfied nor dissatisfied) for all factors can be converted to a satisfied group with some efforts. In general, the satisfaction level of rural customers was high, which may be due to their lower expectations and awareness. Despite the fact that advancements in IT and communication have enabled banks to offer better customer services, such advancements have not reached all segments of customers, as there are still some bank branches yet to be fully computerised.

credits thereto not exceeding Rs. 1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed. Significant progress has been made in opening of 'no-frills' accounts by banks. Between end-March 2007 and end-March 2008, more than 9 million new 'no-frills' bank accounts were opened by SCBs. Public sectors banks accounted for bulk of these new 'no-frills' accounts due to their vast branch network in rural and semi-urban areas (Table III.57).

10. Regional Rural Banks

3.128 The regional rural banks (RRBs) were established to combine the local feel and familiarity enjoyed by the co-operatives with the degree of business organisation as well as the ability to mobilise deposits characteristic of commercial banks. After the commencement of consolidation and amalgamation process of RRBs initiated by the Government in September 2005, in terms of Section 23A of the Regional Rural Banks Act, 1976, the number of RRBs declined to 91 as on March 31, 2008, (196 at end-March 2005) operating in 25 States across 586 districts with a network of 14,790 branches. Consequent upon the amalgamation of 151 RRBs, 46 new amalgamated RRBs were formed besides 45 stand-alone RRBs. With further amalgamation, and formation of a new RRB in the Union Territory of Puducherry, the total number of RRBs, all over India, declined to 88 as on August 31, 2008 (including 45 amalgamated and 43 stand-alone).

Table III.57: Number of No-frills Accounts Opened by SCBs

Bank Group	End-March 2006	End-March 2007	End-March 2008
1	2	3	4
Public Sector Banks	332,878	5,865,419	13,909,935
Private Sector Banks	156,388	860,997	1,845,869
Foreign Banks	231	5,919	33,115
Total	489,497	6,732,335	15,788,919

Note : Data are provisional.

3.129 A number of policy initiatives were taken by the Reserve Bank and NABARD to facilitate diversification of their business operation into new areas (refer Chapter II). In order to facilitate RRBs in becoming an important arm for financial inclusion in rural areas, the Government reviewed the performance of RRBs on February 7, 2008. RRBs have been encouraged to enhance their deposit base and increase credit-deposit ratio from the level of 56 per cent at end-March 2006 by exploiting the emerging potential under both priority and non-priority sector. Accordingly, the CD ratio of RRBs improved to 60.3 per cent at end-March 2008.

Recapitalisation of RRBs

3.130 It was announced in the Union Budget 2007-08 that the RRBs with negative net worth would be recapitalised in a phased manner. The performance review of all RRBs undertaken in July 2007 revealed that out of 96 RRBs (46 amalgamated and 50 stand-alone), 29 (11 amalgamated and 18 stand-alone) had negative net worth amounting to Rs.1,857 crore including the share capital as on March 31, 2007. After July 2007, two RRBs with negative net worth were merged with two other RRBs of the same State and sponsored by same banks, thus, resulting in formation of two new entities with no negative net worth. As a result, the number of RRBs having negative net worth declined to 27. The amount required for recapitalisation was at Rs.1,796 crore. Of this, Rs.269 crore (15 per cent share), Rs.629 crore (35 per cent share) and Rs.898 crore (50 per cent share) was to be contributed by the State Governments, sponsor banks, and by Government of India, respectively. Five State Governments contributed their share in 10 RRBs in 2007-08, of which 7 RRBs got full share from all the three shareholders and 3 RRBs received contribution partially by March 31, 2008. The rest of the RRBs are expected to get the recapitalisation fund in 2008-09.

Financial Performance of RRBs

3.131 The consolidated balance sheet of RRBs showed an increase of 16.8 per cent during 2007-08 as compared with 18.0 per cent in 2006-07 (Table III.58). On the assets side, net advances of RRBs increased by 21.7 per cent during the period, a more or less same growth as in the previous year. Among the major items on the liabilities side, both deposits and borrowings increased by 19.2 per cent each during the year. Reflecting a relatively higher growth in advances, credit-deposit ratio of RRBs increased to 60.3 per

Table III.58: Regional Rural Banks: Consolidated Balance Sheet

(Amount in Rs. crore)

Item	March 31 2007	March 31 2008P	Percentage Variation	
			2006-07 over 2005-06	2007-08 over 2006-07
1	2	3	4	5
Liabilities	**1,05,768**	**1,23,541**	**18.0**	**16.8**
Share Capital	196	196	–	–
Reserves	4,902	5,687	14.8	16.1
Share Capital Deposits	2,188	2,833	0.4	29.5
Deposits	83,144	99,095	16.6	19.2
Current	4,785	5689	21.0	18.9
Savings	46,112	53,370	20.6	15.7
Term	32,247	40,036	10.7	24.2
Borrowings	9,776	11,649	33.8	19.2
NABARD	7,567	8,350	20.1	10.4
Sponsor Bank	2030	3,250	116.8	60.1
Others	179	49	316.3	-72.6
Other Liabilities	5,562	4,081	27.4	-26.6
Assets	**1,05,768**	**1,23,541**	**18.0**	**16.8**
Cash in Hand	1,216	1,412	17.7	16.1
Balances with RBI	4,886	7,164	38.8	46.6
Other Bank Balances	19,314	23,493	18.8	21.6
Other Investments	26,352	25,073	5.6	-4.8
Loans and Advances (net)	47,326	57,601	22.7	21.7
Fixed Assets	196	214	10.1	9.2
Other Assets#	6,478	8,584	24.2	32.5
Memorandum Items:				
a. Credit-Deposit Ratio	58.3	60.3		
b. Investment-Deposit Ratio	54.9	45.2		
c. (Credit+Investment)-Deposit Ratio	104.3	106.4		

P: Provisional. -: Nil/Negligible #: includes accumulated loss.
Source : NABARD

cent at end-March 2008 from 58.3 per cent a year ago.

3.132 During 2007-08, 90 RRBs extended new loans (issued) to the extent of Rs.38,464 crore to 9.3 million borrowers as against Rs.33,043 crore during 2006-07 to 8.9 million borrowers. Of this, the share of priority sector loans issued was 82.1 per cent. In terms of number of borrowers' coverage, the share of priority sector was 86.0 per cent to total loans issued during 2007-08. As at end-March 2008, the outstanding advances of RRBs were Rs.59,751 crore and the share of priority sector was 83.1 per cent (Table III.59). The share of agricultural loans declined marginally to 55.4 per cent at end-March 2008 from 56.6 per cent a year ago.

3.133 Aggregate income of RRBs during 2007-08 grew by 20.0 per cent on account of higher interest as well as non-interest income. Growth in expenditure during the year was relatively subdued on account of lower increase in interest expenditure and wage bill. As a result, profitability of RRBs improved significantly during 2007-08. Out of 90 RRBs, 82 RRBs earned a combined profit of Rs. 1,429 crore, whereas 8 RRBs incurred a combined loss of Rs. 55 crore in 2007-08. Thus, RRBs, as a group, earned net profits of Rs. 1,374 crore during 2007-08 as compared with Rs. 625 crore in the previous year. The improvement in the financial performance of RRBs is also reflected in the decline in NPAs ratios (both gross and net) during 2007-08. While gross NPAs to total assets ratio declined to 5.9 per cent at end-March 2008 from 6.6 per cent a year ago, the net NPAs to assets ratio declined to 3.0 per cent from 3.5 per cent a year ago (Table III.60).

3.134 The productivity of RRBs, both in terms of per branch and per employee, showed further improvement during 2007-08 (Table III.61). Most of the other financial ratios also showed improvement during the year.

Table III.59: Purpose-wise Outstanding Advances by RRBs

(Amount in Rs. crore)

Purpose/End-March	2006	2007	2008P
1	2	3	4
I. Agriculture (i to iii)	**21,509**	**27,452**	**33,112**
Per cent to total loans outstanding	54.2	56.6	55.4
i. Short-term loans (crop loans)	13,877	18,707	22,644
ii. Term loans (for agriculture and allied activities)	7,632	8,745	10,468
iii. Indirect Advances	-	-	-
II. Non-agriculture (iv to vii)	**18,204**	**21,041**	**26,639**
Per cent to total loans outstanding	45.8	43.4	44.6
i. Rural Artisans, *etc.*	748	736	671
ii. Other Industries	757	880	1276
iii. Retail Trade, *etc.*	3,452	3,677	5,016
iv. Other purposes	13,246	15,748	19,676
Total (I+II)	**39,712**	**48,493**	**59,751**
Memo item:			
a) Priority Sector	32,177	39,852	49,650
b) Non-priority Sector	7,535	8,641	10,101
c) Share of Priority Sector (per cent to Total)	81.0	82.2	83.1

P : Provisional. - : Nil/Negligible.

Source : NABARD.

11. Local Area Banks

3.135 There were four local area banks (LABs) in the country at end-March 2008. During 2007-08, aggregate assets of LABs increased by 32.2 per cent and deposits and gross advances by 32.4 per cent and 35.5 per cent, respectively. More or less similar growth rate was observed across all LABs barring *Krishna Bhima Samruddhi* Local Area Bank Ltd. that showed a significantly higher growth (Table III.62).

3.136 During 2007-08, the income of the LABs showed a large increase on account of both interest and non-interest income. Growth

Table III.60: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Particulars	2006-07			2007-08(P)			Variation	
	Loss Making [15]	Profit Making [81]	Total RRBs [96]	Loss Making [8]	Profit Making [82]	Total RRBs [90]	Col. (7) over Col. (4) Amount	Per cent
1	2	3	4	5	6	7	8	9
A. Income (i+ii)	**997**	**6,666**	**7,663**	**316**	**8,879**	**9,195**	**1,532**	**20.0**
i) Interest income	932	6,191	7,123	286	8,106	8,392	1,269	17.8
ii) Other income	65	475	540	30	773	803	263	48.7
B. Expenditure (i+ii+iii)	**1,298**	**5,740**	**7,038**	**365**	**7,401**	**7,766**	**728**	**10.3**
i) Interest expended	589	3,127	3,716	191	3,873	4,064	348	9.4
ii) Provisions and contingencies	192	425	617	50	675	725	108	17.5
iii) Operating expenses	464	2,241	2,705	130	2,847	2,977	272	10.1
of which : Wage Bill	391	1,660	2,051	113	2,102	2,215	164	8.0
C. Profit								
i) Operating Profit/Loss	-56	1,298	1242	-5	2,159	2,154	912	73.4
ii) Net Profit/Loss	-301	926	625	-55	1429	1374	749	119.8
D. Total Assets	**16,148**	**89,620**	**1,05,768**	**4,440**	**1,19,101**	**1,23,541**	**17,773**	**16.8**
E. Financial Ratios @								
i) Operating Profit	-0.35	1.45	1.17	-0.11	1.81	1.74	-	-
ii) Net Profit	-1.86	1.03	0.59	-1.24	1.2	1.11	-	-
iii) Income	6.17	7.44	7.25	7.12	7.46	7.44	-	-
a) Interest income	5.77	6.91	6.73	6.44	6.81	6.79	-	-
b) Other Income	0.4	0.53	0.51	0.68	0.65	0.65	-	-
iv) Expenditure	8.04	6.4	6.65	8.22	6.21	6.29	-	-
a) Interest expended	3.65	3.49	3.51	4.3	3.25	3.29	-	-
b) Operating expenses	2.87	2.5	2.56	2.93	2.39	2.41	-	-
of which: Wage Bill	2.42	1.85	1.94	2.55	1.76	1.79	-	-
v) Provisions and contingencies	1.19	0.47	0.58	1.13	0.57	0.59	-	-
vi) Gross NPAs			6.55			5.88	-	-
vii) Net NPAs			3.46			3.02	-	-

P : Provisional. @: Ratios to total assets. *: Before tax.

Note : Figures in brackets represent number of RRBs. Financial performance analysis relates to 90 RRBs (excluding the new RRB).

Source : NABARD.

rate in expenditure was also significant as interest expenditure grew sharply. On the whole, the rise in income was more than the rise in expenditure, resulting in higher

Table III.61: Business and Financial Indicators of RRBs

Indicator	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (p)
1	2	3	4	5	6	7	8
No.of RRBs	196	196	196	196	133 #	96 #	91#
Net profit (Rs crore)*	608	519	769	748	617	625	1374
Per Branch Productivity[1] (Rs. crore)	4.4	5.0	5.7	6.6	7.7	9.1	10.7
Per Employee Productivity[2] (Rs. crore)	0.9	1.0	1.2	1.4	1.6	1.9	2.3
Accumulated loss as percentage to assets	4.7	4.4	3.9	3.5	2.9	2.5	2.1
Salary as percentage to Assets	2.2	2.3	2.6	2.0	2.3	2.2	1.8
Financial Return[3] (per cent)	10.6	9.6	8.9	8.2	7.7	7.7	7.9
Financial Cost[4] (per cent)	6.8	6.1	5.4	4.6	4.1	4.0	4.2
Financial margin[5] (per cent)	3.8	3.5	3.5	3.6	3.6	3.7	3.6
Risk, operational and other cost (per cent)	2.6	2.6	2.2	2.3	2.8	3.0	3.1
Net margin[6] (per cent)	1.2	0.9	1.3	1.3	0.8	0.7	0.6

* : Before Tax

\# : Reduction in number of RRBs was due to amalgamation, which began in September 2005. Financial performance analysis relates to 90 RRBs (excluding the new RRB).

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 2007-08 are provisional.

Source : NABARD.

Table III.62: Profile of Local Area Banks

(Amount in Rs. crore)

Bank	Assets		Deposits		Gross Advances	
	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	362	466	301	393	186	243
Coastal Local Area Bank Ltd.	63	76	45	56	32	43
Krishna Bhima Samruddhi Local Area Bank Ltd.	49	81	27	43	30	52
Subhadra Local Area Bank Ltd.	23	31	15	22	14	17
Total	**497**	**654**	**388**	**514**	**262**	**355**

Source: Based on off-site returns.

operating and net profit during 2007-08. The ratio of net profit to total assets was higher at 1.5 per cent as compared with 1.2 per cent in the previous year even as the net interest margin remained at the previous year's level (Table III.63).

Table III.63: Financial Performance of Local Area Banks
(As at end-March)

(Rs. crore)

Particulars	2006-07	2007-08	Variation of Col.(3) over Col. (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**46.3**	**68.2**	**21.8**	**47.1**
i) Interest income	37.4	54.9	17.5	46.7
ii) Other income	8.9	13.3	4.4	49.0
B. Expenditure (i+ii+iii)	**40.5**	**58.3**	**17.8**	**43.9**
i) Interest expended	18.3	29.9	11.6	63.0
ii) Provisions and contingencies	4.3	6.1	1.8	41.0
iii) Operating expenses	17.8	22.3	4.5	25.1
of which : Wage Bill	7.0	9.9	2.9	40.5
C. Profit				
i) Operating Profit/Loss	**10.2**	**15.6**	**5.4**	**53.1**
ii) Net Profit/Loss	**5.9**	**9.5**	**3.6**	**62.1**
D. Spread (Net Interest Income)	**19.1**	**25.0**	**5.6**	**31.0**
E. Total Assets	**496.4**	**653.5**	**157.1**	**31.7**
F. Financial Ratios@				
i) Operating Profit	2.1	2.4		
ii) Net Profit	1.2	1.5		
iii) Income	9.3	10.4		
iv) Interest income	7.5	8.4		
v) Other Income	1.8	2.0		
vi) Expenditure	8.2	8.9		
vii) Interest expended	3.7	4.6		
viii) Operating expenses	3.6	3.4		
ix) Wage Bill	1.4	1.5		
x) Provisions and Contingencies	0.9	0.9		
xi) Spread (Net Interest Income)	3.8	3.8		

Note : @ Ratios to Total Assets.
Source : Based on Off-site returns.

Chapter IV

Developments in Co-operative Banking

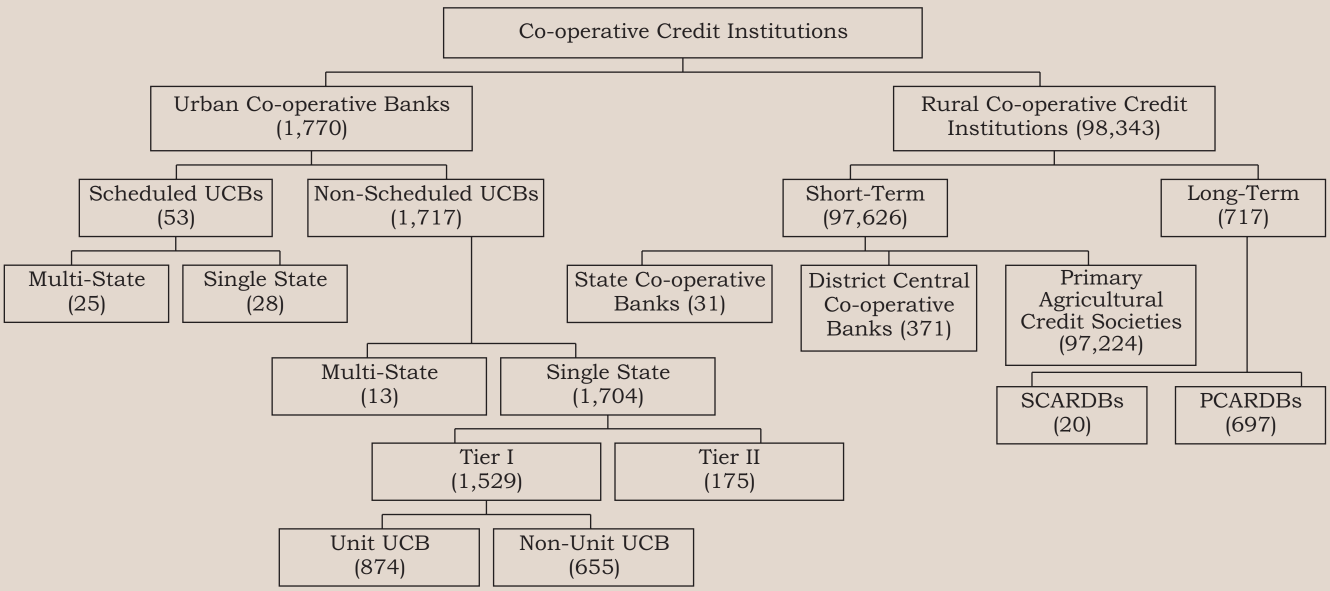
Introduction

4.1 The co-operative banking sector, with its more than a century old existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective. Though it supplements the efforts of the commercial banks in credit delivery and deposit mobilisation, its extensive branch networks with reach even in remote areas, makes it an important instrument for achieving greater financial inclusion. However, the financial health of most of the co-operative banks has been a cause for concern and has so far proved to be a serious handicap in reaching out to the larger population. Thus, the focus of recent policy measures is on revitalising and strengthening the co-operative banking sector in India. The ongoing task of revitalising the rural co-operative sector is progressing on the lines of the recommendations of the Task Force to review the problems of rural co-operative sector and for the UCBs, based on Vision Document, 2005.

4.2 The structure of the co-operative banking sector in India is complex. Credit needs of diverse sections of the population, both in terms of location and tenor, are addressed by different segments of the co-operative banking sector. While the urban areas are served by the urban co-operative banks with a single tier structure, the rural areas are largely served by two distinct sets of institutions extending short-term and long-term credit. The short-term co-operative credit institutions have a three-tier structure comprising State co-operative banks (StCBs) at the apex level, district central co-operative banks (DCCBs) at the intermediate level and primary agricultural credit societies (PACS) at the base level. The long-term co-operative credit institutions have, generally, a two-tier structure comprising the State co-operative agriculture and rural development banks (SCARDBs) at the State level and the primary co-operative agriculture and rural development banks (PCARDBs) at the district or block level. Long-term co-operative credit institutions have a unitary structure in some States with State level banks operating through their own branches, while in other States they have a mixed structure with the existence of both unitary and two-tier systems. The States which do not have long-term co-operative credit entities are served by State co-operative banks (Chart IV.1).

4.3 Recognising the importance of urban co-operative banks in providing banking services to the middle and lower income group of people, the Reserve Bank in March 2005 drafted a Vision Document for UCBs pointing out the problem of dual control as a restrictive mechanism inhibiting its ability to handle the weaknesses of the entities within the sector. As per the terms of the document, so far 23 State Governments and Central Government (in case of multi-State UCBs) have signed the Memoranda of Understanding (MoUs) with the Reserve Bank covering 98.6 per cent of the total number of the UCBs representing 99.2 per cent of deposits of the sector. As a part of the MoU, the State level Task Force for Co-operative Urban Banks (TAFCUBs) have been set up to identify the potentially viable and non-viable UCBs in the State and to chart out the revival path and non-disruptive exit route for the two sets of banks, respectively. These measures instilled public confidence in the

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 2008 for UCBs and at end- March 2007 for rural co-operative credit institutions.

sector which is evident from the increase in deposits for three successive years, *i.e.*, from 2005-06 to 2007-08.

4.4 During 2007-08, the Reserve Bank continued with its policy of encouraging States to sign MoUs to establish a co-ordinated supervisory/regulatory structure, by further incentivising the scheme in the form of additional business opportunities, opening of new ATMs and conversion of exchange counters into branches, among others. The process of consolidation through mergers of UCBs progressed further during the year with a total of 61 mergers being effected upon the issue of statutory orders by the Central Registrar of Co-operative Societies/Registrar of Co-operative Societies (CRCS/RCS) concerned. Further, as on March 31, 2008, 268 UCBs were under various stages of liquidation. All these measures appeared to have positive impact on the performance of the UCBs as a whole. Their businesses expanded at an impressive rate and operating profit increased during the year.

4.5 The process of implementation of the recommendations of the Task Force on revival of short-term rural co-operative credit structure (Chairman: Prof. A. Vaidyanathan) started with the announcement of a package by the Government of India. Twenty five States have signed MoUs with the Government of India and NABARD. At end-March 2008, 59,294 PACS completed the required special audit. Until end-August 2008, eight States had amended their respective Co-operative Societies Acts. Common Accounting System (CAS) and management information system (MIS) were introduced along with several human resources development (HRD) initiatives. Recapitalisation of eligible PACS has been initiated. The Central Government also reached an agreement with the State Governments regarding the contents of the package to implement the Vaidyanathan Committee report on revival of long-term co-operative credit structure.

4.6 Balance sheets of all segments of the rural co-operative banking sector, except for SCARDBs, expanded during 2006-07. Continuing with the trend witnessed in the last year, the upper tier of both short-term and long-term rural co-operative credit institutions made profits during 2006-07 also, while the lower tier (*viz*., PACS and PCARDBs) incurred losses. However, the profits made by the upper tier were lower during 2006-07, while the losses incurred by the lower tier were higher as compared with 2005-06. As a result, at the aggregate level, the financial performance of the rural co-operative banking sector on the whole deteriorated further during 2006-07. Asset quality in terms of NPAs to loan ratio improved at the aggregate level as well as at disaggregated level for all segments of rural credit structure, barring PCARDBs (in case of PCARDBs the ratio remained unchanged during 2006-07). The recovery performance improved this year for DCCBs, PACS and PCARDBs, while it worsened for StCBs and SCARDBs.

4.7 The chapter is organised into five sections. Section 2 details the policy developments, business operations and performance of urban co-operative banks, while Section 3 focuses on the policy developments and performance of rural co-operative banks. Section 4 delineates the role of NABARD in the rural co-operative sector and the initiatives taken during the year to improve the performance of the rural co-operative banking sector. Section 5 reviews the progress made in the implementation of the Vaidyanathan Committee's recommendations on revival of the rural co-operative banking sector.

2. Urban Co-operative Banks

Policy Developments

4.8 The consultative mechanism adopted by the Reserve Bank for regulation and supervision of UCBs in line with the framework suggested in the Vision Document (2005) through signing of MoUs helped strengthen the sector. Furthermore, the Reserve Bank guidelines on merger/amalgamation of UCBs, just prior to commencement of the MoU process, helped phase out non-viable banks through a non-disruptive exit route. Both of these mechanisms progressed well during 2007-08 and helped the UCB sector to strengthen further. Besides, the Reserve Bank continued with its policy of relaxed regulatory norms for Tier I UCBs, *i.e.*, smaller UCBs with deposit base of less than Rs.100 crore and having branches limited to a single district. Moreover, the Reserve Bank also made available a number of facilities to UCBs in those States that have signed MoU with the Reserve Bank.

Structural Initiatives

Vision Document

4.9 A significant proposal of the Vision Document was to address the problem of dual control of UCBs by signing of MoU between the Reserve Bank and the respective State Governments, and establishing a consultative forum for supervision of the banks. Accordingly, the Reserve Bank approached the States having a large network of UCBs for signing MoUs. Since June 2005, MoUs have been signed with 23 State Governments (upto October 20, 2008) and with the Central Government in respect of multi-State UCBs and TAFCUBs have been constituted in all such States. The mechanism of TAFCUBs has been able to restore the confidence in the UCB sector (Box.IV.1).

Two Tier Regulatory Structures - Definition Amended

4.10 The definition of Tier I bank was amended with effect from March 7, 2008. Banks falling under the following categories are classified as Tier I banks: (i) unit banks, *i.e.*, banks having a single branch/head office

Box IV.1: MoU and TAFCUBs - Impact and Progress

In order to ensure greater convergence of regulatory and supervisory policies between the two regulators in the urban co-operative banking sector, *viz.*, State Governments (Central Government in case of Multi-State UCBs) and the Reserve Bank, the latter pursued a policy of encouraging the State Governments to sign a Memorandum of Understanding (MoU) in this regard. Pursuant to this policy, as on October 20, 2008, 23 States, *viz.*, Gujarat, Andhra Pradesh, Karnataka, Madhya Pradesh, Uttarakhand, Rajasthan, Chhattisgarh, Goa, Maharastra, Haryana, National Capital Territory of Delhi, West Bengal, Assam, Tripura, Punjab, U.P., Manipur, Meghalaya, Himachal Pradesh, Kerala, Mizoram, Tamil Nadu and Sikkim have signed MoUs with the Reserve Bank. MoU has also been signed with central Government in respect of multi state UCBs. As on October 20, 2008, the MoU has covered 1,746 UCBs out of 1,770 which accounts for 98.6 per cent of total number of UCBs and 99.2 per cent of total deposits as well as advances of the sector. As per the arrangements under MoU, the Reserve Bank constitutes State level Task Force for Co-operative Urban Banks (TAFCUB) comprising representatives of the Reserve Bank, the State Government and the UCB sector. Accordingly, TAFCUBs have been constituted in all States that have signed MoUs. A Central TAFCUB has also been constituted for the multi-state UCBs. TAFCUBs identify potentially viable and non-viable UCBs in the States and suggest revival path for the viable and non-disruptive exit route for the non-viable ones. The exit of non-viable banks could be through merger/amalgamation with stronger banks, conversion of them into societies or liquidation, as the last option.

TAFCUBs, since its inception, have examined the position of 949 UCBs (Including cases of banks reviewed more than once) and taken decision on finalising merger with respect to 14 banks. Orders of directions by the Reserve Bank were imposed on 37 banks and licenses were cancelled for 40 banks.

The impact of the consultative process is assessed in respect of UCBs in states that signed MoUs before December 2006. As at end-March 2008, number of UCBs in Grade IV declined from what it was at end-March 2006 in all of these states, except in Rajasthan and Maharashtra/Goa. In case of UCBs in Grade III, their number declined in all these states as at end-March 2008 over the same three year period. However, in Uttarakhand the number remained same as it was at end-March 2007 (Table I).

Total number of Grade I and II banks increased over the 3 year period from 2006 to 2008 in all these states except Maharashtra/Goa which witnessed a decline in number. In Uttarakhand the number of Grade I and II remained unchanged in 2007 and 2008. Grade III and IV banks declined in all the States over the mentioned three year reference period (Table 2).

Table 1: Comparison of Grades in the Last Three Years in First Nine States that signed MoU before December 2006

(As at end-March 2008)

States	End March	Grade I	Grade II	Grade III	Grade IV	Total
1. Andhra Pradesh	2008	72	26	7	10	115
	2007	65	33	7	11	116
	2006	48	43	18	15	124
2. Gujarat	2008	110	99	27	35	271
	2007	114	88	42	40	284
	2006	136	50	67	43	296
3. Karnataka	2008	118	75	54	33	280
	2007	99	92	55	42	288
	2006	90	76	85	46	297
4. Madhya Pradesh/ Chhattishgarh	2008	18	27	16	9	70
	2007	17	29	15	13	74
	2006	16	28	17	14	75
5. Maharashtra/Goa	2008	201	191	101	116	609
	2007	134	254	115	119	622
	2006	226	173	127	104	630
6. Rajasthan	2008	23	13	1	2	39
	2007	24	13	1	1	39
	2006	25	10	3	1	39
7. Uttarakhand	2008	4		1	1	6
	2007	4		1	2	7
Total	**2008**	**546**	**431**	**207**	**206**	**1,390**
	2007	**457**	**509**	**236**	**228**	**1,430**
	2006	**541**	**380**	**317**	**223**	**1,461**

Table 2: Number of UCBs in Grades 'I & II' and in Grades 'III & IV' and their Percentage to Total Number of UCBs in First Nine TAFCUB States that Signed MoU before December 2006.

(As at end-March 2008)

States		No. of Banks		Percentage to Total	
		Grades I & II	Grades III & IV	Grades I & II	Grades III & IV
1. Andhra Pradesh	2008	98	17	85	15
	2007	98	18	84	16
	2006	91	33	73	27
2. Gujarat	2008	209	62	77	23
	2007	202	82	71	29
	2006	186	110	63	37
3. Karnataka	2008	193	87	69	31
	2007	191	97	66	34
	2006	166	131	56	44
4. Madhya Pradesh/ Chhattishgarh	2008	45	25	64	36
	2007	46	28	62	38
	2006	44	31	59	41
5. Maharashtra/Goa	2008	392	217	64	36
	2007	388	234	62	38
	2006	399	231	63	37
7. Rajasthan	2008	36	3	92	8
	2007	37	2	95	5
	2006	35	4	90	10
8. Uttarakhand	2008	4	2	67	33
	2007	4	3	57	43
Total	**2008**	**977**	**413**	**70**	**30**
	2007	**966**	**464**	**68**	**32**
	2006	**921**	**540**	**63**	**37**

Note : 1. Sound UCBs with no supervisory concern are classified as Grade I. The remaining three grades would indicate existence of supervisory concerns in increasing degree as per their positions on capital adequacy, net loss, NPA level, default in maintenance of CRR/SLR *etc.*

2. Data related to Uttarakhand for the year 2006 are not available.

and banks with deposits below Rs.100 crore, whose branches are located in a single district; (ii) banks with deposits below Rs.100 crore having branches in more than one district, provided the branches are in contiguous districts, and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances, respectively, of the bank; (iii) banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district. The deposit base of Rs.100 crore would be determined on the basis of average of fortnightly net demand and time liabilities (NDTL) in the financial year concerned and that of advances on the basis of fortnightly average in the financial year concerned. Rest of the UCBs are categorised as Tier II banks.

Merger/Amalgamation and Exit of Unviable Entities

4.11 The consolidation of the UCB sector through the process of merger of weak entities with stronger ones was set in motion by providing transparent and objective guidelines for granting 'no-objection' to merger proposals (Box IV.2).

Financial Restructuring of UCBs having Negative Net Worth

4.12 Apart from the non-disruptive exit route through mergers/amalgamations, the Reserve Bank also considered financial restructuring proposals for problem banks with large negative net-worth and with large number of deposit erosion. The financial restructuring proposals had to fulfill the following conditions: (i) interest of small depositors should be protected in full; (ii) a portion of deposit of individual depositors above Rs.1 lakh would be converted into equity. A portion of deposit of institutional depositors would be converted into innovative perpetual debt instrument (IPDI), which would be eligible for inclusion as Tier I capital, subject to certain terms and conditions; (iii) the proportion of deposits converted into equity/IPDI should be such that the net worth of the bank after reconstruction becomes positive; (iv) the bank would have to maintain CRR/SLR on the restructured regular deposits; (v) after restructuring, the management of the bank should be in the hands of a board of administrators consisting of representatives of individual depositors, institutional depositors as well as professional bankers to ensure proper implementation of the reconstruction scheme, including recovery of NPAs.

Working Group on Umbrella Organisations and Constitution of Revival Fund for the UCB Sector

4.13 A Working Group on Umbrella Organisations and creation of Revival Fund for the UCB Sector was constituted by the Reserve Bank (Chairman: Shri V.S Das) on July 23, 2008: (i) to study the regulatory and supervisory structure of umbrella organisations of financial co-operative institutions/banks as prevalent in other parts of the world, especially in relation to raising of capital and intra co-operative group support system; (ii) to study the existing structure and legal framework for UCBs in India and to examine the need and scope for a federated structure/umbrella organisation for UCBs at the State level; (iii) to suggest appropriate supervisory and regulatory framework to facilitate emergence of such umbrella organisation(s) for UCBs, taking into consideration the international systems and experiences; and (iv) to study and suggest modalities for setting up an appropriate mutual assistance/revival fund for urban co-operative banks and the nature of support that could be provided by such fund. The Working Group, which comprises members from the Central Government, the State Governments, the UCB sector and the Reserve Bank have held three meetings so far.

Box IV.2: Merger and Amalgamation of UCBs

Merger and amalgamation provides an inorganic route for expansion, facilitating in the process consolidation, and emergence of strong entities and also paving the way for non-disruptive exit of weak/unviable entities. In view of these merits, the Reserve Bank provided transparent and objective guidelines for granting no-objection to merger proposals. The Reserve Bank looks into the financial aspects of the merger only with a view to protecting the interests of depositors and financial stability. Almost invariably, banks voluntarily approach the Reserve Bank to obtain 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.

The process of merger and amalgamation is elaborate. The application for merger giving the proposed scheme has to be submitted by the acquirer bank to the Registrar of Co-operative Societies (RCS)/Central Registrar of Co-operative Societies (CRCS) and a copy of the proposal is 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 no objection certificate (NOC) to the RCS/CRCS and the banks concerned. RCS/CRCS, being the authorities vested with the responsibility of administering the Co-operative Societies Act, then issues the order of amalgamation of the target UCB in compliance with the provisions of the Act under which the bank is registered.

Pursuant to the issue of guidelines on merger of UCBs, since February 2005, Reserve Bank received 107 proposals for merger in respect of 92 banks. The Reserve Bank has issued NOC in 68 cases (Table 1 and 2). Of these, 61 mergers became effective upon the issue of statutory orders by the RCS/CRCS concerned. Twenty proposals for merger were rejected by the Reserve Bank, five proposals were withdrawn by the banks and the remaining 14 are under consideration. Out of the 68 target banks for which NOC for merger was issued, 61 banks were merged and 35 of them were having negative net worth (Table 3). The profit-making banks were also permitted to merge with the aim of consolidation and strengthening the sector.

Table 1: State-wise Break-up of Acquirer Banks
(As on November 7, 2008)

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 Process
	1	2	3	4	5	6	7
1.	Multi-State	13	56	40	9	3	4
2.	Maharashtra	14	22	11	8	Nil	3
3.	Gujarat	6	9	7	1	1	Nil
4.	Andhra Pradesh	6	7	5	Nil	Nil	2
5.	Karnataka	3	4	2	1	Nil	1
6.	Rajasthan	2	2	Nil	1	Nil	1
7.	Punjab	1	1	1	Nil	Nil	Nil
8.	Uttarakhand	2	3	2	Nil	1	Nil
9.	Madhya Pradesh	2	2	Nil	Nil	Nil	2
10.	Chattisgarh	1	1	Nil	Nil	Nil	1
Total (1 to 10)		**50**	**107**	**68**	**20**	**5**	**14**

Table 2: State-wise Break-up of Target Banks
(As on November 7, 2008)

Sr. No.	Act Under Which Registered	No. of Target Banks	No. of Proposals Submitted	No. of NOC Issued	No. of banks Merged	No. of Proposals Withdrawn	Proposals Rejected	Proposals Under process
	1	2	3	4	5	6	7	8
1.	Multi-State	1	1	1	1	NIL	NIL	NIL
2.	Maharashtra	36	45	24	22	2	12	5
3.	Gujarat	25	27	22	19	2	2	1
4.	Andhra Pradesh	11	11	9	8	NIL	NIL	2
5.	Karnataka	6	8	5	4	NIL	2	1
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	6	7	3	4	NIL	2	2
11.	Uttarakhand	2	3	2	1	1	NIL	NIL
12.	Chattisgarh	1	1	NIL	NIL	NIL	NIL	1
Total (1 to 12)		**92**	**107**	**68**	**61**	**5**	**20**	**12**

Table 3: Grade-wise Distribution of Merged Banks

Grade	Number of Banks
I	8
II	4
III	8
IV	41
Total	61

Memo item: Out of 41 Grade IV banks, 35 banks had negative net worth.

Statutory Pre-emptions

Policy on CRR

4.14 The cash reserve ratio (CRR) for scheduled primary urban co-operative banks was reduced to 5.50 per cent with effect from the fortnight beginning November 8, 2008 (Table IV.1).

Policy on SLR

4.15 As per the provisions of Section 24 of the Banking Regulation Act, 1949 (AACS), deposits placed by UCBs with the higher financing agencies in the co-operative sector, *viz*., DCCBs/StCBs would be reckoned as SLR assets to the extent they are not encumbered. However, instances have come to light where some UCBs availed loans from the DCCB/StCB concerned without specifically earmarking their liability against their deposits. Though technically the entire deposits were being treated as eligible SLR asset, the deposits as such may not be available to the UCBs to meet their liquidity needs. Moreover, the lender bank (DCCB/StCB) in such cases can exercise its lien over the deposits of UCBs which have availed of loans in case of defaults. It was, therefore, decided that when a UCB avails of a loan from a DCCB/StCB with which it is maintaining deposits, for the purpose of computation of SLR, 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. UCBs have been given a certain period to comply with the SLR requirements in the case of shortfall, if any, arising from the above instructions.

Table IV.1: Changes in CRR

Sr.No.	Effective date*	CRR (As percentage of NDTL)
1	2	3
1.	April 14, 2007	6.25
2.	April 28, 2007	6.50
3.	August 4, 2007	7.00
4.	November 10, 2007	7.50
5.	April 26, 2008	7.75
6.	May 10, 2008	8.00
7.	May 24, 2008	8.25
8.	July 5, 2008	8.50
9.	July 19, 2008	8.75
10.	August 30, 2008	9.00
11.	October 11, 2008	6.50
12.	October 25, 2008	6.00
13.	November 8, 2008	5.50

*: From the fortnight beginning.

4.16 The issue of valuation of special securities, *viz*., those that do not qualify for the purpose of complying with the SLR requirements of banks, was examined. It was decided that for the limited purpose of valuation, all special securities issued by the Government of India directly to the beneficiary entities and which do not carry SLR status, may be valued at a spread of 25 basis points above the corresponding yield on Government of India securities. This amendment would come into force from the financial year 2008-09. Presently, such special securities comprise oil bonds, fertiliser bonds, bonds issued to the State Bank of India (during the recent rights issue), the *erstwhile* Unit Trust of India, Industrial Finance Corporation of India Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the *erstwhile* Industrial Development Bank of India and the *erstwhile* Shipping Development Finance Corporation.

4.17 It was further clarified on July 11, 2008 that the balance maintained by UCBs in current account with IDBI Bank Ltd. would not be eligible for being reckoned as 'net balance' in current account for the purpose of CRR/SLR under sections 18 and 24 of Banking Regulation Act, 1949 (AACS) since IDBI Bank Ltd. is not reckoned for maintaining current accounts that will be treated as cash for the purpose of CRR/SLR by co-operative banks. UCBs, maintaining current account balances with IDBI Bank and presently reporting the same as CRR/SLR, were advised to intimate the position as on June 2008 to respective regional offices of the Reserve Bank.

Regulatory Initiatives

Asset Classification and Provisioning Norms

4.18 The asset classification and provisioning norms for Tier I UCBs would continue to be different from Tier II UCBs as follows: (i) the 180 day loan delinquency norm for NPAs was extended by one year, *i.e.*, up to March 31, 2009; (ii) the 12-month period for classification of a 'sub-standard' asset in 'doubtful' category by Tier I UCBs would be made effective from April 1, 2009 instead of April 1, 2008; (iii) these banks would be required to provide 100 per cent on the secured portion of D-III advances ('doubtful' for more than 3 years) as on or after April 1, 2010; and (iv) for the outstanding stock of D-III advances as on March 31, 2010, banks would be required to provide: (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.

4.19 For Tier II banks, 100 per cent provisioning norms for advances classified as D-III would be applicable on or after April 1, 2007 instead of those so classified on or after April 1, 2006. Consequently, for the outstanding stock of D-III assets as on March 31, 2007, banks are required to provide: (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; (d) 100 per cent as on March 31, 2010.

4.20 Keeping in view the nature of membership and loan profile of the salary earners' banks (SEBs), it was decided that the SEBs in Tier II may provide for standard assets in respect of personal loans at the rate of 0.4 per cent instead of the existing level of 2 per cent. Provisioning requirement in respect of loans and advances qualifying as capital market exposure, commercial real estate loans and loans and advances to systemically important NBFCs (non-deposit taking companies) would, however, continue to be 2 per cent for such banks. Tier I banks are already subject to a provisioning requirement of 0.25 per cent on their standard advances.

4.21 UCBs were required to provide at the rate of 10 per cent and 20 per cent per annum, respectively, on their exposure to DCCBs, StCBs facing financial problems. In view of the absence of adequate avenues for raising of capital by these banks and the adverse impact of the revised provisioning norms on the profitability of UCBs, it was decided to defer the implementation of the revised provisioning norms by one year, *i.e.*, to March 31, 2009.

Risk Weights for Capital Adequacy

4.22 According to the announcement made in the Annual Policy Statement for the year 2007-08, risk weight on loans up to Rs.1 lakh against gold and silver ornaments was reduced to 50 per cent from the prevailing level of 125 per cent. Further, risk weight for capital adequacy purpose on housing loans to individuals was reduced from the prevailing level of 75 per cent to 50 per cent as a temporary measure. This dispensation is 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. Moreover, as announced in the Annual Policy Statement 2008-09, the limit in respect of bank loans for housing in terms of applicability of risk weights for capital adequacy purposes was enhanced from Rs.20 lakh to Rs.30 lakh and such loans would carry a risk weight of 50 per cent. Education loans were earlier classified as a part of 'consumer credit' for the purpose of capital adequacy and attracted risk weight of 125 per cent. After a review, UCBs were advised not to classify education loans as 'consumer credit' for the purpose of capital adequacy norms. Accordingly the risk weight applicable to education loans would be 100 per cent as against 125 per cent.

Asset-Liability Management

4.23 Scheduled UCBs were advised to submit the structural liquidity statement and interest rate sensitivity statement through the asset-liability managment (ALM) module provided in the off-site surveillance software

(OSS). The statement of structural liquidity was to be prepared at fortnightly intervals starting with the last reporting friday of June 2007, *i.e.*, June 22, 2007 and that of interest rate sensitivity on a monthly basis starting with the last reporting friday of the month of June, 2007. ALM guidelines have been prescribed for non-scheduled UCBs also and would be effective from the quarter ending December 2008. Basic liquidity risk management guidelines have been prescribed for Tier I banks as well which would also come into effect from the quarter ending December 2008.

4.24 UCBs were earlier advised not to consider any proposal for granting advances against shares/debentures for trading or for granting advances to share or stock brokers. It was further clarified to UCBs that they were prohibited from extending any fund based or non-fund based credit facilities, whether secured or unsecured, to stockbrokers. The prohibition would thus cover in addition to shares and debentures, loans and advances against other securities such as fixed deposits and LIC policies, among others. They were also advised not to extend any facility to commodity brokers. This includes issue of guarantees on behalf of the commodity brokers. 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. UCBs were advised that any credit facility presently in force, but not in consonance with the above instructions should be withdrawn/closed without any delay.

4.25 Despite various safeguards being in place pertaining to the post sanction monitoring of advances, instances of diversion of funds and non-credit of sale proceeds to borrowal accounts continue to come to light and are observed to be important factor contributing to the perpetration of frauds/the account turning NPAs. UCBs were, therefore, advised on September 13, 2007 to adopt more stringent safeguards, especially where accounts showed signs of turning into NPAs, *e.g.*, resorting to more frequent inspections of borrower's godowns, ensuring that the sale proceeds were routed through the borrower's accounts maintained with the bank and insisting on pledge of the stock instead of hypothecation. Whenever stock under hypothecation to cash credit and other loan accounts are found to have been sold but proceeds thereof have not been credited to the loan account, such action should normally be treated as a fraud and banks should take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security.

Frauds and Suspicious Transactions

4.26 It was communicated to UCBs that as a part of transaction monitoring mechanism, they are required to put in place an appropriate software application that alerts them when the transactions are inconsistent with risk categorisation and updated profile of customers. They were also advised to initiate urgent steps to ensure electronic filing of cash transaction report (CTR) and suspicious transaction report (STR) to Financial Intelligence Unit - India (FIU-IND). Further, in view of reports by FIU-IND that many banks are yet to file electronic reports, UCBs were advised to arrange for filing the data of non-computerised branches into an electronic file with the help of the editable electronic utilities of CTR/STR as made available by FIU–IND on their website (*http://fiuindia.gov.in*). It was further clarified that cash transaction reporting by branches to their principal officer should be submitted on a monthly basis and not on a fortnightly basis and the principal officer, in turn, should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule, *i.e.*, by 15 th of the succeeding month. It was reiterated that the cut-off limit of Rs.10 lakh for reporting in CTR should be applicable to integrally connected cash transactions also.

4.27 UCBs were advised on December 15, 2004 that they should pay special attention to all complex, unusual/large transactions and all unusual patterns of transactions which had no apparent economic or visible lawful purpose. It was further advised that the background papers/documents of such transactions should be examined and properly recorded to make it available to auditors and also to the Reserve Bank/other relevant authorities.

4.28 UCBs were also advised that the customers should not be tipped off on the STRs filed by them with FIU-IND. Banks should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amounts of transaction. 'Suspicious Transactions' are defined in Rule 2(g) of Rules notified under the Prevention of Money Laundering Act, 2002. Banks should submit STRs, if they have reasonable grounds to believe that the transaction involves proceeds of crime, generally, irrespective of the amount of transaction and/or threshold limit envisaged for predicate offences in part B of schedule of the PMLA, 2002. UCBs were advised to create awareness about KYC/AML among their staff and for generating alerts for suspicious transactions, they may consider the indicative list of suspicious activities contained in Annex E of the Indian Bank Association (IBA's) Guidance Note for Banks, 2005. UCBs were advised that these guidelines were issued under section 35A of the Banking Regulation Act, 1949(AACS) and any contravention of the said guidelines might attract penalties under the relevant provisions of the Act.

4.29 As wire transfer is an instantaneous and the 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 it for moving their funds and for detecting any misuse when it occurs. UCBs were, therefore, advised to invariably ensure certain specified information about all wire transfers. 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.

Credit Delivery and Financial Inclusion

Priority Sector Lending

4.30 In view of significant changes in the regulatory framework for UCBs, which has become more or less comparable with that of commercial banks and the exemptions hitherto enjoyed by UCBs from the payment of income tax having been withdrawn, the priority sector lending target for UCBs was brought down to 40 per cent of the adjusted bank credit (ABC) (total loans and advances plus investments made by UCBs in non-SLR bonds) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher, as on March 31 of the previous year and thus brought at par with the target applicable to commercial banks. The revised target came into effect from April 1, 2008.

4.31 UCBs were required to submit data annually on priority sector lending within a month from the end of the reference period, *i.e.*, March 31 every year and credit flow to minority communities every half year as on March 31 and September 30 in the prescribed format. The existing reporting formats and periodicity were reviewed and revised on June 30, 2008. Sectors that qualify for inclusion as priority sector were revised in August 2007 and areas that qualify for inclusion as priority sector now include: (i) total agricultural credit (direct and indirect); (ii) total credit to small enterprises (direct and indirect); (iii) retail trade; (iv) micro credit; (v) State sponsored organisations for SC/ST; (vi) education; and (vii) housing. UCBs were advised to submit the first set of revised returns by April 15, 2009 to the concerned Regional Offices of the Reserve Bank.

4.32 The definitions of micro, small and medium enterprises were modified on August 30, 2007. The modified definitions of micro, small and medium enterprises engaged in manufacturing or production and in providing or rendering services are 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 core 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. Bank's lending to medium enterprises would not be included for the purpose of reckoning under the priority sector.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

4.33 In the budget speech for 2008-09, the Hon'ble Union Finance Minister announced a Debt Waiver and Debt Relief Scheme for farmers, which was subsequently notified by the Government. The detailed scheme along with necessary explanations was forwarded to UCBs and they were advised to take necessary action for implementing the scheme.

Guidelines for Relief Measures by Banks to Poultry Industry, 2008

4.34 In view of the instances of outbreak of Avian Influenza (bird flu) in some parts of the country and consequent loss of income on account of culling of birds for poultry units financed by the banks, UCBs were advised on February 19, 2008 to consider extending certain facilities to them as under: (i) principal and interest due on working capital loans as also instalments and interest on term loans which had fallen due for payment on or after the onset of bird flu, *i.e.,* December 31, 2007 and remaining unpaid amount may be converted into term loans-the converted loans may be recovered in instalments based on projected future inflows over a period up to three years with an initial moratorium of up to one year (the first year of repayment may be fixed after the expiry of moratorium period); (ii) the remaining portion of term loans may be rescheduled similarly with a moratorium period up to one year depending upon the cash flow generating capacity of the unit; (iii) the rescheduling/conversion may be completed on or before April 30, 2008; (iv) the rescheduled/converted loans may be treated as current dues; (v) after conversion as above, the borrower will be eligible for fresh need-based finance; (vi) the relief measures as above may be extended to all accounts of poultry industry, which were classified as standard accounts as on December 31, 2007.

KYC norms

4.35 In order to ensure that the customer acceptance policy and its implementation does not result in denial of banking services to general public, especially to those who are financially or socially disadvantaged, UCBs were advised to review their extant internal instructions in this regard so that a section of public may not be denied access to banking services. It was clarified to UCBs that 'permanent correct address' referred to in the existing instructions, means the address at which person normally resides and can be taken as the address as mentioned in a utility bill or any other document accepted by the bank for verification of the address of the customer. Banks should keep in mind the spirit of instructions issued by the Reserve Bank and avoid undue hardships to individuals who are otherwise classified as low risk customers. Banks were further advised that the review of risk categorisation of customers should be carried out not less than once in six months. Banks should also introduce a system of periodical updating of customer identification data after the account was opened. The periodicity of such updation should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories of customers.

Customer Services

4.36 UCBs were advised on May 18, 2007 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 were advised to take into account certain broad guidelines. Banks were further advised to put in place such principles and procedures within a period of three months from the date of notification.

4.37 UCBs were advised that all transactions, including payment of interest on deposits/charging of interest on advances, should be rounded off to the nearest rupee (fraction of 50 paise and above to be rounded off to the next higher rupee and that of less than 50 paise to be ignored). Banks were, however, advised that cheques issued by their clients for amounts containing fraction of rupee should not be rejected or dishonoured. 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 are found to have refused 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 the Banking Regulation Act, 1949 (AACS).

4.38 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 opening of the account, if otherwise found eligible. Under no circumstances, though, should a bank refuse to open an account solely on the ground that the person opening the account has refused to nominate. UCBs were also advised to follow the procedure outlined above in respect of deposit accounts in the name of sole proprietary concerns.

4.39 Some schemes with lock-in periods and other restrictive features floated by some banks were not in conformity with the Reserve Bank's instructions. Banks, which have floated such deposit schemes, were advised to discontinue the schemes with immediate effect and report compliance to concerned regional offices of the Reserve Bank.

4.40 Scheduled UCBs were advised to formulate a comprehensive and transparent policy covering the following three aspects, taking into account their technological capabilities, systems and processes adopted for clearing arrangements and other internal arrangements for collection through correspondents: (a) immediate credit of local/outstation cheques; (b) timeframe for collection of local/outstation instruments; and (c) interest payment for delayed collection. They were also advised to review their existing arrangements and capabilities and work out a scheme for reduction in collection period. Adequate care should be taken to ensure that the interests of the small depositors were fully protected. The policy should clearly lay down the liability of the banks by way of interest payments due to delay for non-compliance with the standards set by the banks themselves and should be integrated with the deposit policy formulation by the bank in line with the IBA's noted policy. Scheduled UCBs were advised to place the policy before the board and obtain their specific approval thereon. They were advised to send a copy of cheque collection policy, after the board's approval, to the Reserve Bank for its confirmation before implementation.

4.41 To increase the usage of ATMs as a delivery channel, banks entered into bilateral or multi-lateral arrangements with other banks to have inter-bank ATM networks. The charges levied on the customers vary from bank to bank, according to the ATM network that is used for the transaction. The ideal situation is that a customer should be able to access any ATM installed in the country free of charge through an equitable co-operative initiative by banks. Based on the feedback report on an approach paper placed on the website of the Reserve Bank, a framework of service charges for implementation by all banks was decided (Table IV.2).

4.42 For the services at (i) and (ii) in Table IV.2, the customer would not be levied any charge under any other head and for services at (iii), the charge of Rs.20 would be all inclusive and no other charges would be levied under any other head, irrespective of the amount of withdrawal. The service charges for the following types of cash withdrawal transactions may be determined by the banks themselves: (a) cash withdrawal with the use of credit cards; and (b) cash withdrawal in an ATM located abroad.

Other Measures

4.43 The Committee on Procedures and Performance Audit on Public Services (CPPAPS) had made some recommendations for easy operation of lockers. on June 21, 2007, UCBs were also advised accordingly. UCBs were also permitted to lay down policies with the approval of their boards for sanction of gold loans with bullet repayment option, subject to the guidelines issued by the Reserve Bank.

4.44 Since visually challenged persons are legally competent to contract, banking facilities including cheque book facility/

Table IV.2: ATM Charges

Sr. No.	Service	Charges
1	2	3
(i)	For use of own ATMs for any purpose	Free (with effect from March 12, 2008)
(ii)	For use of other bank ATMs for balance enquiries	Free (with effect from March 12, 2008)
(iii)	For use of other bank ATMs for cash withdrawals	• No bank shall increase the charges prevailing as on December 23, 2007 (*i.e.*, the date of release of Approach Paper on RBI website) • Banks which are charging more than Rs.20 per transaction shall reduce the charges to a maximum of Rs.20 per transaction by March 31, 2008 • Free with effect from April 1, 2009

operation of ATM/locker, *etc*., cannot be denied to them. It was brought to the notice of the Reserve Bank that visually challenged persons were facing problems in availing of banking facilities. UCBs were, therefore, advised on June 4, 2008 to ensure that all banking facilities such as cheque book facility, including third party cheques, ATM facility, net banking facility, locker facility, retail loans and credit cards, among others, should invariably be offered to the visually challenged without any discrimination.

Other Policy Initiatives

Investments in Non-SLR Securities by UCBs

4.45 To allow UCBs greater flexibility in making non-SLR investments, the instructions on the subject were reviewed and significant changes in the guidelines were made. First, UCBs can now invest in 'A' or equivalent rated commercial papers (CPs), debentures and bonds that are redeemable in nature which were not permitted earlier. Second, they can also invest in units of debt mutual funds and money market mutual funds. Earlier, only investment in units of UTI were permitted and not in other mutual funds. This distinction was done away with, though no investment in equity linked mutual funds is permitted. Third, fresh investments in shares of all-India financial institutions (AIFIs) would also not be permitted unlike hitherto. Fourth, balances held in deposit accounts with commercial banks and in permitted scheduled UCBs and investments in certificate of deposits issued by commercial banks would be outside the limit of 10 per cent of total deposit prescribed for non-SLR investments. Fifth, a cap of 10 per cent of NDTL has been placed on the total amount of funds that can be placed as inter-bank deposits (for all purposes including clearing, remittance, *etc*). The prudential inter-bank exposure limit of 10 per cent of the NDTL 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. Sixth, 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's exposure limit for this purpose.

Instruments for Augmenting Capital Funds

4.46 In order to facilitate raising of capital funds, UCBs were permitted on July 15, 2008 to issue preference shares, *viz*., (i) perpetual non-cumulative preference shares (PNCPS); (ii) perpetual cumulative preference shares (PCPS); (iii) redeemable non-cumulative preference shares (RNCPS); and (iv) redeemable cumulative preference shares (RCPS). Further, UCBs were also permitted to raise term deposits for a minimum period of not less than 5 years, which would be eligible to be treated as Tier II capital. The important features of the instruments for augmenting capital funds are: first, the extant share linking norm would not be applicable to a member who was already holding 5 per cent of the total paid-up share capital of an UCB; Second, Tier II capital has been further divided into upper and lower tiers. PCPS, RNCPS and RCPS would be treated as upper Tier II capital. Long-term deposits would be treated as lower Tier II capital. PNCPS should not exceed 20 per cent of Tier I capital. Long-term deposit should not exceed 50 per cent of Tier II capital and that total Tier II should not exceed Tier I capital; Third, as per extant instructions, elements of Tier II capital were reckoned as capital funds up to a maximum of 100 per cent of Tier I capital. In the case of banks that are having CRAR less than 9 per cent, it was decided that the above restriction should be kept in abeyance for five years, *i.e.*, up to March 31, 2013 in order to give time to the banks to raise Tier I capital. In other words, Tier II capital would be reckoned as capital funds for capital adequacy purpose even if a bank does not have Tier I capital. However, during this period, for the purpose of capital adequacy requirement, lower Tier II capital alone would be restricted to 50 per cent of the prescribed CRAR and the progressive discount in respect of Tier II capital would be applicable.

Implementation of Recommendations of the Working Group on Access Criteria to Payment Systems

4.47 According to the announcement made in the Annual Policy Statement 2007-08, a Working Group was constituted for prescribing guidelines for access to various payment systems. The Working Group recommended that membership to clearing houses at MICR centres be confined to licenced banks meeting the following financial criteria: (i) CRAR of 9 per cent; (ii) net NPA of less than 10 per cent; (iii) no default in maintenance of CRR and SLR during the past one year; and (iv) net profit in at least one of the two preceding years. Further, the Working Group recommended that the entities which are presently members of clearing houses at MICR centres but ineligible to be members as per the proposed access criteria, would have to conform to the prescribed norms within one year, failing which membership would be downgraded to that of a sub-member. The Working Group has also recommended that such banks may be barred with immediate effect, from sponsoring any sub-member.

INFINET Membership for UCBs

4.48 On the basis of the recommendations of the Working Group for 'Access to Payment Systems' constituted for preparation of comprehensive guidelines setting out the minimum eligibility criteria for membership of clearing houses/payment systems, regional offices of the Reserve Bank were advised to extend INFINET membership to all UCBs, provided they had the requisite infrastructure in place for the same. The applicant bank should be advised to submit details of infrastructure available with it for participation in the INFINET, together with a board resolution for seeking the membership. Subject to the above parameters, unlicensed UCBs could also be permitted to avail of INFINET membership so long as their application for license has not been rejected by the Reserve Bank. Regional offices of the Reserve Bank were further advised to make it clear to these banks that the membership would not in any way entitle them to claim a banking license at a later date and their application for license would be examined independently on its merits.

4.49 The efforts to increase the spread of technology in the UCB sector attracted greater attention with the setting up of a Working Group to examine the areas relating to IT support to UCBs (Box IV.3).

Rationalisation of Returns Submitted by UCBs

4.50 In view of a large number of returns that the UCBs were required to submit, as directed by the Board for Financial Supervision (BFS), an exercise for rationalisation of returns to be submitted by UCBs was undertaken. The returns submitted by UCBs were examined from the point of view of reducing the volume of data to be submitted by banks without compromising on the breadth and depth of information being obtained from them. The rationalisation of the returns was done and the maximum number of returns was reduced to 29 as against a maximum of 36 returns required to be submitted by the scheduled UCBs earlier.

Insurance Business

4.51 According to the Annual Policy Statement for the year 2007-08, UCBs registered in States that had 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: first, UCB should have a minimum net worth of Rs.10 crore; second, it should not have been

Box IV.3: Working Group on IT support to UCBs

The Mid-term Review of the Annual Policy Statement for the year 2007-08 announced the constitution of a Working Group comprising representatives of the Reserve Bank, State Governments and the UCBs sector to examine the various areas where IT support could be provided to the UCBs by the Reserve Bank. Accordingly a Working Group on IT support to UCBs (Chairman: Shri R. Gandhi) was constituted.

The Group, while acknowledging the increasing importance of IT in UCBs, observed that there was a wide variance among them with regard to the usage of IT. In fact, the lack of uniformity in the levels of computerisation and inadequate awareness about the efficacy of computers in enhancing competitiveness prompted the Group to articulate the following minimum IT infrastructure which should exist in each UCB regardless of its size, location or profitability: (i) computerised front-end, *i.e.*, customer interface; (ii) automatic back-end accounting (through software); (iii) computerised MIS reporting; and (iv) automated regulatory reporting.

The Group felt that in order to implement the minimum level of IT infrastructure by the UCBs, core banking solution (CBS) would be required to be adopted by them. The model of CBS may vary according to the size and spread of the UCBs.

The Group suggested two methods for acquiring the IT infrastructure, *viz.*, (i) application service provider; and (ii) outright purchase. The former is suitable for small banks, particularly the unit banks because the problems of software development and maintenance, training and retention of IT professionals, installation and maintenance of complex and costly hardware and other logistics like data centres, would be addressed by the service provider without need for much initiative or involvement of the UCBs. An agency like Institute for Development and Research in Banking Technology (IDRBT) could short-list/select one/a few vendors and be the conduit and service quality assurer to the UCBs. On the other hand, the method of outright purchase of the CBS, including data centre may be preferable to a few large banks.

The Group also deliberated on delivery mechanism and felt that support could be routed through IDRBT and if required, IDRBT might develop an area of expertise within itself to cater to the IT needs of small banks, including UCBs. National and State Federation of co-operatives might also think of creating such IT facilities for UCBs in the long run for the benefit of the sector. The recommendations of the Group are being examined by the Reserve Bank.

classified as Grade III or IV. The minimum net worth criteria earlier applicable was dispensed with for such banks on May 15, 2008.

Norms for Maintaining NRE/NRO Accounts

4.52 UCBs registered in States that had entered into a 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 following eligibility norms: (i) minimum net worth of Rs.25 crore; (ii) CRAR of not less than 9 per cent; (iii) net NPAs to be less than 10 per cent; (iv) compliance with CRR/SLR requirements; (v) net profit during the preceding three years without any accumulated losses; (vi) sound internal control systems; (vii) satisfactory compliance with KYC/AML guidelines; and (viii) presence of at least two professional directors on the board.

4.53 UCBs are not permitted to accept NRO deposits and are required to close these accounts within a given time frame. It was decided on June 4, 2007 that banks may maintain NRO accounts, arising from their re-designation as such, upon the account holders becoming non-resident. Opening of fresh NRO accounts was not permitted. Furthermore, no fresh credit, barring periodical credit of interest, was allowed in these accounts. However, these restrictions were not applicable to UCBs holding AD Category-I licence.

Relaxation in Branch Authorisation Policy for UCBs

4.54 In terms of the Annual Policy Statement 2007-08, UCBs were allowed to open new branches/extension counters. The eligibility criteria prescribed for new branches/extension counters were as under: (i) the bank should be registered under the Cooperative Societies Act of the States that had signed MoU with the Reserve Bank or under the Multi-State Cooperative Societies Act, 2002; (ii) the bank should be licensed and have an elected board of directors with at least two professionals; (iii) the bank should comply with the following mutually exclusive, performance/financial parameters – (a) CRAR should not be less than 9 per cent; (b) net NPA should be below 10 per cent; (c) there should have been no default in maintenance of CRR/SLR in the preceding financial year; (d) the bank should have net profit in the preceding financial year; (e) the net worth should not be less than Rs.10 crore; and (f) the average net worth per branch/extension counter, including the additional centres for which licenses are sought, should not be less than Rs.2 crore per branch in A and B centres with population more than 5 lakh and Rs.1 crore in C and D centres with population less than 5 lakh. UCBs satisfying the above mentioned conditions are eligible for additional branches/extension counters not exceeding 10 per cent of their existing branch network, over a period of two years. All UCBs are required to obtain prior authorisation for opening of extension counters.

4.55 Further, in terms of the Annual Policy Statement 2008-09, approvals for branch expansion including off-site ATMs in respect of well managed and financially sound UCBs in the States that have signed MoUs and those registered under the Multi-State Co-operative Societies Act, 2002, are now considered, based on their annual business plans, subject to: (i) maintenance of a minimum CRAR of 10 per cent on a continuous basis with minimum owned funds commensurate with entry point capital norms for the centre where the branch is proposed; (ii) net NPAs should be less than 10 per cent; (iii) no default in maintenance of CRR/SLR during the preceding financial year; (iv) net profit in the immediate preceding financial year; and (v) regulatory comfort based on its track record of compliance.

4.56 The Annual Policy Statement for the Year 2008-09 liberalised the eligibility norms for opening of on-site ATMs. Accordingly, w.e.f. May 26, 2008, UCBs that are registered in States that have signed MoUs with the Reserve Bank or under Multi-State Co-operative Societies Act, 2002 and classified in Grades other than Grade III and IV, are allowed to set up on-site ATMs without prior approval of the Reserve Bank.

4.57 The powers for grant of branch authorisation for Tier I banks registered under the State Co-operative Societies Acts in States that had signed MoUs with the Reserve Bank were delegated to its regional offices. On receipt of annual business plans, regional offices of the Reserve Bank were advised to scrutinise whether UCBs satisfied the norms prescribed and any other requirements identified in consultation with TAFCUB.

Shifting of Offices

4.58 In relaxation of the existing guidelines, UCBs were permitted on August 28, 2007 to shift their branches from one city to another in their area of operation within the same State, subject to the following conditions: (a) the new centre should be located in an area with same or lower population compared to the existing centre; (b) a branch located in under-banked district can be shifted to another centre in under-banked district only; and (c) the shifting should be beneficial to the bank in terms of cost and business. UCBs were further advised to submit their applications in this regard to the regional office of Urban Co-operative Bank Department of the Reserve Bank in whose jurisdiction the head office of the bank was situated.

Mahila Urban Co-operative Banks – Membership

4.59 Membership of *Mahila* UCBs was exclusively confined to women except as nominal members for the purpose of standing as sureties for the borrowers from the bank. Taking into account the representations made by the banks and their federations and the findings of case studies carried out by the Reserve Bank in this regard, existing *Mahila* UCBs which conform to the extant entry point norms for general category banks, were permitted to enroll male members up to a limit of 25 per cent of their total regular membership, subject to compliance by the banks with their respective bye-laws. Registrar of Co-operative Societies of Central and all State Governments were requested to convey their approval to UCBs wherever applicable, for induction of male borrowers up to a limit of 25 per cent of their total regular membership.

Appointment of UCBs as Agents/Sub-agents under Money Transfer Service Scheme

4.60 After a review of the earlier guidelines prohibiting UCBs from acting as agents/ sub-agents under money transfer service scheme (MTSS), it was decided that UCBs holding AD category I and II licence could act as agents/ sub-agents under MTSS (which are in conformity with the guidelines issued by the Foreign Exchange Department of the Reserve Bank), subject to the following conditions: (a) bank's adherence to AML/KYC standards should be satisfactory; (b) the principal should maintain foreign currency deposits (USD) equivalent to 3 days average payout or USD 50,000, whichever is higher, with the designated bank, in favour of the agent; (c) 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; (d) 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; and (e) no UCB should appoint any other UCB/entity as its sub-agent.

Professionalisation of Management of UCBs

4.61 UCBs were advised in April 2002 to include at all times, at least two professional directors on their boards with suitable banking experience (at middle/senior management level) or with relevant professional qualifications, *i.e.*, C.A. with bank accounting/ auditing experience. The scope of professional directors prescribed therein was reviewed and it was decided to enlarge the ambit of 'professional directors' to include persons with professional qualification in the fields of law, accountancy or finance. UCBs were advised to initiate steps to amend the bye-laws of their banks accordingly and ensure compliance with the above requirements.

Off-site Surveillance

4.62 An off-site surveillance (OSS) software was developed for UCBs to facilitate the preparation and submission of all supervisory and regulatory (including OSS) returns to the Reserve Bank electronically. Further, to enhance the knowledge and skills in the area of off-site surveillance of banking an international workshop was organised in March, 2008 (Box IV.4). The OSS has been extended to all UCBs.

4.63 A set of eight OSS returns, introduced for scheduled UCBs from the quarter ended March 2004, were extended to Tier II non-scheduled banks with deposits of over Rs.100 crore from June 2004 and to Tier II UCBs having deposits of Rs.50 crore and above from June 2006. From the same period, a simplified set of five (four quarterly and one annual) returns was also introduced for Tier I UCBs having deposits above Rs.50 crore but less than Rs.100 crore. The OSS system has now been extended to the rest of the UCBs with deposits below Rs.50 crore (a set of eight OSS returns for Tier II UCBs and simplified set of five returns to Tier I UCBs) and will come into effect from the quarter ending December 2008.

Operations and Financial Performance of Urban Co-operative Banks

A profile of UCBs

4.64 The urban co-operative banking sector comprises a number of institutions which vary in terms of their size, nature of business and geographic spread. The number of UCBs declined from 1,813 at end-March 2007 to 1,770 at end-March 2008. Of the total, 53 banks had scheduled status. The 1717 non-scheduled UCBs included 105 *Mahila* (Women) banks, 77 salary earners' banks and six SC/ST banks. Banks are classified into four grades, *viz*., Grade I, II, III and IV, in the order of their performance assessment based on capital adequacy, level of NPAs, history of profit/loss, among others. The total number of Grade I and II banks increased over the past three years, while those in Grade III and IV declined. The number of UCBs in Grade I and Grade II increased to 1,274 (72 per cent of the

Box IV.4: First International Workshop on Off-Site Surveillance

The first international workshop on off-site surveillance (OSS) was conducted during March 4-7, 2008 for central banks from SAARC and ASEAN countries. The aim of the workshop was to broaden the perspective and enhance the knowledge and skills of participants in the area of off-site surveillance of banking entities, particularly the financial co-operatives. The workshop was attended by 22 participants, including 19 foreign participants from central banks/supervisory authorities mostly from senior and middle management cadres. The World Council of Credit Unions, USA was also represented in the workshop as observer and guest speaker.

A presentation was made to the participants on the OSS system implemented by the Reserve Bank for UCBs showing electronic collection of data from UCBs and utilisation of such data in detecting incipient signals of stress in banks, generation of pre-inspection study reports for inspecting officers (IOs), monitoring integrity of data and timeliness of submission of returns by the supervised entities. The OSS database receives data from UCBs, IOs, as also from important internal registers. This buttressed supervision by providing access to all supervisory data from a central point. Furthermore, the strategies for development of an OSS function were discussed in detail.

A field visit to a large UCB was arranged during which the bank also made presentation on 'OSS from the perspective of Supervised Entities.' The bank through its presentation informed the visitors that the OSS system provided by the Reserve Bank had helped the bank in improving follow-up with borrowers whose accounts were non-performing, or were likely to become non-performing, *i.e.*, were overdue but not yet classified as non-performing and this had helped in reducing its non-performing advances. Similarly, the bank mentioned that OSS reporting had helped it in reducing its concentration risk through the identification of its large exposures in the process of preparing the returns for submission to the Reserve Bank. A field trip was also arranged to a *Mahila* UCB, where, in addition to the innovative products/technology used for reaching out to small/daily depositors/borrowers *etc.*, the participants also saw how banks in far flung areas, affected by drought had developed close contact with supervisors through the process of submitting OSS returns electronically and, therefore, were able to communicate conveniently with supervisor over e-mail for reporting as also for obtaining any clarifications. This closeness with the regulator was highlighted by the bank during its presentation.

Participants also observed that the OSS software given to banks enabled them to generate analytical outputs provided therein, which could help the supervised entities to understand the perspective of the supervisor and thereby facilitate self-supervision. Participants in their feedback observed that the programme had helped them to understand the challenges faced in collecting reliable, regular and timely information from the supervised entities and to use such data for identifying early warning signals of stress on banks as also for supporting informed decision making and policy formulation. They also observed that the OSS system of the Reserve Bank provided an interface with the on-site examination of data which helped in maintaining integrity of OSS data. Participants appreciated the Reserve Bank's decision to hold the workshop and even expressed that more such exposures were needed for enhancing their own OSS systems.

total number of UCBs) at end-March 2008 from 1,250 (69 per cent of the total) at end-March 2007. At the same time, however, the number of UCBs in Grade III and Grade IV declined to 496 at end-March 2008, from 563 at end-March 2007 (Tables IV.3 and IV.4). The consultative process under TAFCUBs has brought about a general improvement in the UCBs, resulting in increase in the share of Grade I and II banks.

Table IV.3: Centre-wise Gradation of Urban Co-operative Banks

(End-March 2008)*

Centre	Grade I		Grade II		Grade III		Grade IV		Total	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9	10	11
Ahmedabad	114	110	88	99	42	27	40	35	284	271
Bangalore	99	118	92	75	55	54	42	33	288	280
Bhopal	12	12	24	23	15	16	9	6	60	57
Bhubaneswar	2	3	4	2	4	5	4	4	14	14
Chandigarh	9	9	3	3	-	-	4	4	16	16
Chennai	69	79	34	33	22	13	6	5	131	130
Dehradun	4	4	-	-	1	1	2	1	7	6
Guwahati	6	5	6	8	4	3	1	1	17	17
Hyderabad	65	72	33	26	7	7	11	10	116	115
Jaipur	24	23	13	13	1	1	1	2	39	39
Jammu	3	3	-	-	1	1	-	-	4	4
Kolkata	31	26	10	13	1	1	9	9	51	49
Lucknow	44	45	17	12	4	6	5	7	70	70
Mumbai	117	171	178	131	76	59	80	79	451	440
Nagpur	17	30	76	60	39	42	39	37	171	169
New Delhi	12	11	1	2	-	1	2	1	15	15
Patna	5	5	-	-	-	-	-	-	5	5
Raipur	5	6	5	4	-	-	4	3	14	13
Thiruvananthapuram	14	16	14	22	23	21	9	1	60	60
Total	**652**	**748**	**598**	**526**	**295**	**258**	**268**	**238**	**1,813**	**1,770**

* : Data are provisional.
-: Nil

Table IV.4: 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
2006	1,853	716	460	407	270	1,176	677	63	37
2007	1,813	652	598	295	268	1,250	563	69	31
2008P	1,770	748	526	258	238	1,274	496	72	28

P : Provisional.

4.65 As at end-March 2008, 72 per cent of banks were either in Grade I or Grade II. Their share in total deposits and advances was at 76.7 per cent and 75.8 per cent, respectively (Table IV.5).

4.66 The growth in deposits of UCBs by 6.4 per cent and 14.1 per cent for the years 2006-07 and 2007-08 respectively, shows an improvement in public confidence in this sector. Besides a few large banks, most of the UCBs are of small to medium size. The distribution of deposits across UCBs is highly skewed. As at end-March 2008, of the total 1,770 UCBs, deposits of 544 UCBs were less than Rs.10 crore. However, they accounted for only 2.2 per cent of total deposits. On the other hand, 97 banks with deposits of Rs.250 crore and above accounted for 56.7 per cent of the total deposits. Of these, 16 banks with deposits of Rs.1,000 crore and above accounted for 28.8 per cent of total deposits of UCBs at end-March 2008. In all, 94.5 per cent of banks had a deposit base of less than Rs.250 crore and accounted for 43.3 per cent of deposits, while 5.4 per cent banks with a deposit base of Rs.250 crore and above accounted for remaining 56.7 per cent of the deposits of the UCB sector (Table IV.6).

4.67 The distribution of outstanding advances across UCBs is skewed. The top nine banks with loan-size of above Rs. 1,000 crore accounted for 22.3 per cent of total outstanding advances. Most of the UCBs (68.3 per cent of the total number) with small loan-size of less than Rs. 25 crore constituted merely 12 per cent of the total advances. Within this group, UCBs with loan-size of less than Rs.10 crore constituted 44.5 per cent of the total number and 4.3 per cent of the total advances (Table IV.7).

4.68 The distribution of UCBs by size of assets is also skewed. As at end-March 2008, 593 UCBs, with a share of 33.5 per cent of the total number of UCBs, accounted for 2.7 per cent of total assets, while 339 UCBs, constituting only 19.1 per cent of the total number of banks with assets of Rs.100 crore and above, accounted for 78.7 per cent of assets. Thirteen banks with assets of Rs.2,000 crore and above accounted for 26.7 per cent of total assets of UCBs at end-March 2008. In all, 80.9 per cent of the total number of banks with assets of less than Rs.100 crore accounted for 21.2 per cent of the assets (Table IV.8).

4.69 Fifty-three scheduled UCBs constituted more than 40 per cent of assets, deposits, investments and loans and advances of the entire urban co-operative

Table IV.5: Grade-wise Distribution of UCBs as at end-March 2008*

Grade	Number of Banks	Number of banks as percentage to total	Deposits (Rs. crore)	Deposits as percentage to total	Advances (Rs. crore)	Advances as percentage to total
1	2	3	4	5	6	7
I	748	42.3	73,787	53.3	45,931	51.6
II	526	29.7	32,361	23.4	21,556	24.2
III	258	14.6	14,885	10.7	8,722	9.8
IV	238	13.4	17,462	12.6	12,773	14.4
Total	**1,770**	**100.0**	**1,38,496**	**100.0**	**88,981**	**100.0**

* : Data are provisional.
Note : Components may not add up to respective totals due to rounding off.

Table IV.6: Distribution of UCBs by Deposit-size

(End-March 2008)*

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	16	0.9	39,841	28.8
2.	500 to <1,000	22	1.2	14,779	10.7
3.	250 to < 500	59	3.3	23,879	17.2
4.	100 to < 250	154	8.7	23,756	17.2
5.	50 to < 100	207	11.7	14,797	10.7
6.	25 to < 50	308	17.4	10,871	7.8
7.	10 to < 25	460	26.0	7,543	5.4
8.	< 10	544	30.7	3,030	2.2
	Total	**1,770**	**100.0**	**1,38,496**	**100.0**

* : Data are provisional.
Note : Components may not add up to respective totals due to rounding off.

banking sector. The number of non-scheduled UCBs declined to 1,717 at end-March 2008 from 1,760 in the previous year (Table IV.9).

4.70 While 1,529 Tier I UCBs (86.4 per cent of total) accounted for 25 per cent of deposits and advances, 241 UCBs classified as Tier II UCBs accounted for 75 per cent of deposits and advances (Table IV.10).

Operations, Financial Performance and Asset Quality of Urban Co-operative Banks

Operations of UCBs

4.71 The balance sheets of UCBs expanded by 11.1 per cent during 2007-08 as compared with 7.0 per cent during 2006-07. The composition of the assets and liabilities remained broadly the same during the year. Deposits, the main source of funds for urban co-operative banks, grew at a higher rate during 2007-08 as compared with 2006-07. Borrowings, however, declined by 13.7 per cent during the year, reversing the sharp growth during the last year. Capital grew by 17.4 per cent during 2007-08. 'Other liabilities' continued to decline during the year. Loans and advances and investments, which constitute the two major items on the asset side, grew at higher rates than the previous year (Table IV.11).

Table IV.7: Distribution of UCBs by Size of Advances

(End-March 2008)*

Sr. No.	Size of Advances (Rs. crore)	No. of UCBs: No.	No. of UCBs: Share in Total (per cent)	Advances Outstanding: Amount (Rs. crore)	Advances Outstanding: Share in Total (per cent)
	1	2	3	4	5
1	≥ 1,000	9	0.5	19,824	22.3
2	500 to < 1,000	14	0.8	10,254	11.5
3	250 to < 500	34	1.9	11,933	13.4
4	100 to < 250	107	6.0	16,686	18.8
5	50 to < 100	153	8.6	11,081	12.5
6	25 to < 50	243	13.7	8,497	9.5
7	10 to < 25	422	23.8	6,896	7.7
8	< 10	788	44.5	3,810	4.3
	Total	**1,770**	**100.0**	**88,981**	**100.0**

* : Data are provisional.
Note : Components may not add up to respective totals due to rounding off.

Table IV.8: Distribution of UCBs by Size of Assets

(End-March 2008)*

Sr. No.	Asset Size (Rs. crore)	No. of UCBs: No.	No. of UCBs: Share in Total (per cent)	Total Assets: Amount (Rs. crore)	Total Assets: Share in Total (per cent)
	1	2	3	4	5
1	≥ 2000	13	0.7	47,981	26.7
2	1000 to < 2000	15	0.8	17,887	10.0
3	500 to < 1000	35	2.0	21,597	12.0
4	250 to < 500	65	3.7	22,112	12.3
5	100 to < 250	211	11.9	31,697	17.7
6	50 to < 100	233	13.2	16,040	8.9
7	25 to < 50	334	18.9	11,973	6.7
8	15 to < 25	271	15.3	5,227	2.9
9	< 15	593	33.5	4,909	2.7
	Total	**1,770**	**100.0**	**1,79,421**	**100.0**

* : Data are provisional.
Note : Components may not add up to respective totals due to rounding off.

Table IV.9: Profile of UCBs

(End-March 2008)*

(Amount in Rs. crore)

	Non-Scheduled	Scheduled	All
1	2	3	4
Number	1,717	53	1,770
	(97.0)	(3.0)	(100.0)
Assets	1,00,103	79,318	1,79,421
	(55.8)	(44.2)	(100.0)
Deposits	80,580	57,916	1,38,496
	(58.2)	(41.8)	(100.0)
Advances	53,363	35,619	88,981
	(60.0)	(40.0)	(100.0)
Investments	33,961	26,162	60,123
	(56.5)	(43.5)	(100.0)
Total number of deposits accounts	39,143,063	14,487,941	53,631,004
	(73.0)	(27.0)	(100.0)
Total number of borrowal accounts	6,761,846	1,138,934	7,900,780
	(85.6)	(14.4)	(100.0)

* : Data are provisional.
Note : 1. Figures in parentheses are percentages to their respective totals.
2. Components may not add up to respective totals due to rounding off.

Table IV.10: Tier-wise Distribution of Deposits and Advances

(End-March 2008)*

Type of UCBs	No. of banks	Deposits (Rs. crore)	Advances (Rs. crore)	Assets (Rs. crore)
1	2	3	4	5
Tier I	1,529 (86.4)	34,984 (25.3)	22,525 (25.3)	47,331 (26.4)
Tier II	241 (13.6)	1,03,512 (74.7)	66,456 (74.7)	1,32,090 (73.6)
Total	**1,770 (100.0)**	**1,38,496 (100.0)**	**88,981 (100.0)**	**1,79,421 (100.0)**

* : Data are provisional.
Note : 1. Figures in parentheses are percentages to their respective totals.
2. Components may not add up to respective totals due to rounding off.

Financial Performance

4.72 During 2007-08, net interest income of all UCBs increased compared with the previous year. Both, non-interest income and non-interest expenditure also increased. As a result, operating profits of UCBs increased only marginally. However, increase in provisions, contingencies and taxes resulted in a decline in net profits (Table IV.12).

Table IV.11: Liabilities and Assets of Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March 2006	2007	2008P	Percentage Variations 2006-07	2007-08P
1	2	3	4	5	6
Liabilities					
1. Capital	3,488 (2.3)	3,968 (2.5)	4,658 (2.6)	13.8	17.4
2. Reserves	10,485 (6.9)	14,241 (8.8)	14,841 (8.3)	35.8	4.2
3. Deposits	1,14,060 (75.6)	1,21,391 (75.2)	1,38,496 (77.2)	6.4	14.1
4. Borrowings	1,781 (1.2)	2,657 (1.6)	2,292 (1.3)	49.2	-13.7
5. Other Liabilities	21,140 (14.0)	19,196 (11.9)	19,134 (10.7)	-9.2	-0.3
Total Liabilities/ Assets	**1,50,954 (100.0)**	**1,61,452 (100.0)**	**1,79,421 (100.0)**	**7.0**	**11.1**
Assets					
1. Cash in Hand	1,558 (1.0)	1,622 (1.0)	1,845 (1.0)	4.1	13.7
2. Balances with Banks	9,037 (6.0)	8,906 (5.5)	10,764 (6.0)	-1.4	20.9
3. Money at Call and Short Notice	1,835 (1.2)	1,884 (1.2)	2,000 (1.1)	2.7	6.1
4. Investments	50,395 (33.4)	50,859 (31.5)	60,123 (33.5)	0.9	18.2
5. Loans and Advances	71,641 (47.5)	79,733 (49.4)	88,981 (49.6)	11.3	11.6
6. Other Assets	16,488 (10.9)	18,448 (11.4)	15,708 (8.8)	11.9	-14.9

P: Provisional
Note : 1. Figures in parentheses are percentages to total liabilities/ assets.
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheets of respective UCBs.

Table IV.12: Financial Performance of All UCBs

(Amount in Rs. crore)

Item	As at end-March 2007	2008P	Percentage Variations 2007-08P
1	2	3	4
A. Total Income (i+ii)	**12,281 (100.0)**	**13,068 (100.0)**	**6.4**
i. Interest Income	11,217 (91.3)	11,794 (90.3)	5.1
ii. Non-interest Income	1,066 **(8.7)**	1,274 **(9.7)**	19.5
B. Total Expenditure (i+ii)	**9,797** (100.0)	**10,528** (100.0)	**7.5**
i. Interest Expenditure	6,696 (68.3)	7,159 (68.0)	6.9
ii. Non-Interest Expenditure	3,099 (31.6)	3,368 (32.0)	8.7
of which: wage bill	1,150 (11.7)	1,551 (14.7)	34.9
C. Profit			
i. Amount of operating profit	2,483	2,540	2.3
ii. Provisions, contingencies, taxes	1,311	1,408	7.4
iii. Amount of net profit	1,173	1,131	-3.6

P: Provisional.
Note : 1. Figures in parentheses are percentages to respective totals.
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheet of respective UCBs.

Priority Sector Lending

4.73 Based on the revised guidelines on the priority sector issued in August 2007, 52.7 per cent of cash advances were extended to the priority sector by UCBs. Small enterprises constituted the largest share (16.9 per cent) of the priority sector lending, followed by housing loans (13.4 per cent) and retail trade (11.5 per cent). Lending to the weaker sections constituted 13.7 per cent of advances (Table IV.13).

Table IV.13: Priority Sector and Weaker Section Advances by Urban Co-operative Banks- 2007-08*

Segment	Priority Sector Amount (Rs. crore)	Priority Sector Share in Total Advances (Per cent)	Weaker Sections Amount (Rs. crore)	Weaker Sections Share in Total Advances (Per cent)
1	2	3	4	5
Agriculture and Allied Activities	5,363	6.0	1,464	1.6
i) Direct Finance	2,264	2.5	614	0.7
ii) Indirect Finance	3,099	3.5	850	1.0
Retail Trade	10,271	11.5	2,828	3.2
Small Enterprises	15,011	16.9	3,418	3.8
i) Direct Finance	8,697	9.8	2,013	2.3
ii) Indirect Finance	6,314	7.1	1,405	1.6
Educational Loans	610	0.7	186	0.2
Housing Loans	11,916	13.4	3,155	3.5
Micro Credit	3,012	3.4	946	1.1
State sponsored organisations for SC/ST	675	0.8	152	0.2
Total	**46,859**	**52.7**	**12,149**	**13.7**

*: Data are provisional
Note : Components may not add up to respective totals due to rounding off.

4.74 SLR investments constituted the bulk of investment (85.6 per cent) of UCBs as at end-March 2008. Although all categories of investments increased during 2007-08 as compared with the previous year, the increase was more pronounced in respect of term deposits with State co-operative banks and term deposits with district central co-operative banks (Table IV.14).

Capital Adequacy

4.75 As at end-March 2008, the CRAR of 1,457 UCBs out of total 1,770 UCBs, was at 9 per cent and above (Table IV.15).

Asset Quality

4.76 The gross and net NPAs increased in absolute terms. However, as a percentage of total advances, both gross NPAs and net NPAs declined. The NPA ratios of UCBs were 16.4 per cent (gross) and 7.5 per cent (net) at end-March 2008 (Table IV.16).

Table IV.14: Investments by Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2007	2008P	2007-08P
1	2	3	4
Total Investments (A+B)	**50,859 (100.0)**	**60,123 (100.0)**	**18.2**
A. SLR Investments (i to vi)	**42,742 (84.0)**	**51,452 (85.6)**	**20.4**
i) Central Government Securities	26,826 (52.7)	30,648 (51.0)	14.2
ii) State Government Securities	3,633 (7.1)	3,937 (6.5)	8.4
iii) Other Approved Securities	918 (1.8)	1,001 (1.7)	9.1
iv) Term Depoits with StCBs	4,542 (8.9)	6,155 (10.2)	35.5
v) Term Deposits with DCCBs	6,382 (12.5)	8,980 (14.9)	40.7
vi) Others, if any	441 (0.9)	731 (1.2)	65.7
B. Non-SLR Investments (in bonds of public sector Institutions/AIFIs, shares of AIFIs and units of mutual funds)	**8,117 (16.0)**	**8,671 (14.4)**	**6.8**

P : Provisional.

Note : 1. Figures in parentheses are percentages to total investments.
2. Components may not add up to respective totals due to rounding off.

Table IV.15: CRAR-wise Distribution of All UCBs

(End-March 2008)*

(Per cent)

Range of CRAR (per cent)	<3	3 to 6	6 to 9	≥9	Grand Total
1	2	3		4	5
Non-Scheduled	216	35	52	1,414	1,717
Scheduled	8	1	1	43	53
All UCBs	**224**	**36**	**53**	**1,457**	**1,770**

* : Data are provisional.

Operations and Performance of Scheduled Urban Co-operative Banks

4.77 Total assets of scheduled UCBs continued to expand during 2007-08. While deposits and capital increased significantly, borrowings declined during the year (there was a marginal decline in reserves also). On the asset side, loans and advances, and investments grew significantly during 2007-08 (Table IV.17).

Financial Performance

4.78 Net interest income of scheduled urban co-operative banks declined. Since increase in other income was more or less offset by increase in operating expenditure, the decline in net-interest income resulted in decline in operating profits. However, significant decline in provisions, contingencies and taxes resulted in increase in net profit as against a decline in the previous year (Table IV.18).

4.79 SLR investments, which constitute the bulk of investment of UCBs, grew by 17.7 per cent during 2007-08, while non-SLR investments declined. Of the SLR investments, the increase was more pronounced in respect of term deposits with State co-operative banks and district central co-operative banks (Table IV.19).

Table IV.16: Gross Non-Performing Assets of Urban Co-operative Banks

End-March	No. of Reporting UCBs	Gross NPAs (Rs crore)	Gross NPAs as percentage of Gross Advances	Net NPAs (Rs crore)	Net NPAs as percentage of Net Advances	Net NPAs as percentage of Gross Advances
1	2	3	4	5	6	7
2005	1,872	15,486	23.2	8,257	-	12.1
2006	1,853	13,506	18.9	6,335	-	12.3
2007	1,813	14,541	18.3	6,235	8.8	7.8
2008P	1,770	14,583	16.4	6,685	9.1	7.5

P : Provisional
- : Not available.
Note : Components may not add up to respective totals due to rounding off.

Operations and Performance of Non-scheduled Urban Co-operative Banks

4.80 The consolidated balance sheet of non-scheduled UCBs expanded at a higher rate of 12.0 per cent during 2007-08 as compared with 3.6 per cent during 2006-07. While deposits and capital grew at a higher rate, borrowings declined during 2007-08. On the asset side, loans and advances and investments grew significantly (Table IV.20).

Table IV.17: Liabilities and Assets of Scheduled Urban Co-operative Banks

(Amount in Rs crore)

Item	As at end-March			Percentage Variations	
	2006	2007	2008P	2006-07	2007-08P
1	2	3	4	5	6
Liabilities					
1. Capital	899 (1.4)	995 (1.4)	1,208 (1.5)	10.7	21.4
2. Reserves	5,439 (8.4)	6,898 (9.6)	6,759 (8.5)	26.8	-2.0
3. Deposits	45,297 (70.0)	51,173 (71.0)	57,916 (73.0)	13.0	13.2
4. Borrowings	922 (1.4)	1,345 (1.9)	1,197 (1.5)	45.9	-11.0
5. Other Liabilities	12,145 (18.8)	11,674 (16.2)	12,238 (15.4)	-3.9	4.8
Total Liabilities/Assets	**64,702**	**72,085**	**79,318**	**11.4**	**10.0**
Assets					
1. Cash in hand	386 (0.6)	424 (0.6)	491 (0.6)	9.8	15.8
2. Balances with Banks	4,227 (6.5)	4,542 (6.3)	5,616 (7.1)	7.5	23.7
3. Money at call and short notice	618 (1.0)	1,097 (1.5)	1,100 (1.4)	77.5	0.3
4. Investments (SLR+Non-SLR Investments)	22,593 (34.9)	22,873 (31.7)	26,162 (33.0)	1.2	14.4
5. Loans and Advances	27,960 (43.2)	32,809 (45.5)	35,619 (44.9)	17.3	8.6
6. Other Assets	8,918 (13.8)	10,340 (14.3)	10,330 (13.0)	15.9	-0.1

P: Provisional
Note : 1. Figures in parentheses are percentages to total liabilities/assets
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheet of respective UCBs.

Table IV.18: Financial Performance of Scheduled UCBs

(Amount in Rs crore)

Item	2005-06R	2006-07R	2007-08P	Percentage Variations 2006-07	Percentage Variations 2007-08P
1	2	3	4	5	6
A. Total Income (i+ii)	**4,499 (100.0)**	**4,594 (100.0)**	**4,664 (100.0)**	**2.1**	**1.5**
i. Interest Income	3,912 (87.0)	4,060 (88.4)	4,074 (87.3)	3.8	0.3
ii. Non-interest Income	587 (13.0)	533 (11.6)	590 (12.7)	-9.2	10.7
B. Total Expenditure (i+ii)	**3,653 (100.0)**	**3,791 (100.0)**	**3,880 (100.0)**	**3.8**	**2.3**
i. Interest Expenditure	2,516 (68.9)	2,489 (65.7)	2,524 (65.1)	-1.1	1.4
ii. Non-Interest Expenditure *of which:*	1,137 (31.1)	1,302 (34.3)	1,356 (34.9)	14.5	4.1
Wage bill	634 (17.4)	394 (10.4)	497 (12.8)	-37.9	26.1
C. Profit					
i. Amount of operating profit	846	803	783	-5.1	-2.5
ii. Provisions, contingencies, taxes	332	298	212	-10.2	-28.9
iii. Amount of net profit	514	505	572	-1.8	13.3

P: Provisional R: Revised
Note : 1. Figures in parentheses are percentages to respective totals.
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheet of respective UCBs.

4.81 During 2007-08, net interest income of UCBs at Rs.3,085 crore for 2007-08, was higher than that of Rs.2,949 crore a year ago. Increase in other income was significantly lower than the increase in operating expenditure. However, operating profit of UCBs increased marginally. Higher levels of provisions, contingencies and taxes resulted in decline in net profits of non-scheduled UCBs during 2007-08 (Table IV.21).

4.82 SLR investments constitute the bulk of investment of UCBs. Although all categories of investments increased during 2007-08 as compared with the previous year, the increase was more pronounced in respect of term deposits with State co-operative banks and district central co-operative banks. Furthermore, apart from Central Government securities, term deposits with State co-operative banks and district central co-operative banks constituted significant proportions of total investments (Table IV.22).

Table IV.19: Investments by Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March 2007	As at end-March 2008P	Percentage Variations 2007-08P
1	2	3	4
Total Investments (A+B)	**22,873 (100.0)**	**26,162 (100.0)**	**14.4**
A. SLR Investments (i to vi)	**18,893 (82.6)**	**22,239 (85.0)**	**17.7**
i) Central Government Securities	14,507 (63.4)	16,886 (64.5)	16.4
ii) State Government Securities	2,026 (8.9)	2,132 (8.1)	5.2
iii) Other Approved Securities	191 (0.8)	151 (0.6)	-20.9
iv) Term Depoits with StCBS	1,496 (6.5)	2,186 (8.4)	46.1
v) Term Deposits with DCCBs	622 (2.7)	755 (2.9)	21.4
vi) Others, if any	51 (0.2)	129 (0.5)	152.9
B. Non-SLR Investments (in bonds of public sector Institutions/AIFIs, shares of AIFIs and units of mutual funds)	**3,981 (17.4)**	**3,923 (15.0)**	**-1.5**

P: Provisional
Note : 1. Figures in parentheses are percentages to total investments.
2. Components may not add up to respective totals due to rounding off.

Table IV.20: Liabilities and Assets of Non-Scheduled UCBs

(Amount in Rs crore)

Item	As at end-March			Percentage Variations	
	2006	2007	2008P	2006-07	2007-08P
1	2	3	4	5	6
Liabilities					
1. Capital	2,589 (3.0)	2,973 (3.3)	3,450 (3.4)	14.8	16.0
2. Reserves	5,046 (5.9)	7,342 (8.2)	8,082 (8.1)	45.5	10.1
3. Deposits	68,763 (79.7)	70,218 (78.6)	80,580 (80.5)	2.1	14.8
4. Borrowings	859 (1.0)	1,312 (1.5)	1,095 (1.1)	52.7	-16.5
5. Other Liabilities	8,994 (10.4)	7,522 (8.4)	6,896 (6.9)	-16.4	-8.3
Total Liabilities/Assets	**86,251 (100.0)**	**89,367 (100.0)**	**1,00,103 (100.0)**	**3.6**	**12.0**
Assets					
1. Cash in hand	1,171 (1.4)	1,198 (1.3)	1,354 (1.4)	2.3	13.0
2. Balances with Banks	4,810 (5.6)	4,364 (4.9)	5,147 (5.1)	-9.3	17.9
3. Money at call and short notice	1,217 (1.4)	787 (0.9)	900 (0.9)	-35.3	14.3
4. Investments (SLR+Non-SLR Investments)	27,802 (32.2)	27,985 (31.3)	33,961 (33.9)	0.7	21.4
5. Loans and Advances	43,680 (50.6)	46,924 (52.5)	53,363 (53.3)	7.4	13.7
6. Other Assets	7,571 (8.8)	8,108 (9.1)	5,378 (5.4)	7.1	-33.7

P: Provisional.
Note : 1. Figures in parentheses are percentages to total liabilities/assets.
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheet of respective UCBs.

4.83 UCBs made significant progress in terms of technological advancements. As at end-March 2008, 265 on-site and 21 off-site ATMs have been established. While 22 UCBs have already

Table IV.21: Financial Performance of Non-Scheduled UCBs

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2007	2008P	2007-08P
1	2	3	4
A. Total Income (i+ii)	**7,687 (100.0)**	**8,404 (100.0)**	**9.3**
i. Interest Income	7,156 (93.1)	7,720 (91.9)	7.9
ii. Non-interest Income	532 (6.9)	684 (8.1)	28.6
B. Total Expenditure (i+ii)	**6,005 (100.0)**	**6,648 (100.0)**	**10.7**
i. Interest Expenditure	4,207 (70.1)	4,635 (69.7)	10.2
ii. Non-Interest Expenditure	1,798	2,012	11.9
of which:	(29.9)	(30.3)	
Wage bill	755 (12.6)	1,054 (15.9)	39.6
C. Profit			
i. Amount of operating profit	1,680	1,756	4.5
ii. Provisions, contingencies, taxes	1,012	1,197	18.3
iii. Amount of net profit	668	560	-16.2

P: Provisional.
Note : 1. Figures in parentheses are percentages to respective totals.
2. Components may not add up to respective totals due to rounding off.
Source : Balance sheet of respective UCBs.

Table IV.22: Investments by Non-Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations
	2007	2008P	2007-08P
1	2	3	4
Total Investments (A+B)	**27,985 (100.0)**	**33,961 (100.0)**	**21.4**
A. SLR Investments (i to vi)	**23,849 (85.2)**	**29,213 (86.0)**	**22.5**
i) Central Government Securities	12,319 (44.0)	13,762 (40.5)	11.7
ii) State Government Securities	1,607 (5.7)	1,805 (5.3)	12.3
iii) Other Approved Securities	727 (2.6)	850 (2.5)	16.9
iv) Term Deposits with StCBS	3,046 (10.9)	3,969 (11.7)	30.3
v) Term Deposits with DCCBs	5,760 (20.6)	8,225 (24.2)	42.8
vi) Others, if any	390 (1.4)	602 (1.8)	54.4
B. Non-SLR Investments (in bonds of public sector Institutions/AIFIs, shares of AIFIs and units of mutual funds)	**4,136 (14.8)**	**4,748 (14.0)**	**14.8**

P: Provisional.
Note : 1. Figures in parentheses are percentages to total investments.
2. Components may not add up to respective totals due to rounding off.

introduced core banking solutions (CBS), 18 UCBs are in the process of implementing CBS.

Urban Co-operative Banks – Regional Operations

4.84 The number of operating UCBs is concentrated mainly in five States/Union Territories, *viz*., Andhra Pradesh, Gujarat, Karnataka, Maharashtra (including Goa) and Tamil Nadu. Nearly 79 per cent of total UCBs with 86 per cent of total branches operated in these five States as at end-March 2008. Maharashtra (including Goa) alone accounted for around 55 per cent of total branches of UCBs. Of the 7,424 branches of UCBs, 874 operated as unit banks, *i.e.*, banks which function as head office-cum-branch. Maharashtra (including Goa), Gujarat and Karnataka together accounted for around 61 per cent of total number of unit banks (Table IV.23).

4.85 Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu together accounted for 88.1 per cent of the deposits and 89.5 per cent of the credit of the entire UCB sector at end-March, 2008. Maharashtra alone accounted for 65.2 per cent of deposits and 65.8 per cent of total advances. As at end-March 2008, the number of districts with the presence of a UCB was

Table IV.23: Distribution of Urban Co-operative Banks-State-wise

State	As at end-March 2007				As at end-March 2008P			
	Number of UCBs operating	Unit UCBs	Branc-hes#	Exten-sion Counters	Number of UCBs operating	Unit UCBs	Branc-hes#	Exten-sion Counters
1	2	3	4	5	6	7	8	9
Andhra Pradesh	116	87	273	5	115	85	258	4
Assam/Manipur/Meghalaya/ Mizoram/Tripura	17	13	28		17	13	28	
Bihar/Jharkhand	5	4	6	1	5	4	6	1
Chhattisgarh	14	10	20	2	13	10	20	2
Gujarat	284	151	924	4	271	146	917	4
Jammu & Kashmir	4	1	16	4	4	1	16	4
Karnataka	288	153	848	16	280	148	838	16
Kerala	60	17	324	2	60	17	324	2
Madhya Pradesh	60	45	80		57	43	80	
Maharashtra (including Goa)	622	237	4,010	138	609	235	4,013	140
New Delhi	15	6	60	1	15	6	60	1
Orissa	14	5	51	4	14	5	51	4
Punjab/Haryana/ Himachal Pradesh	16	10	39	3	16	9	39	3
Rajasthan	39	19	142	7	39	19	146	3
Tamilnadu/Pondicherry	131	60	311	0	130	59	310	–
Uttar Pradesh	70	42	173	27	70	42	173	27
Uttarakhand	7	3	45	2	6	2	45	2
West Bengal/Sikkim	51	31	103	2	49	30	100	2
Total	**1,813**	**894**	**7,453**	**218**	**1,770**	**874**	**7,424**	**215**

P : Provisional.
: Including head office cum branch.

Table IV.24: State-wise Distribution of UCBs

(As at end-March 2008)*

State	No. of UCBs	Amount of Deposits (Rs. crore)	Amount of Advances (Rs. crore)	Total Number of districts with a presence of UCB branch
1	2	3	4	5
1. Andhra Pradesh	115	3,093	2,067	21
2. Assam	9	230	130	6
3. Bihar	3	33	16	2
4. Chhattisgarh	13	238	79	7
5. Goa	6	1,144	617	5
6. Gujarat	271	16,343	10,419	26
7. Haryana	7	228	131	7
8. Himachal Pradesh	5	216	138	4
9. Jammu and Kashmir	4	232	134	5
10. Jharkhand	2	13	5	2
11. Karnataka	280	9,188	6,331	25
12. Kerala	60	3,169	2,109	14
13. Madhya Pradesh	57	905	477	48
14. Maharashtra	603	90,263	58,539	35
15. Manipur	3	140	62	3
16. Meghalaya	3	60	20	3
17. Mizoram	1	11	3	1
18. New Delhi	15	1,037	457	1
19. Orissa	14	688	471	15
20. Puducherry	1	89	75	1
21. Punjab	4	461	239	2
22. Rajasthan	39	2,031	1,128	24
23. Sikkim	1	4	3	1
24. Tamil Nadu	129	3,184	2,297	30
25. Tripura	1	10	5	1
26. Uttar Pradesh	70	2,324	1,336	36
27. Uttarakhand	6	976	484	7
28. West Bengal	48	2,187	1,209	11
Total	**1,770**	**1,38,496**	**88,981**	**343**

* : Data are provisional

Note : Components may not add up to respective totals due to rounding off.

highest in Madhya Pradesh, followed by Uttar Pradesh and Maharashtra (Table IV.24).

4.86 At end-March 2008, the C-D ratio of scheduled UCBs at select centres showed large variations across centres. The C-D ratio was the highest in Hyderabad (89.9 per cent) followed by Ahmedabad (66.8 per cent) and Nagpur (62.6 per cent). Mumbai accounted for the largest share in both deposits and loans and advances (Table IV.25).

4.87 Non-scheduled UCBs in five centres, *viz.*, Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur accounted for more than 70 per cent of capital and reserves and around 80 per cent of deposits and advances of all non-scheduled UCBs at end-March 2008. Wide variations were observed in the C-D ratio of non-scheduled UCBs. The C-D ratio was the highest in Chennai (72.5 per cent) and the lowest in Raipur (33.2 per cent). At five centres (Dehradun, Guwahati, New Delhi, Patna and Raipur) the C-D ratio of non-scheduled UCBs was less than 50 per cent (Table IV.26).

Table IV.25: Centre-wise Select Indicators of Scheduled Urban Co-operative Banks

(As at end-March 2008)*

(Amount in Rs crore)

Centre	Capital	Reserves	Deposits	Loans and Advances	Total Liabilities /Assets	C-D Ratio (per cent)
1	2	3	4	5	6	7
Ahmedabad	124	3,201	6,008	4,013	11,018	66.8
Bangalore	6	23	302	180	632	59.6
Hyderabad	102	364	585	526	1,370	89.9
Lucknow	10	30	257	106	347	41.2
Mumbai	870	2,799	47,134	28,520	61,254	60.5
Nagpur	95	342	3,630	2,273	4,697	62.6
Total	**1,208**	**6,759**	**57,916**	**35,619**	**79,318**	**61.5**

* : Data are Provisional.

C-D ratio : Credit-Deposit ratio.

Note: Components may not add up to respective totals due to rounding off.

Table IV.26: Centre-wise Select Indicators of Non-Scheduled Urban Co-operative Banks

(As at end-March 2008)*

(Amount in Rs crore)

Centre	Share Capital	Free Reserves	Deposits	Loans and Advances	Total Liabilities/ Assets	C-D Ratio (per cent)
1	2	3	4	5	6	7
Ahmedabad	364	2,594	10,335	6,406	13,891	62.0
Bangalore	440	623	8,886	6,151	11,804	69.2
Bhopal	41	58	902	476	1,282	52.8
Bhubaneswar	33	169	688	471	892	68.5
Chandigarh	36	69	905	509	1,111	56.2
Chennai	153	603	3,273	2,373	4,504	72.5
Dehradun	13	107	976	484	1,131	49.6
Guwahati	15	50	452	221	544	48.9
Hyderabad	155	457	2,507	1,542	3,325	61.5
Jaipur	121	215	2,031	1,128	2,501	55.5
Jammu	5	7	232	134	284	57.8
Kolkata	253	343	2,191	1,212	2,879	55.3
Lucknow	144	184	2,067	1,230	2,766	59.5
Mumbai	1,258	1,128	33,183	23,276	37,988	70.1
Nagpur	252	842	7,460	5,086	9,403	68.2
New Delhi	50	204	1,037	457	1,396	44.1
Patna	3	14	46	21	66	45.7
Raipur	10	32	238	79	308	33.2
Thiruvananthapuram	102	382	3,169	2,109	4,027	66.6
Total	**3,450**	**8,082**	**80,580**	**53,363**	**1,00,103**	**66.2**
Memo Item:						
Share of Major Centres**	71.5	71.6	78.4	81.1	77.7	

* : Data are provisional

** : Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total.

Note : Individual figures may not add up to total due to rounding off.

3. Rural Co-operatives

4.88 Recognising the wide outreach of rural co-operative credit institutions, particularly among the rural and vulnerable segments of the society, and their role in purveying rural credit and deposit mobilisation, efforts have been made to restore operational viability and financial health of these institutions.

4.89 The financial performance of rural co-operative credit institutions continued to be characterised by several weaknesses such as high NPAs, poor recovery and accumulated losses. As on March 31, 2007, four out of 31 StCBs, 97 out of 371 DCCBs, 48,078 out of 97,224 PACS, eight out of 20 reporting SCARDBs and 342 out of 697 reporting PCARDBs incurred losses, which together amounted to Rs.1,524 crore (excluding PACS).

Regulation of Rural Co-operative Banks

4.90 The total number of licensed StCBs and DCCBs as on June 30, 2008 was 14 and 75, respectively. No new banking licence was granted during 2007-08. The West Bengal StCB was, however, granted permission for opening of two branches at Dum Dum and Kancharapara in North 24 Paraganas district of West Bengal. During 2007-08, no StCB/ DCCB was issued directions under Section 35A of the Banking Regulation Act, 1949 (AACS). However, as at end-September 2008, two StCBs and nine DCCBs were placed under the Reserve Bank's directions issued in terms of Section 35A of the Act, prohibiting them from granting loans and advances to certain areas and/or accepting fresh deposits. No licence/application for licence was cancelled/rejected during the year. No

StCB was granted scheduled status during the year for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. The total number of scheduled StCBs remained at 16. As on June 30, 2008, seven out of the 31 StCBs and 118 out of the 371 DCCBs did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (AACS). Similarly, seven StCBs and 118 DCCBs did not comply with the provisions of Section 22(3) (a) of the Act, implying that they were not in a position to pay their present and future depositors in full as and when their claims accrued. Further, 14 StCBs and 343 DCCBs did not comply with Section 22 (3) (b) of the Banking Regulation Act, 1949, implying that the affairs of these banks were being conducted in a manner detrimental to the interests of their depositors.

Deposit Schemes with Lock-in-period

4.91 It was brought to the notice of the Reserve Bank that some StCBs/DCCBs were offering special term deposit products to customers, in addition to regular term deposits, ranging from 300 days to five years, with certain restrictive features. In terms of extant guidelines, banks are required to ensure that the provisions of the Reserve Bank directives on interest rates on deposits, premature withdrawal of term deposits and sanction of loans/advances against term deposits, among others, issued from time to time, are strictly adhered to. Any violation in this regard is viewed seriously and may attract penalty under the Banking Regulation Act, 1949 (AACS). Further, no bank should discriminate in the matter of interest paid on deposits, between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank, barring fixed deposit schemes specifically for senior citizens (which offer higher and fixed rates of interest as compared to normal deposits of any size), and single term deposits of Rs.15 lakh and above on which varying rates of interest may be permitted on the basis of size of deposits. In the light of the prevalence of the restrictive practices, the StCBs/DCCBs were again advised in November 2007 that the special schemes, with lock-in periods and other features floated by some banks were not in conformity with the Reserve Bank's instructions. Such schemes should be discontinued with immediate effect and compliance be reported to the Reserve Bank's concerned regional office.

Complaints about Excessive Interest Charged by Banks

4.92 According to 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 rates of 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 other loans of similar nature, banks have 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 in 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 has to be suitably publicised.

Application of Capital Adequacy Norms to State Co-operative Banks and District Central Co-operative Banks

4.93 In order to strengthen the capital structure of StCBS and DCCBs, in the context of financial stability of the whole system and pursuant to the announcement in the Mid - Term Review of Annual Policy Statement for the year 2007-08, all StCBs and DCCBs were advised to disclose the level of CRAR as on March 31, 2008 in their balance sheets and thereafter every year as 'notes on accounts' to their balance sheets. They were also advised to furnish an annual return to the respective regional offices of RBI/NABARD, indicating CRAR in the prescribed format (Box IV.5).

Supervision of the Rural Co-operative Banks

4.94 NABARD undertakes statutory inspection of StCBs and DCCBs for effective supervision. This is focussed on ensuring conformity with banking regulations and facilitating internalisation of prudential norms. Accordingly, statutory inspections of all StCBs and DCCBs not complying with minimum capital requirements continued to be conducted annually, while statutory inspections of DCCBs having positive net worth are conducted once in two years. NABARD also conducts voluntary inspections of all SCARDBs, apex weaver's co-operative societies and state co-operative marketing federations, among others. While the voluntary inspections of all SCARDBs continued to be conducted annually, those for apex co-operative societies/federations continued to be conducted once in two years. 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) as also to ensure that the affairs of these banks are conducted in conformity with the relevant Acts/Rules, Regulations, Bye-laws, *etc.*, so as to protect interests of their depositors. NABARD also looks into the ways and means of strengthening the institutions to enable them to play a more efficient role in the dispensation of credit. The inspections focus sharply on core areas such as capital adequacy, asset quality, management, earnings, liquidity, systems and compliance (CAMELSC). During 2007-08, NABARD carried out statutory inspections of 366 banks

Box IV.5: Application of Capital Adequacy Norms to StCBs and DCCBs

At present, the CRAR norms do not apply to StCBs and DCCBs. However, the Task Force on Revival of Rural Co-operative Credit Institutions (Short-term) (Chairman: Prof. A. Vaidyanathan), in its report recommended as under :

"The package will include assistance necessary to bring all co-operatives, including Primary Agricultural Credit Societies (PACS), to a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 7 per cent. While this ratio will be raised within three years to 9 per cent by PACS, DCCBs and StCBs shall raise their CRAR as prescribed by the Reserve Bank of India. This increase in CRAR shall be met by the CCS from its own resources."

As per the directions of the Board for Financial Supervision (BFS), a Technical Group was constituted with the Chief General Managers of various regulatory departments of the Reserve Bank to examine the applicability of Basel norms to StCBs and DCCBs and articulate appropriate policy responses. The group made the following recommendations, among others:

- Capital adequacy regulation be introduced for StCBs, DCCBs on par with commercial banks.
- The road-map for capital infusion be finalised taking into account special characteristics, uncertainties, and constraints of the entities in question.
- Banks choosing not to adopt Basel norms could remain so and in that case they would not be granted any facility like licence for opening of branch, conducting foreign exchange business (except restricted money changers licence), access to payment system, among others. However, even such banks should possess a minimum net worth of Rs.10 lakh, otherwise, a phased exit out of the banking system could be considered for them in a non-disruptive manner.

(31 StCBs, 261 DCCBs and 74 RRBs) and voluntary inspections of 18 SCARDBs and 1 apex co-operative institution.

4.95 The Board of Supervision [BoS] for StCBs, DCCBs and RRBs met four times during 2007-08. The issues deliberated by BoS included (i) functioning of StCBs and SCARDBs; (ii) functioning of co-operative credit institutions of Orissa, Maharashtra, Karnataka and Gujarat and RRBs; (iii) functioning of insolvent StCBs and DCCBs; (iv) trigger-point policy for supervisory prescription and regulatory action for co-operative credit institutions; (v) impact of amalgamation of RRBs; (vi) policy, procedure and status of complaints, grievance redressal and courteous service; (vii) frauds, misappropriation, embezzlements, defalcations; (viii) implementation of development action plans (DAPs) by co-operative banks; (ix) implementation of reforms under the Government of India package for Short Term Co-operative Credit Structure; (x) the revised inspection strategy; (xi) revision of exposure norms and credit monitoring arrangements (CMA) guidelines; and (xii) investment portfolio management based on special studies.

4.96 NABARD revised the inspection guidelines for on-site inspection of all banks. NABARD conducted pilot inspections of 20 select banks before implementing the revised guidelines which included: (i) revised audit classification/rating norms for audit of co-operative banks; (ii) guidelines on customer service and grievance redressal mechanism in co-operative banks; (iii) guidelines on asset-liability management to be introduced on a pilot basis for 5 StCBs and 12 RRBs.

4.97 NABARD also constituted a Central Fraud Monitoring Cell to monitor and investigate frauds above Rs.10 lakh. In addition, portfolio studies were also undertaken in respect of investment management, NPA management. CMA in select co-operative banks, were also undertaken.

Management of Co-operatives

4.98 The percentage of boards under supersession increased to 46.4 per cent at end-March 2007 from 45.7 per cent at end-March 2006. The number of co-operatives where boards were under supersession remained high. Barring DCCBs, the number and proportion of boards under supersession at end-March 2007 increased or remained same for other segments of the rural co-operative banking sector (Table IV.27).

A Profile of Rural Co-operative Banks

4.99 As on March 31, 2007, the consolidated assets of the rural co-operative credit institutions[1] amounted to Rs.3,70,719 crore.

Table IV.27: Elected Boards under Supersession

(Position as on March 31, 2007)

Particulars	StCBs	DCCBs	SCARDBs	PCARDBs	Total
1	2	3	4	5	6
(i) Total no. of Institutions	31	371	20	697	1,117
(ii) No. of Institutions where Boards are under Supersession	12	152	9	346	519
Percentages of Boards under Supersession [(ii) as percentage of (i)]	**39**	**41**	**45**	**50**	**46.4**

Note : Data are in respect of reporting banks only.
Source : NABARD.

[1] Rural co-operative credit institutions include State co-operative banks, district central co-operative banks, primary agricultural credit societies, State co-operative agriculture and rural development banks and primary co-operative agriculture and rural development banks.

The rural co-operative sector, on aggregate, held Rs.1,67,519 crore of deposits and a loan portfolio of Rs.2,25,770 crore. Their financial performance continued to deteriorate during 2006-07 compared with the previous year. The number of loss-making entities continued to far exceed the number of profit-making entities. Institution-wise, the upper-tier of the short-term (StCBs and DCCBs) long-term structure (SCARDBs) made profit, while the lower-tier comprising PACS and PCARDBs made losses. The asset quality, however, improved as reflected in decline in the NPA ratio (as percentage of loans outstanding) during 2006-07 in respect of both short-term and long-term rural co-operative credit institutions (Table IV.28).

Rural Co-operative Banks–Short Term Structure

State Co-operative Banks

4.100 The balance sheet of StCBs expanded significantly during 2006-07. On the liabilities side, deposits continued to account for the largest share of the resources of StCBs, despite the modest decline in the share during the year. However, the share of borrowings

Table IV.28: A Profile of Rural Co-operative Banks

(At end-March 2007**)

(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	371	97,224	20	697	**98,343**
B. Balance Sheet Indicators						
i) Owned Fund (Capital + Reserves)	10,549	26,180	11,038	2,931	3,596	**54,294**
ii) Deposits	48,560	94,529	23,484	605	341	**1,67,519**
iii) Borrowings	22,256	29,912	43,715	16,662	12,751	**1,25,296**
iv) Loans and Advances Issued*	52,777	82,963	49,614	2,436	1,970	**1,89,759**
v) Loans and Advances Outstanding	47,354	89,038	58,620	18,644	12,114	**2,25,770**
vi) Investments	24,140	41,006	N.A.	1,916	824	**67,886**
vii) Total Liabilities/Assets	85,756	1,58,894	79,959##	24,336	21,774	**3,70,719**
C. Financial Performance						
i) Institutions in Profit						
a) No.	27	271	33,983	10&	350	**34,641**
b) Amount of Profit	319	754	749	280&	419	**2,521**
ii) Institutions in Loss						
a) No.	4	97	48,078	8&	342	**48,529**
b) Amount of Loss (-)	-44	-724	-2,402	-190&	-566	**-3,926**
iii) Overall Profit/Loss (-)	275	30	-1,653	90	-147	**-1,405**
iv) Accumulated Loss(-)	-389	-5,712	N.A	-946	-2,870	**-9,917**
D. Non-performing Assets						
i) Amount	6,704	16,495	11,558+	5,643	4,316	**44,716**
ii) As Percentage of Loans Outstanding	14.2	18.5	26.9@@	30.3	35.4	**19.8**
iii) Recovery of Loans to Demand (per cent) (as on 30 June)	85.7	71.1	70.9	44	52	

: Working Capital.
^ : Data in respect of 4 PCARDBS in Orissa not received.
& : Profit/Loss data for Bihar SCARDB not received.
# : Data for three new DCCBs, *viz.*, Baran in Rajasthan, S.S. Nagar in Punjab and Udham Singh Nagar in Uttarakhand, are not available.
@ : Since Manipur SCARDB is under orders of liquidation, data for Manipur SCARDB is repeated from 2004 and profitability data for Manipur and Bihar SCARDBs are not available.
@@ : Percentage of overdues to loans outstanding.
* : April- March.
** : Data are provisional.
+ : Total overdues.
Note : N.A.-Not available.
Source : NABARD and NAFSCOB.

increased during the year. High growth in borrowings, which outpaced the growth of other components during the year indicates that StCBs continued to rely heavily on outside sources for their expansion. Capital and deposits also witnessed a higher growth during the year. On the asset side, while loans and advances grew at an accelerated pace, investments declined by 12.8 per cent. Cash and bank balances registered a sharp increase during the year (Table IV.29)

Financial Performance

4.101 Income of the StCBs declined by 7.3 per cent on account of decline in both interest income and non-interest income during 2006-07. Despite increase in both interest expended and operating expenses, total expenditure declined due to decline in provisions and contingencies. The increase in both interest expenditure and operating expenditure coupled with the decline in income, led banks' operating profits to decline significantly (45.2 per cent). However, sharp reduction in provisions and contingencies constrained the decline in net profits (27.2 per cent) (Table IV.30). Out of 31 StCBs, 27 StCBs earned profits aggregating Rs.319 crore, while four of them made losses amounting to Rs.44 crore during the year (see Table IV.28).

Asset Quality and Recovery Performance

4.102 During the year, the NPAs of StCBs declined in both absolute and percentage terms. The gross NPAs to total loans ratio at 14.2 per cent during 2006-07 was lower than that of 17.0 per cent in 2005-06. The improvement in asset quality was also discernible from the decline in 'loss' assets and

Table IV.29: Liabilities and Assets of State Co-operative Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
Liabilities				
1. Capital	1,114 (1.5)	1,246 (1.5)	10.1	11.8
2. Reserves	9,431 (12.3)	9,303 (10.8)	11.1	-1.4
3. Deposits	45,405 (59.4)	48,560 (56.6)	2.4	6.9
4. Borrowings	16,989 (22.2)	22,256 (26.0)	16.3	31.0
5. Other Liabilities	3,542 (4.6)	4,392 (5.1)	4.5	24.0
Total Liabilities/Assets	**76,481**	**85,756**	**6.5**	**12.1**
Assets				
1. Cash and Bank balance	4,323 (5.7)	9,290 (10.8)	-34.5	114.9
2. Investments	27,694 (36.2)	24,140 (28.2)	18.8	-12.8
3. Loans and Advances	39,684 (51.9)	47,354 (55.2)	6.2	19.3
4. Other Assets	4,781 (6.3)	4,971 (5.8)	4.6	4.0

* Data are Provisional.
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.
Source : NABARD.

Table IV.30: Financial Performance of State Co-operative Banks

(Amount in Rs.crore)

Item	2005-06	2006-07*	Percentage Variations	
			2005-06	2006-07*
1	2	3	4	5
A. Income (i+ii)	**5,656** (100.0)	**5,242** (100.0)	**-2.0**	**-7.3**
i) Interest Income	5,320 (94.1)	4,974 (94.9)	-1.2	-6.5
ii) Other Income	336 (5.9)	269 (5.1)	-13.8	-20.0
B. Expenditure (i+ii+iii)	**5,278** (100.0)	**4,967** (100.0)	**-3.8**	**-5.9**
i) Interest Expended	3,658 (69.3)	3,708 (74.7)	-1.2	1.4
ii) Provisions and Contingencies	1,039 (19.7)	502 (10.1)	-17.5	-51.7
iii) Operating Expenses	581 (11.0)	757 (15.2)	10.5	30.3
of which: Wage Bill	381 (7.2)	398 (8.0)	3.3	4.4
C. Profit				
i) Operating Profit	1,417	777	-8.3	-45.2
ii) Net Profit	378	275	32.2	-27.2
D. Total Assets	**76,481**	**85,756**	**6.5**	**12.13**

* : Data are provisional.
Note : Figures in parentheses are percentages to the respective total.
Source : NABARD.

partly due to migration from the lower categories. Thus, there was an increase in the 'sub-standard' and 'doubtful' assets categories. The recovery performance, which has remained similar to that in the previous year, needs to improve further to reduce the NPAs in future. As was the case in earlier years, StCBs more than met the provisioning requirements during 2006-07 (Table IV.31).

Regional Dimensions

4.103 At the all India level, the recoveries made by StCBs as a proportion of demand declined marginally to 86 per cent in 2006-07 from 87 per cent in 2005-06. Among the various States/Union Territories, the recovery performance improved in 12 States and two UTs (Assam, Chhattisgarh, Chandigarh, Delhi, Goa, Jammu and Kashmir, Gujarat, Manipur, Maharashtra, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura), while it declined in ten States and two UTs (Andaman and Nicobar Islands, Arunachal Pradesh, Andhra Pradesh, Bihar, Himachal Pradesh, Kerala, Orissa, Puducherry, Punjab, Uttar Pradesh, Uttarakhand and West Bengal). For StcBs in Haryana, Karnataka and Rajasthan the recovery performance remained similar to what it was last year. StCBs in nine States and one UT (Andaman and Nicobar Islands, Chhattisgarh, Haryana, Karnataka, Madhya Pradesh, Punjab, Rajasthan, Gujarat, Uttarakhand and Tamil Nadu) achieved more than 90 per cent recovery during 2006-07.

Table IV.31: Asset Quality of State Co-operative Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**6,735**	**6,704**	**10.2**	**-0.5**
i) Sub-standard	2,763 (39.3)	2,957 (44.1)	-6.5	7.00
ii) Doubtful	2,292 (35.1)	2,625 (39.1)	16.0	14.5
iii) Loss	1,680 (25.6)	1,122 (16.8)	42.5	-33.2
B. NPAs to Loans Ratio	**17.0**	**14.2**		
Memo Item:				
i) Recovery to Demand (30 June)	87	86		
ii) Provisions Required	3,354	2,820	22.6	-15.9
iii) Provisions Made	3,600	3,200	23.5	-11.1

* : Data are provisional.

Notes : 1. Figures in parentheses represent percentages to total.
2. Data for Rajasthan not available.
3. Data for Karnataka StCB for 2007 repeated from the previous year.

Source : NABARD.

4.104 Twenty seven StCBs earned profits, while four StCBs made losses. Ten StCBs earned higher profits during 2006-07, while 16 StCBs earned lower profits. The StCB of Chhattisgarh made a turnaround; from being a loss making StCB in 2005-06, it became a profit making one in 2006-07. StCBs in Kerala, Arunachal Pradesh, Nagaland and Tripura made losses during 2006-07 (Appendix Table IV.8).

4.105 NPAs of StCBs varied widely across the States at end-March 2007. In some States such as Haryana, Punjab and Rajasthan, NPAs were less than 3.0 per cent, while in other States (Arunachal Pradesh, Assam, Nagaland and Bihar), NPAs were more than 40 per cent. Only in eleven 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 nine States and one UT (Haryana, Punjab, Rajasthan, Tamil Nadu, Gujarat, Uttarakhand, Madhya Pradesh, Andaman and Nicobar Islands, Karnataka, Chhattisgarh), achieved more than 90 per cent recovery during 2006-07. However, in seven States such as Jammu and Kashmir, Bihar, Arunachal Pradesh, Assam, Manipur, Meghalaya and Tripura, the recovery rate was less than 50 per cent (Appendix Table IV.8).

District Central Co-operative Banks

4.106 The business operations of district central co-operative banks (DCCBs) continued to expand. Assets of DCCBs grew by 11 per cent during 2006-07 as against 7.3 per cent growth achieved during 2005-06. The composition of the liabilities/assets of DCCBs remained broadly unchanged between end-March 2006 and end-March 2007. Deposits continued to be the principal source of funds for DCCBs, although their share declined. Borrowings, however, increased sharply, implying growing reliance by the DCCBs on outside sources for expansion. On the asset side, both the loans and advances and investment portfolio grew at higher rates as compared with the previous year (Table IV.32).

Financial Performance

4.107 Interest income of DCCBs declined marginally during 2006-07 as compared with the previous year, while interest expended increased. Other income increased marginally. Operating expenses also increased sharply. As a result, operating profits declined significantly. Provisions and contingencies declined significantly, which allowed DCCBs to earn a meagre net profit of Rs.31 crore during 2006-07 (Table IV.33).

Asset Quality and Recovery Performance

4.108 The NPAs to loans ratio of DCCBs improved to 18.5 per cent at end-March 2007 from 19.8 per cent at end-March 2006. This was mainly due to decline in NPAs in the 'sub-standard' category. Substantial asset slippage was noticed both in the 'doubtful' and 'loss assets' category. The recovery to demand ratio also improved. Provisions made significantly exceeded the provisions required. (Table IV.34).

Regional Dimensions

4.109 DCCBs operating in 11 States (Chhattisgarh, Madhya Pradesh,

Table IV.32: Liabilities and Assets of District Central Co-operative Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
Liabilities				
1. Capital	4,748 (3.3)	5,458 (3.4)	9.3	15.0
2. Reserves	18,702 (13.1)	20,722 (13.1)	15.8	10.8
3. Deposits	87,532 (61.2)	94,529 (59.5)	6.6	8.0
4. Borrowings	24,217 (16.9)	29,912 (18.8)	7.3	23.5
5. Other Liabilities	7,891 (5.5)	8,273 (5.2)	-3.5	4.8
Total Liabilities/Assets	**1,43,090**	**1,58,894**	**7.3**	**11.0**
Assets				
1. Cash and Bank balance	10,695 (7.5)	11,274 (7.1)	24.8	5.4
2. Investments	36,628 (25.6)	41,006 (25.8)	1.9	12.0
3. Loans and Advances	79,202 (55.3)	89,038 (56.0)	8.3	12.4
4. Other Assets	16,565 (11.6)	17,575 (11.1)	5.2	6.1

*: Data are provisional.
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.
Source : NABARD

Table IV.33: Financial Performance of District Central Co-operative Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
A. Income (i+ii)	**11,688**	**11,652**	**-8.2**	**-0.3**
i) Interest Income	10,688 (91.4)	10,597 (90.9)	-6.4	-0.8
ii) Other Income	1,000 (8.6)	1,055 (9.1)	-23.7	5.5
B. Expenditure (i+ii+iii)	**11,481**	**11,622**	**-2.4**	**1.2**
i) Interest Expended	6,577 (57.3)	6,668 (57.4)	-11.2	1.4
ii) Provisions and Contingencies	2,563 (22.3)	2,284 (19.6)	20.6	-10.9
iii) Operating Expenses	2,341 (20.4)	2,670 (23.0)	5.0	14.0
Of which: Wage Bill	1,648 (14.4)	1,837 (15.8)	2.5	11.5
C. Profit				
i) Operating Profit	2,769	2,314	-10.5	-16.4
ii) Net Profit	207	31	-78.7	-85.0
D. Total Assets	**1,43,090**	**1,58,894**	**7.3**	**11.0**

*: Data are provisional.
Note: Figures in parentheses are percentages to total.
Source: NABARD

Table IV.34: Asset Quality of District Central Co-operative Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**15,709**	**16,495**	**6.6**	**5.0**
i) Sub-standard	6,905 (44.0)	6,375 (38.6)	5.7	-7.7
ii) Doubtful	6,699 (42.6)	7,648 (46.4)	6.1	14.2
iii) Loss	2,106 (13.4)	2,471 (15.0)	11.5	17.4
B. NPAs to Loans Ratio	**19.8**	**18.5**		
Memo Item:				
i) Recovery to Demand (30 June)	69	71*		
ii) Provisions Required	8,713	10,222	-0.6	17.3
iii) Provisions Made	10,360	12,163	-12.2	17.4

*: Data are provisional.

Note : Figures in parentheses represent percentages to total.

Source : NABARD.

Uttarakhand, Himachal Pradesh, Punjab, Rajasthan, Orissa, West Bengal, Karnataka, Kerala and Tamil Nadu) out of 19 States made profits, while DCCBs in 8 States (Uttar Pradesh, Haryana, Jammu and Kashmir, Bihar, Jharkhand, Gujarat, Maharashtra and Andhra Pradesh) made losses. DCCBs in Haryana, Bihar, Jharkhand and Gujarat, which were profit making during 2005-06, made losses in 2006-07. On the other hand, DCCBs in Tamil Nadu, which was loss-making in 2005-06, turned around during 2006-07. The number of profit-earning DCCBs during 2006-07 increased in Jammu and Kashmir, Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu. In Chhattisgarh and Kerala, the number of profit-earning DCCBs declined but the amount of profit increased, while in Gujarat, Maharashtra and Andhra Pradesh, the number of profit-earning DCCBs increased but the amount of profit decreased. In Madhya Pradesh and Orissa the number of profit-earning DCCBs remained same but the amount of profit decreased, while in Uttarakhand and Himachal Pradesh the number of profit-earning DCCBs remained the same, but the amount of profit increased. The number of loss-making DCCBs as well as overall losses incurred by them increased in 8 States (Uttar Pradesh, Haryana, Punjab, Rajasthan, Bihar, Jharkhand, West Bengal and Karnataka) (Appendix Table IV.9).

4.110 The NPA ratio in respect of DCCBs varied significantly across the States from 4.8 per cent to 76.4 per cent at end-March 2007. Only in four States (Haryana, Himachal Pradesh, Punjab and Rajasthan), the NPA ratio was less than 10 per cent, while the NPA ratio was higher than 50 per cent in Jharkhand (76.4 per cent) and Bihar (54.5 per cent). NPAs in two States, *viz.*, Jharkhand and Tamil Nadu declined in 2006-07 as compared with the previous year. However, the NPA ratio in three States, Haryana, Himachal Pradesh and Punjab, which traditionally had relatively lower NPAs (less than 20 per cent), declined further, while in two States, Uttarakhand and Rajasthan, the NPA ratio increased. At the all-India level, the recovery performance of DCCBs improved to 71.1 per cent for the year 2006-07 from 69.2 per cent for the year 2005-06. The recovery performance in some States such as Haryana, Kerala, Madhya Pradesh, Rajasthan, Jammu and Kashmir, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal improved, while the recovery performance in Andhra Pradesh, Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra and Orissa declined considerably. Himachal Pradesh, Kerala, Punjab, Rajasthan, Tamil Nadu and Uttarakhand achieved more than 80 per cent recovery rate during 2006-07.

4.111 During 2006-07, out of 368 reporting DCCBs, 271 made profits amounting to Rs.754 crore, while 97 DCCBs made losses to the tune of Rs.724 crore (Table IV.35).

Table IV.35: Region-wise Profit/Loss Making District Central Co-operative Banks

(As at end-March)

Region	2006				2007*			
	Profit		Loss		Profit		Loss	
	No.	Amount (Rs. crore)	No.	Amount (Rs. crore)	No.	Amount (Rs. crore)	No.	Amount (Rs. crore)
1	2	3	4	5	6	7	8	9
Northern Region	64	213.64	5	19.45	55	119.39	16	44.01
Eastern Region	50	96.14	14	35.43	45	42.78	19	59.39
Central Region	74	158.91	30	174.01	71	121.16	33	186.00
Western Region	34	244.23	15	245.81	37	166.99	12	241.63
Southern Region	54	406.60	26	450.00	63	304.09	17	192.91
All India	**276**	**1,119.52**	**90**	**924.7**	**271**	**754.41**	**97**	**723.94**

* : Data for 2007 are provisional.
Note : Data for three new DCCBs, *viz.*, Baran in Rajasthan, S.S. Nagar in Punjab and Udham Singh Nagar are not available.
Source : NABARD.

Primary Agricultural Credit Societies (PACS)

4.112 Primary agricultural credit societies (PACS) lie at the lowest level of the short-term structure of the rural co-operative credit institutions and deal directly with individual borrowers, grant short to medium-term loans and undertake distribution and marketing functions. A large number of them, however, face severe financial problems primarily due to significant erosion of own funds, deposits and low recovery rates. Various policy initiatives have been taken to improve the financial health of the PACS in recent years. NABARD has been providing support for developing the infrastructure in PACS out of co-operative development fund (CDF). The number of PACs declined to 97,224 at end-March 2007 from 106,384 at end-March 2006. However, the total membership increased to 126 million at end-March 2007, from 123 million during the previous year and the number of borrowing members increased to 48 million at end-March 2007 from 46 million at end-March 2006 (Table IV.36).

Operations

4.113 Total resources of PACS increased during 2006-07 mainly on account of increase in owned funds and deposits. The working capital of PACs also registered a high growth of 9 per cent during the year. On the asset side, the loan portfolio expanded by around 13 per cent during the year as compared with 6.1 per cent during 2005-06. The loan portfolio expanded on account of growth in both short-term and long-term loans. Both total demand made and total collections increased during 2006-07. Collections, however, grew relatively sharply, resulting in total overdues as percentage of total demand declining to 29.1 during 2006-07 from 30.4 during 2005-06 (Table IV.37).

Financial Performance

4.114 The number of both profit making and loss making PACS declined to 33,983 and

Table IV.36: Primary Agricultural Credit Societies - Membership

Item	As at end-March	
	2006	2007*
1	2	3
1. No. of Societies	106,384	97,224
2. Total Membership (in million)	122.57	125.79
of which:		
a) SC	30.58	29.46
b) ST	11.66	11.13
3. Total No. of Borrowers (in million)	46.08	47.91
of which:		
a) SC	6.98	5.67
b) ST	3.33	3.45
4. Total No. of Employees	241,609	229,007

* : Data are provisional
Source : NAFSCOB

Table IV.37: Primary Agricultural Credit Societies-Select Indicators

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007P	2005-06	2006-07P
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	69,871	78,237	2.1	12.0
2. Owned Funds (a+b)	9,292	11,039	1.0	18.8
a. Paid-up Capital	5,644	6,138	1.3	8.8
of which: Government Contribution	622	648	0.2	4.2
b. Total Reserves	3,648	4,900	0.6	34.3
3. Deposits	19,561	23,484	3.1	20.1
4. Borrowings	41,018	43,714	1.9	6.6
5. Working Capital	73,387	79,959	-2.7	9.0
B. Assets				
1. Total Loans Issued (a+b)*	42,920	49,613	9.5	15.6
a) Short-Term	35,624	40,796	11.7	14.5
b) Medium-Term	7,296	8,817	-0.4	20.8
2. Total Loans Outstanding (a+b)+	51,779	58,620	6.1	13.2
a) Short-Term	34,140	37,764	5.1	10.6
b) Medium-Term	17,639	20,856	8.2	18.2
C. Overdues				
1. Total Demand	50,979	54,112	6.7	6.1
2. Total Collection	35,503	38,359	11.9	8.0
3. Total Balance (Overdues) (a+b)	15,476	15,753	-3.6	1.8
a) Short-Term	11,387	11,558	-2.3	1.5
b) Medium-Term	4,089	4,194	-7.0	2.6
4. Percentages of Overdues to Total Demand	30.4	29.1		

P : Provisional. * : During the year.
+ : As at the beginning of the year.
Source : NAFSCOB

48,078 during 2006-07 from 44,321 and 53,050, respectively, during 2005-06 mainly on account of reduction in the total number of PACS during the year. The share of profit-making PACS in total PACS declined to 35.0 per cent at end-March 2007 from 41.7 per cent at end-March 2006. While the total profits earned by profit-making PACS increased, the losses made by loss making PACS also increased. In the aggregate, 33,983 PACS earned profits amounting to Rs.749 crore, while 48,078 PACS incurred losses of Rs.2,402 crore. Thus, PACS as a group incurred higher net losses of Rs.1,653 crore during 2006-07 compared with Rs.1,201 crore during 2005-06 (Table IV.38).

Regional Dimensions

4.115 For the country as a whole as at end-March 2007, one PACS on an average covered seven villages. While penetration of PACS (number of villages served by a PACS) was the highest in the western region, it was the lowest in the central region. At the State/UT level, only seven States, *viz.*, Chandigarh, Nagaland, Sikkim, Andaman and Nicobar Islands, Kerala, Maharashtra and Gujarat have achieved high penetration of up to two villages. Haryana, Arunachal Pradesh, Assam, Meghalaya, Jharkhand, Orissa, Chhattisgarh, Madhya Pradesh, Uttarakhand and Uttar Pradesh are States with low penetration of more than ten villages (Table IV.38 and Appendix Table IV.10).

4.116 The average size of deposits mobilised by PACS was Rs.120.82 lakh. The average size of deposits of PACS in Kerala at Rs.767.57 lakh far exceeded that of other States. In Puducherry, Orissa, Tamil Nadu, Jammu and Kashmir and Haryana, the average size of deposits mobilised by PACS was Rs.90.92 lakh, Rs.59.27 lakh, Rs.55.37 lakh, Rs.54.11 lakh and Rs.52.27 lakh, respectively.

4.117 In eight States (Himachal Pradesh, Punjab, Rajasthan, Arunachal Pradesh, Mizoram, Sikkim, Uttar Pradesh and Goa), 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. Puducherry has equal number of profit-making and loss making PACS. In ten States (Haryana, Assam, Meghalaya, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka 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

Table IV.38: Select Indicators of Primary Agricultural Credit Societies - State-wise - 2006-07

Sr.	State	No. of PACS	No. of Villages Covered	No. of Villages Per PACS	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	10
Northern Region		**12,720**	**83,547**	**7**	**19.21**	**16,09,183**	**7,013**	**13,080**	**3,538**	**10,740**
1.	Chandigarh	16	22	1	0.19	23	14	5	1	12
2.	Delhi	–	–	–	–	–	–	–	–	–
3.	Haryana	571	7,053	12	52.27	5,33,774	189	1,824	382	5,308
4.	Himachal Pradesh	2,086	19,388	9	31.37	93,743	442	937	318	84
5.	Jammu and Kashmir	937	7,396	8	54.11	1,91,537	444	1,609	403	1,781
6.	Punjab	3,981	12,329	3	19.17	4,66,489	2,330	4,562	1,183	1,458
7.	Rajasthan	5,129	37,359	7	4.3	3,23,617	3,594	4,143	1,251	2,097
North-Eastern Region		**3,540**	**33,527**	**9**	**3.83**	**77,407**	**615**	**7,871**	**850**	**10,703**
8.	Arunachal Pradesh	31	3,649	118	–	1,636	20	25	6	8
9.	Assam	809	23,422	29	0.63	7,533	309	7,639	419	9,909
10.	Manipur	186	–	–	34.95	45,904	–	–	108	201
11.	Meghalaya	184	3,761	20	0.45	1,797	51	47	128	512
12.	Mizoram	175	660	4	0.09	175	59	70	4	10
13.	Nagaland	1,719	969	1	3.73	11,246	–	–	–	–
14.	Sikkim	166	166	1	–	146	56	6	37	4
15.	Tripura	270	900	3	0.12	8,970	120	84	148	59
Eastern Region		**22,160**	**196,754**	**9**	**161.76**	**9,16,286**	**4,992**	**3,084**	**12,379**	**7,189**
16.	Andaman and Nicobar Island	46	109	2	1.89	281	34	0.02	–	–
17.	Bihar	5,969	45,098	8	1.02	46,186	1,180	604	3,962	64
18.	Jharkhand	208	5,185	25	6.1	1,523	60	91	–	–
19.	Orissa	3,860	43,303	11	59.27	5,09,046	1,380	1,134	2,387	5,062
20.	West Bengal	12,077	103,059	9	8.35	3,59,250	2,338	1,255	6,030	2,063
Central Region		**15,265**	**192,554**	**13**	**208.54**	**5,98,873**	**7,125**	**9,841**	**4,998**	**18,177**
21.	Chhattisgarh	1,257	19,899	16	16.59	98,165	779	1,848	474	3,873
22.	Madhya Pradesh	4,633	53,951	12	9.35	3,62,951	1,786	6,112	2,456	14,114
23.	Uttarakhand	446	5,900	13	6.56	11,830	24	107	100	37
24.	Uttar Pradesh	8,929	112,804	13	0.76	1,25,927	4,536	1,774	1,968	153
Western Region		**29,086**	**53,958**	**2**	**105.75**	**15,18,445**	**10,481**	**21,175**	**16,599**	**75,529**
25.	Goa	77	206	3	25.94	4,476	41	17	35	13
26.	Gujarat	7,956	16,289	2	2.37	4,90,635	3,339	9,565	2,675	36,680
27.	Maharashtra	21,045	37,462	2	0.65	10,23,270	7,095	11,593	13,889	38,836
28.	Dadra and Nagar Haveli	8	1	–	–	64	6	0.01	–	–
Southern Region		**14,453**	**76,762**	**5**	**113.82**	**32,75,675**	**3,757**	**19,844**	**9,714**	**1,17,836**
28.	Andhra Pradesh	4,064	29,207	7	7.88	5,64,084	867	1,612	3,036	24,398
29.	Karnataka	4,205	27,242	6	26.68	5,08,361	1,384	5,482	2,447	9,719
30.	Kerala	1,624	1,464	1	767.57	13,82,666	811	6,213	754	14,879
31.	Puducherry	52	320	6	90.92	8,177	26	0.9	26	3
32.	Tamil Nadu	4,508	18,529	4	55.37	8,12,387	669	6,536	3,451	68,837
All-India Total		**97,224**	**637,102**	**7**	**120.82**	**79,95,869**	**33,983**	**74,895**	**48,078**	**2,40,174**

– : Nil/Negligible.
Note : Average Deposit implies average deposit per PACS.
Source : NAFSCOB.

profits earned by them. In five States/UTs (Chandigarh, Jammu and Kashmir, Chhattisgarh, Gujarat and Kerala), PACS incurred overall loss even as the number of profit-making PACS were more than the number of loss making PACS. In three States (Tripura, Bihar and Uttarakhand), PACS earned overall profits even as the number of loss making PACS were more than the number of profit-making PACS.

4.118 Out of total number of 97,224 PACS as on March 31, 2007, 57,427 PACS (59.1 per cent) were viable, 27,047 PACS (27.8 per cent) were potentially viable, 4,717 PACS (4.9 per cent) were dormant, 2,485 PACS (2.6 per cent) were defunct and 1,548 PACS (1.6 per cent) were 'others'. The aggregate number of dormant and defunct PACS was the highest in West Bengal (1,383), followed by Bihar (1,292) and Nagaland (1,034) (Appendix Table IV.10).

Rural Co-operative Banks - Long-Term Structure

Structure, Spread and Growth

4.119 As at end-March 2007, the long-term co-operative credit structure, consisted of 20 state co-operative agriculture and rural development banks (SCARDBs) and 697 primary co-operative agriculture and rural development banks (PCARDBs). In those States which do not have the long-term structure, separate sections of the state co-operative banks look after the long-term credit requirements as well. In the North-Eastern region, only three States (Assam, Manipur and Tripura) had long-term structure.

State Co-operative Agriculture and Rural Development Banks

Operations

4.120 The assets/liabilities of the SCARDBs declined (1.1 per cent) during 2006-07. Borrowings, the main source of funds, as well as deposits declined by 2.4 per cent and 4.9 per cent, respectively. Net owned funds also witnessed a decline. On the asset side, loans and advances grew by 5.3 per cent, while investments recorded a moderate growth of 1.6 per cent. Cash and bank balances and 'other assets', however, witnessed a sharp decline (Table IV.39).

Financial Performance

4.121 Net interest income of SCARDBs declined sharply (Rs.529 crore during 2006-07 as compared with Rs.934 crore during 2005-06). However, a sharp rise in other income may be noted. As a result, operating profits of SCARDBs declined, *albeit* marginally. However, large increase in provisions and contingencies resulted in sharp decline in the net profit during 2006-07 (Table IV.40). Eight out of 20 SCARDBs registered losses. The profit-making SCARDBs in Uttar Pradesh and Tamil Nadu which had profits last year, incurred losses during the year (Appendix Table IV.11).

Table IV.39: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
Liabilities				
1. Capital	801	794	1.3	-0.9
	(3.2)	(3.3)		
2. Reserves	2,354	2,137	8.7	-9.2
	(9.6)	(8.8)		
3. Deposits	636	605	4.6	-4.9
	(2.6)	(2.5)		
4. Borrowings	17,075	16,662	-0.6	-2.4
	(69.4)	(68.5)		
5. Other Liabilities	3,739	4,138	6.0	10.7
	(15.2)	(17.0)		
Total Liabilities/Assets	**24,604**	**24,336**	**1.4**	**-1.1**
	(100.0)	**(100.0)**		
Assets				
1. Cash and Bank Balances	365	279	1.4	-23.6
	(1.5)	(1.1)		
2. Investments	1885	1,916	1.0	1.6
	(7.6)	(7.9)		
3. Loans and Advances	17,713	18,644	1.8	5.3
	(72.0)	(76.6)		
4. Other Assets	4,641	3,497	0.0	-24.6
	(18.9)	(14.4)		

* : Data are provisional

Note : 1. Figures in parentheses are percentages to total
2. For both the years data for Manipur SCARDB is repeated from 2004.

Source : NABARD.

Asset Quality and Recovery Performance

4.122 NPA levels of SCARDBs declined in 2006-07, both in absolute terms and in relation to total loans. This was due mainly to decline in NPAs in the 'doubtful' and the 'loss' categories. Their recovery performance (recovery to demand) deteriorated during the year. However, all the institutions were able to meet the necessary provisioning requirements (Table IV.41).

Table IV.40: Financial Performance of SCARDBs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
A. Income (i+ii)	**2,369**	**2,293**	**10.5**	**-3.2**
	(100.0)	**(100.0)**		
i) Interest Income	2,269	1,809	8.0	-20.3
	(95.8)	(78.9)		
ii) Other Income	101	484	124.4	380.4
	(4.2)	(21.1)		
B. Expenditure (i+ii+iii)	**2,107**	**2,204**	**-8.7**	**4.6**
	(100.0)	**(100.0)**		
i) Interest Expended	1,335	1,280	-2.6	-4.1
	(63.4)	(58.1)		
ii) Provisions and Contingencies	531	667	-27.0	25.7
	(25.2)	(30.3)		
iii) Other Expenses	241	256	15.3	6.2
	(11.4)	(11.6)		
of which: Wage Bill	181	185	9.7	2.3
	(8.6)	(8.4)		
C. Profit				
i) Operating Profit	793	757	40.6	-4.6
ii) Net Profit	262.1	89.4	-261.2	-65.9
D. Total Assets	**24,604**	**24,336**	**1.4**	**-1.1**

* : Data are provisional.
Note : 1. Figures in parentheses are percentage to respective totals.
2. For both the years data for Manipur SCARDB is repeated from 2004.
Source : NABARD.

Regional Dimensions

4.123 SCARDBs operating in 10 States earned profits, while in eight States they incurred losses[2]. Profits earned by SCARDBs in seven States (Madhya Pradesh, West Bengal, Assam, Rajasthan, Kerala, Gujarat and Maharashtra) improved during the year, while they declined in two States (Punjab and Karnataka). Two SCARDBs registered losses during the year as against net profits earned by them during 2005-06 (Uttar Pradesh and Tamil Nadu). SCARDB of Himachal Pradesh turned around during the year as it earned profit during 2006-07 as against losses incurred during 2005-06. Losses incurred by SCARDB in Orissa increased further, while losses by SCARDBs in Chhattisgarh, Tripura, Haryana, Jammu and Kashmir and Puducherry declined (Appendix Table IV.11).

Table IV.41: Asset Quality of State Co-operative Agriculture and Rural Development Banks

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006**	2007*	2006**	2007*
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**5,779**	**5,643**	**6.3**	**-2.4**
i) Sub-standard	3,753	4,316	14.1	15.0
	(64.9)	(76.5)		
ii) Doubtful	2,008	1,310	-5.7	-34.8
	(34.7)	(23.2)		
iii) Loss	18	17	-10.0	-5.6
	(0.3)	(0.3)		
B. NPAs to Loans Ratio	**32.7**	**30.3**		
Memo Item:				
i) Recovery to Demand (%)				
(30 June)	46.4	43.9		
ii) Provisions Required	1,578	1,287	54.1	-18.4
iii) Provisions Made	1,578	1,287	43.8	-18.4

* : Data for 2007 are provisional
** : Data for 2006 are updated
Note : Figures in parentheses are percentages to total
Source : NABARD

4.124 NPAs, as percentage of advances made by SCARDBs, varied widely across States at end-March 2007 from 100 per cent in Manipur to 0.03 per cent in Punjab. In as many as seven States (Assam, Manipur, Orissa, Jammu and Kashmir, Bihar, Gujarat and Uttar Pradesh), the NPA ratio was more than 50 per cent. In all, the NPA ratio in only four States (Punjab, Kerala, Madhya Pradesh and West Bengal) was less than 20 per cent. The recovery ratio also varied widely between 3.5 per cent (Orissa) and 96.8 per cent (Haryana). The average recovery of SCARDBs declined to 43.9 per cent during 2006-07 of total demand from 46.4 per cent during 2005-06. In 11 States, the recovery rate was less than 50 per cent (Appendix Table IV.11).

Primary Co-operative Agriculture and Rural Development Banks

Operations

4.125 The balance sheets of PCARDBs continued to expand during 2006-07 but at a

[2] SCARDB in Manipur is under the process of liquidition as per inspection report 2003-04. Data in respect of profit/loss of SCARDB, Bihar are not available.

lower rate (1.9 per cent) as compared with the previous year (4.7 per cent). This could be attributed to the substantial decline in both deposits and borrowings. The share of borrowings, the most important source of funds in the overall liabilities also declined. Reserves of PCARDBs, after showing a substantial increase during 2005-06, remained almost at the same level during the year. On the asset side, investments recorded a sharp growth, reversing the trend of the last year, while loans and advances declined by 4.9 per cent during 2006-07 (Table IV.42).

Financial Performance

4.126 The financial performance of PCARDBs witnessed a turnaround with operating profit registering a sharp growth of 47.2 per cent as against a decline in the previous year. This was driven mostly by the sharp increase in net interest income. Non-interest income also increased significantly. However, a sharp increase in provisions and contingencies resulted in a net loss of Rs.147 crore, which was higher as compared with the net loss of Rs.109 crore during 2005-06 (Table IV.43).

Asset Quality and Recovery Performance

4.127 The overall NPAs of the PCARDBs, both in absolute terms and as percentage of total loans and advances, declined marginally during 2006-07. The reduction in NPAs was observed in all the three categories, *i.e.*, 'substantial', 'doubtful' and 'loss'. The recovery performance also showed improvement during the year. The provisioning requirements declined during 2007-08, which were all met by PCARDBs (Table IV.44).

Regional Dimensions

4.128 Out of 697 PCARDBs operating in 12 States, information was available for only 692

Table IV.42: Liabilities and Assets of PCARDBs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
Liabilities				
1. Capital	922	918	0.2	(-0.4)
	(4.3)	(4.2)		
2. Reserves	2,665	2,678	21.4	0.5
	(12.5)	(12.3)		
3. Deposits	382	341	(4.9)	-10.7
	(1.8)	(1.6)		
4. Borrowings	13,066	12,751	2.5	-2.4
	(61.1)	(58.6)		
5. Other Liabilities	4,331	5,085	3.5	17.4
	(20.3)	(23.3)		
Total Liabilities/Assets	**21,365**	**21,774**	**4.7**	**1.9**
	(100.0)	**(100.0)**		
Assets				
1. Cash and Bank Balances	224	223	7.3	-0.4
	(1.1)	(1.0)		
2. Investments	778	824	-3.2	5.9
	(3.6)	(3.8)		
3. Loans and Advances	12,740	12,114	0.9	-4.9
	(59.6)	(55.6)		
4. Other Assets	7,623	8,612	12.5	13.0
	(35.7)	(39.6)		

***** : Data are provisional.
Note : Figures in parentheses are percentages to total.
Source : NABARD.

Table IV.43: Financial Performance of PCARDBs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006	2007*	2005-06	2006-07*
1	2	3	4	5
A. Income (i+ii)	**2,123**	**2,447**	**-9.5**	**15.3**
	(100.0)	(100.0)		
i) Interest Income	1,690	1,923	15.4	13.8
	(79.6)	(78.6)		
ii) Other Income	434	524	-50.7	20.7
	(20.4)	(21.4)		
B. Expenditure (i+ii+ii)	**2,232**	**2,594**	**12.4**	**16.2**
	(100.0)	(100.0)		
i) Interest Expended	1,239	1,259	9.6	1.6
	(55.5)	(48.5)		
ii) Provisions and Contingencies	698	1,014	28.1	45.3
	(31.3)	(39.1)		
iii) Operating Expenses	295	321	-5.1	8.8
	(13.2)	(12.4)		
of which: Wage Bill	205	221	0.5	7.8
	(9.2)	(8.5)		
C. Profit				
i) Operating Profit	589	867	-34.8	47.2
ii) Net Profit	-109	-147	-130.4	-34.9
D. Total Assets	**21,365**	**21,774**	**4.7**	**1.9**

* : Data are provisional
Note : Figures in parentheses are percentages to respective total.
Source: NABARD.

Table IV.44: Asset Quality of PCARDBs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variations	
	2006**	2007*	2005-06**	2006-07*
1	2	3	4	5
A. Asset Classification	**4,586**	**4,316**	**13.1**	**-5.9**
Total NPAs (i+ii+iii)	**(100.0)**	**(100.0)**		
i) Sub-standard	2,664	2,511	23.3	-5.7
	(58.1)	(58.2)		
ii) Doubtful	1,873	1,783	1.5	-4.8
	(40.8)	(41.3)		
iii) Loss	49	22	-2.0	-55.1
	(1.1)	(0.5)		
B. NPAs to Loans Ratio	**35.64**	**35.44**		
Memo Item:				
i) Recovery to Demand (June 30)	48	52		
ii) Provisions Required	1,081	799	24.0	-26.1
iii) Provisions Made	1,081	799	18.8	-26.1

* : Data for 2006-07 are provisional.
** : Data for 2005-06 are updated.
Note : Figures in parentheses are percentages to total.
Sourc: NABARD.

banks. While 350 PCARDBs made profits, 342 incurred losses (Appendix Table IV.12).

4.129 Asset quality continued to be poor with the NPA to outstanding loans ratio of PCARDBs in all the States except Maharashtra being higher than 20 per cent at end-March 2007. PCARDBs operating in Maharashtra had the lowest NPA ratio (10.04 per cent), while those in Karnataka had the highest (63.41 per cent). Total NPAs of PCARDBs operating in Orissa were highest, while those in Karnataka were lowest (Appendix Table IV.12). The average recovery of PCARDBs in three States (Haryana, Kerala and Himachal Pradesh) was more than 60 per cent of total demand. The recovery rate of PCARDBs in six other States (Madhya Pradesh, Karnataka, Punjab, West Bengal, Chhattisgarh and Rajasthan) ranged between 40 per cent and 60 per cent. In the remaining three States (Orissa, Tamil Nadu and Maharashtra), recovery rates were below 40 per cent (Appendix Table IV.12).

4. NABARD and the Co-operative Sector

4.130 National Bank for Agriculture and Rural Development (NABARD) was set up as an apex Development Bank on July 12, 1982 with a mandate for facilitating investment and production credit to promote and develop agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. In discharging its role to promote integrated and sustainable rural development and secure prosperity of rural areas, NABARD is entrusted with the task of: (i) providing refinance to lending institutions in rural areas; (ii) promoting institution building; (iii) co-ordinating the operations of rural credit institutions; and (iv) evaluating, monitoring and inspecting the rural credit institutions. Besides, NABARD also maintains liaison with the Government of India, State Governments, the Reserve Bank and other national level institutions concerned with regard to policy formulation relating to rural development.

4.131 NABARD acts as a regulator for co-operative banks and RRBs. It also provides refinance to SCARDBs, StCBs, RRBs, commercial banks and other financial institutions approved by the Reserve Bank. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally extended to individuals.

Resources of NABARD

4.132 Since December 31, 2006, the Reserve Bank has stopped providing funds to NABARD through general line of credit (GLC) limit and it was advised to consider accessing the market on a regular basis. Accordingly, in 2006-07 NABARD raised resources mainly by way of bonds and debentures, besides the RIDF deposits. During 2007-08, NABARD had sizable amount of resources for lending activity due to the substantial rise in the rural infrastructure development fund (RIDF) deposits and other liabilities such as corporate bonds, *Bhavishya Nirman* bonds and NABARD rural bonds. Besides, NABARD was also permitted to raise resources during the year through a new source, *viz.*, certificate of deposits. Also, Rs.400 crore was transferred to the NRC (LTO) fund and Rs.10 crore to the NRC (Stabilisation) fund. On the whole, the resources of NABARD increased by 28.4 per cent to Rs.17,486 crore during 2007-08 on top of 99.5 per cent increase during last year (Table IV.45).

Rural Infrastructure Development Fund (RIDF)

4.133 Rural infrastructure development fund (RIDF) was set up with NABARD by the Government of India and the Reserve Bank in 1995-96 to provide loans to the State Governments for financing rural infrastructure projects. Commercial banks make contributions to the fund to the extent of the 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 *panchayati raj* institutions (PRIs), self-help groups (SHGs) and non-government organisations (NGOs), among others. The fund has so far completed thirteen years of operation. The terms and conditions for the projects under RIDF XIII were the same as applicable under RIDF XII. The lending rate on loans continued to be 0.5 per cent above the bank rate prevailing at the time of loan sanction. Loans are secured by means of irrevocable letters of authority (mandate) executed by the State Governments and registered with the Reserve Bank and their time promissory notes.

Table IV.45: Net Accretion to the Resources of NABARD

(Amount in Rs.crore)

Type of Resource	2006-07	2007-08
1	2	3
1. Capital	–	–
2. Reserves and Surplus	828	801
3. National Rural Credit (NRC) (i+ii)	42	412
i) Long-Term Operations (LTO) Fund	31	401
ii) Stabilisation Fund	11	11
4. Deposits (i+ii)	6,185	10,462
i) Ordinary Deposits	5	24
ii) RIDF Deposits	6,180	10,438
5. Borrowings (i+ii+iii+iv+v+vi)	5,058	1,437
i) Bonds and Debentures	8,079	-192
ii) Certificates of Deposit	–	1,422
iii) Borrowings from Central Government	-18	-12
iv) Borrowings from the Reserve Bank	-2,998	0
v) Foreign Currency Loans	-5	219
vi) Borrowings from Commercial Banks	0	0
6. Other Liabilities	1,502	4,374
Total	**13,615**	**17,486**

-: Nil/Negligible.
Source : NABARD

4.134 The separate window for funding rural roads component of *Bharat Nirman* Programme of the Government of India, introduced in the Union Budget 2006-07, was continued during 2007-08, with an allocation of Rs.4,000 crore, raising the aggregate allocation to Rs.8,000 crore (Rs.4,000 crore each under RIDF XII and XIII). Against this, an amount of Rs.4,500 crore (Rs.4,000 crore under RIDF XII and Rs.500 crore under RIDF XIII) was disbursed to the National Rural Roads Development Agency (NRRDA), the nodal agency to borrow from NABARD for the purpose.

4.135 With the receipt of Rs.11,808 crore deposits from commercial banks during the year, the cumulative deposits received under RIDF were Rs.47,524 crore (Table IV.46).

4.136 The total corpus of the RIDF under Tranches I to XIII (excluding for Bharat Nirman) aggregated Rs.72,000 crore. Financial assistance sanctioned and disbursed under RIDF I to XIII was Rs.74,073 crore and Rs.45,595 crore, respectively as on March 31, 2008 (Table IV.47). RIDF VI and RIDF VII were closed on September 30, 2007 and December 31, 2007, respectively, and the disbursements thereunder were allowed up to December 31, 2007 and March 31, 2008, respectively. The implementation period for the projects sanctioned under RIDF VIII to X were

Table IV.46: Deposits Received under RIDF (I-XIII)

(As on end-March, 2008)

(Amount in Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	RIDF X	RIDF XI	RIDF XII	RIDF XIII*	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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
2007-08	-	-	-	-	-	162	167	241	556	981	1,780	5,681	2,240	11,808
Total	**1,587**	**2,225**	**2,308**	**1,413**	**3,052**	**4,074**	**4,065**	**5,032**	**4,491**	**5,711**	**4,302**	**7,027**	**2,240**	**47,524**

* : Including deposits received under the Bharat Nirman Programme.
Source : NABARD.

extended up to March 31, 2008 to enable the State Governments to complete the ongoing projects and avail of reimbursement of the expenditure.

4.137 The Union Finance Minister announced in the budget speech for the year 2008-09 that RIDF XIV, with a corpus of Rs. 14,000 crore, and a separate window under RIDF XIV for rural roads component under *Bharat Nirman*, with a corpus of Rs.4,000 crore would be set up with NABARD for the year 2008-09. The Union Finance Minister also announced the setting up of another fund with NABARD, *viz.*, Short Term Co-operative Rural Credit (STCRC) (Refinance) Fund with a corpus of Rs.5,000 crore.

Table IV.47: Loans Sanctioned and Disbursed under RIDF

(As on March 31, 2008)

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	12,106*	3,500	3,434	3,055	88.9
VI	2000	43,168	4,500	4,489	4,072	90.7
VII	2001	24,598	5,000	4,582	4,038	88.1
VIII	2002	20,963	5,500	5,997	4,976	83.0
IX	2003	19,579	5,500	5,649	4,514	79.9
X	2004	17,368**	8,000	8,077	5,636	69.8
XI	2005	30,305	8,000	8,412	4,395	52.2
XII	2006	42,299	10,000	10,460	3,467	43.6
XIII	2007	36,964	12,000	12,795	2,349	57.6
Total		**2,80,227**	**72,000**	**74,073**	**45,595**	**62.0**

* : One lakh Shallow Tube Wells sanctioned to Government of Assam treated as a single project.
** : 42,616 construction of primary school structures sanctioned to Madhya Pradesh Government converted into 213 projects.
^ : With phased amount.
Source : NABARD.

4.138 The State-wise analysis of cumulative sanctions and disbursements under RIDF scheme reveals that as on March 31, 2008, nine States (Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal) accounted for 70 per cent of total disbursements and 68 per cent of total sanctions (Appendix Table IV.13).

Credit extended by NABARD

4.139 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 2007-08, NABARD sanctioned higher total credit limits of Rs.18,689 crore as against Rs.16,338 crore during 2006-07 for various short and medium-term purposes to StCBs and RRBs, and long-term loans to the State Governments. Amounts drawn by both StCBs and RRBs also increased during the year. During 2007-08, repayments were lower for the StCBs, while those for the RRBs were higher than the previous year. On the aggregate, however, repayments were also significantly lower during 2007-08, resulting in an increase in outstanding amount as on March 31, 2008 (Table IV.48).

Interest Rates charged by NABARD

4.140 The interest rate charged by NABARD has been uniform irrespective of the size or purpose of the loan (Table IV.49).

Kisan Credit Card Scheme

4.141 The *Kisan* Credit Card (KCC) scheme introduced in August 1998 aims at providing adequate, timely, cost effective and hassle free credit support to the farmers and is being implemented across India by all public sector commercial banks, RRBs and co-operative banks. To cater to the comprehensive credit requirements of farmers under the single

Table IV.48: NABARD's Credit to StCBs, State Governments and RRBs

(Amount in Rs. crore)

Category	2006-07				2007-08			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks (a+b)	**13,632**	**13,051**	**10,910**	**11,553**	**15,416**	**13,879**	**9,751**	**15,784**
a. Short-term	13,404	12,991	10,823	9,508	15,200	13,774	8,889	14,496
b. Medium-term#	228	60	86	2,045	216	105	862	1,288
2. State Governments								
Long-term	**20**	**16**	**68**	**335**	**21**	**18**	**63**	**290**
3. Regional Rural Banks (a+b)	**2,686**	**2,698**	**2,321**	**3,147**	**3,252**	**2,927**	**2,418**	**3,655**
a. Short-term	2,686	2,698	2,320	2,519	3,092	2,766	2,400	2,885
b. Medium-term#	0	0	1	627	161	161	18	770
Grand Total (1+2+3)	**16,338**	**15,765**	**13,299**	**15,035**	**18,689**	**16,824**	**12,232**	**19,730**

#: Including liquidity support scheme.

Notes : 1. Short Term includes Seasonal Agricultural Operations (SAO)-(July to June for 2006-07 and April to March for 2007-08) and Other than Seasonal Agricultural Operations (OSAO); (i) for StCBs the period is April to March, (ii) for RRBs the period is July to June.
2. Medium Term Includes MT Conversion (July to June) and MT (NS) period Jan to Dec
3. Loans to State Government-period is April to March
4. Repayment figures for 2006-07 now revised and includes repayments under A/C-I and A/C-II

Source : NABARD.

Table IV.49: NABARD's Interest Rates for Term Loans -2007-08

(Per cent per annum)

Agency	Effective Date	Rate of Interest on Refinance
1	2	3
CBs, RRBs, PUCBs, ADFCs and NEDFC	14.05.2007	9.5
StCBs and SCARDBs	14.05.2007	9
For all agencies (NE region)	28.05.2007	9
RRBs	01.11.2007	9
StCBs, PUCBs, ADFCs and NEDFC	23.01.2008	9
SCBs, SCARDBs and RRBs	23.01.2008	8.5
For all agencies (NE region)	23.01.2008	8.5

Notes : 1. CB-Commercial Banks.
2. StCBs-State Co-operative Banks.
3. RRB-Regional Rural Bank.
4. PUCB-Primary Urban Co-operative Bank.
5. ADFC-Agricultural Development Finance Company.
6. NEDFC-North Eastern Development Finance Corporation Ltd.
7. SCARDB-State Co-operative Agriculture and Rural Development Bank.

Source : NABARD.

window, the scope of KCC was broadened by NABARD from time to time. In addition to short-term credit needs and term loans for agriculture and allied activities, a certain component of loans through KCC also covers consumption needs of the farmers. Keeping in view the Government of India's emphasis on increasing credit flow to the agriculture sector, it has been the constant endeavour of NABARD to cover all the farmers under the KCC. Accordingly, NABARD had advised banks to bring into the fold of KCC all farmers, including defaulters, oral lessees, tenant farmers and share croppers, among others, who might have been left out of the KCC scheme as also to identify new farmers. Banks were also advised to issue KCCs in a hassle-free manner and extend crop loans only through KCC. To further expand the coverage of borrowers under KCC, the scheme was extended to borrowers of long-term co-operative credit structure, *viz*., PCARDBs and SCARDBs.

4.142 During 2007-08, co-operative banks, RRBs and public sector banks issued 2.09 million, 1.77 million and 4.6 million cards, respectively (Table IV.50). Out of this, co-operative banks accounted for the largest share (45.8 per cent), followed by commercial banks (41.0 per cent) and RRBs (13.2 per cent).

4.143 The State-wise progress in implementation of KCC scheme shows wide variations. Eight States, *viz*., Uttar Pradesh, Andhra Pradesh, Maharashtra, Karnataka, Madhya Pradesh, Orissa, Rajasthan and Tamil Nadu have performed comparatively well, accounting for 75 per cent of the total cards issued by banks throughout the country. (Appendix Table IV.14).

Gramin Tatkal Scheme

4.144 The *Grameen Tatkal* Scheme (GTS) formulated by NABARD is a unique loan product combining investment, production and consumption needs of rural families. The approach towards lending is 'family-centric' and the credit needs are assessed and loan decisions and repayment potential are determined on the basis of family cash flow, thus, allowing banks to decide the loan size and interest rate payable. The scheme is being implemented from 2006-07 on a pilot basis in eight States, *viz*., Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal. Tamil Nadu has emerged as the front-runner in implementing the scheme. A study conducted by NABARD and GTZ (*Gesellschaft fur Technische Zusamnenarbeit*)–an international co-operation enterprise for sustainable development with worldwide operations, jointly in the operational area of *Pandyan Grama*

Table IV.50: Number of Kisan Credit Cards Issued: Agency-wise and Year-wise

(As on March 31, 2008)

(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	3.59	0.17	1.37	**5.13**
2000-01	5.61	0.65	2.39	**8.65**
2001-02	5.44	0.83	3.07	**9.34**
2002-03	4.58	0.96	2.70	**8.24**
2003-04	4.88	1.27	3.09	**9.25**
2004-05	3.56	1.73	4.40	**9.68**
2005-06	2.60	1.25	4.16	**8.01**
2006-07	2.30	1.41	4.81	**8.51**
2007-08	2.09	1.77	4.60	**8.46**
Total	**34.81**	**10.05**	**31.21**	**76.07**
Share in Total (per cent)	**45.8**	**13.2**	**41.0**	**100.0**

Note : Term loan financing under KCC introduced in August 2004.
Source : NABARD.

Bank, Tamil Nadu indicated that the scheme was well accepted at the ground level and rural families were benefited due to availability of finance for multiple activities and consumption purposes. Repayment was nearly 99 per cent under the scheme. As on March 31, 2008, 1,500 families were provided loan assistance to the tune of Rs.29.9 crore under this scheme.

Recent Initiatives by NABARD

4.145 Several initiatives taken by NABARD during 2007-08 are expected to increase the flow of credit to the rural sector. In order to reinforce the credit functions and make credit more productive, NABARD has been undertaking a number of developmental and promotional activities (Box IV.6)

Box IV.6: Development Initiatives by NABARD

The following initiatives were taken by NABARD during 2007-08, which focussed on the overall development of the rural areas, including people living therein.

- *Watershed Development Fund (WDF)*: The corpus of this fund was augmented by Rs.34.7 crore during 2007-08. During the year, 63 watershed projects were sanctioned and 31 projects entered the full implementation phase. An amount of Rs.23.8 crore and Rs.3.8 crore were disbursed as grant and loan, respectively.
- *Participatory Watershed Development Programme*: During 2007-08, 18 watershed projects with grant assistance of Rs.13.5 crore were sanctioned and Rs.1.5 crore were disbursed.
- *Village Development Programme (VDP)*: As on March 31, 2008, 913 villages across 24 States were identified for implementation of the programme.
- *Pilot Project for Integrated Development (PPID) of Backward Blocks*: It was extended to cover 139 blocks across 16 States at end-March 2008. During the year, 136 exposure programmes were conducted on vermi-culture, organic farming, polyhouse technology, cultivation of medicinal and aromatic crops, in collaboration with research institutes, *Krishi Vikas Kendras* (KVKs) and Agriculture Universities.
- *Tribal Development Fund (TDF)*: The Fund was augmented during 2007-08 by means of RIDF interest differential of Rs.348.9 crore, taking the total amount to Rs.603 crore. During 2007-08, an assistance of Rs.48.7 crore was sanctioned for 16 projects benefiting 14,538 tribal families in seven States.
- *Farm Innovation and Promotion Fund*: During 2007-08, 29 projects involving grant assistance of Rs.1.66 crore in 15 States on areas like System of rice intensification techniques, introduction of hybrid khaki campbell duck farming, implementation of village farm development plan in distress districts, implementation of pilot projects for farmers' participation in commodity futures trading involving NCDEX/MCX, *etc.* were taken up.
- *Farmers' Clubs*: During 2007-08, 5,277 farmers' clubs (FCs) were launched taking the total number of clubs to 28,226 covering 61,789 villages in 555 districts as on March 31, 2008. During the year, NABARD reviewed its policy for supporting FCs through various agencies and decided to extend cent per cent financial support to specified activities of RRBs and co-operative banks while the support for commercial banks would continue to be 50 per cent on a cost sharing basis.
- *Rural Innovation Fund (RIF)*: During the year, 29 projects with financial support of Rs.7.8 crore were sanctioned.
- *District Rural Industries Project (DRIP)*: During 2007-08, ground level credit flow in 83 DRIP districts covered under various phases reached Rs.1,177.9 crore and refinance availed of was Rs.275.4 crore.
- *Scheme for Strengthening of Rural Haats*: During 2007-08, support in the form of grant of Rs.53.4 lakh was sanctioned for infrastructure in 18 haats (a place where people meet periodically for buying and selling of goods and services) three each in Chhattisgarh and Uttar Pradesh, two haats each in Andhra Pradesh, Tamil Nadu and West Bengal and one haat each in Bihar, Kerala, Madhya Pradesh, Maharashtra, Orissa and Rajasthan.
- *Cluster Development Programme*: During 2007-08, rural industrialisation through the cluster approach was extended to 19 clusters, taking the total number of clusters under this programme to 61 at end-March 2008. With a view to extending the cluster approach for developing rural tourism, NABARD approved two rural tourism clusters in Sikkim and one in Tamil Nadu and one tourism-cum-handicrafts cluster in West Bengal.
- *Rural Entrepreneurship Development Programme (REDPs) and the Skill Development Programme (SDPs)*: During 2007-08, grant of Rs.767.6 lakh was provided for 1,422 REDPs/SDPs covering 33,148 rural youth. In addition, grant of Rs.142 lakh was sanctioned for conducting 443 REDPs/SDPs by 14 rural development and self employment training institutes (RUDSETI) in 15 States, as also, grant of Rs.3.2 lakh extended to IL&FS for conducting four IT related SDPs for the rural youth of Jharkhand under the common service centre scheme of the Government of India.
- *Swarozgar Credit Cards (SCCs)*: During 2007-08, 1.55 lakh SCCs involving credit limits of Rs.679.3 crore were issued. As on March 31, 2008, the banking sector issued 0.8 million SCCs involving an aggregate credit limit of Rs.3,379.4 crore.
- *Gender Development Programmes*: During the year, grant of Rs.4.5 lakh was released under marketing of non-farm products of rural women (MAHIMA). Moreover, during 2007-08, the scheme for setting-up women development cells (WDCs) was modified and 69 WDCs in 37 RRBs, 31 DCCBs and 1 SCARDB were sanctioned as on March 31, 2008.
- *Rural Marts*: During the year, 50 rural marts were sanctioned involving grant of Rs.51.84 lakh. NABARD supported 206 marketing events/exhibitions across the country involving grant assistance of Rs.94.13 lakh. The pilot scheme for setting-up rural marts was extended to all States.
- *Training-cum-Production Centre (TPC)*: During 2007-08, Rs.5.43 lakh was released as grant to Tata Tea Ltd. for establishing a training-cum-production centre (TPC) at Rowta, Assam for imparting training on design development, manufacturing of special products, marketing intervention and supporting Bodo women weavers.

5. Revival of the Rural Co-operative Banking Sector

Short-term Rural Co-operative Credit Sector

4.146 The main focus of the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) was to restore autonomy of the credit co-operatives by scaling down the control and interference by the State Governments through amendments to the State Co-operative Societies Acts. Amendment to the Banking Regulation Act, 1949 was also recommended. Further, the recommendations of the Task Force included provision of financial assistance for recapitalisation to fund the accumulated losses of the short-term co-operative credit structure, evolving a common accounting system, management information system (MIS) and computerisation and HRD initiatives. The proposed financial assistance was made contingent upon the introduction of institutional, legal and regulatory reforms.

4.147 In January, 2006 the Central Government announced a revival package with an estimated outlay of Rs.13,596 crore, based on the recommendations of the Task Force. The package covers financial assistance for cleansing of balance sheets of short-term co-operative credit structure (as on March 31, 2004), capital infusion for ensuring CRAR of 7 per cent, technical support for capacity building for training, introduction of common accounting and MIS and their computerisation. Release of financial assistance was made conditional to certain legal and institutional reforms, *viz.*, amendments to Co-operative Societies Acts (CSAs), introduction of professionals on boards of co-operatives, introduction of common accounting system (CAS) and management information system (MIS), among others.

4.148 At end-September 2008, 25 States (Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal) executed MoUs with the Government of India and NABARD. A national level implementing and monitoring committee, chaired by Secretary, 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) were also set up for the purpose in all implementing States. NABARD also arranged for placing a three member dedicated team in each DCCB as supporting arm to DLICs.

4.149 As on March 31, 2008, special audit of PACS was completed in 59,294 PACS affiliated to 279 DCCBs. State-level task forces were constituted in the implementing States to review regulatory issues relating to co-operative banks. By end-September 2008, Governments of nine States passed bills to amend their Co-operative Societies Acts (CSAs). The purpose for the amendment of CSA is: (i) removing State intervention in financial and administrative matters; (ii) full operational freedom; (iii) timely elections; and (iv) regulatory control by the Reserve Bank.

4.150 NABARD has developed and circulated CAS and MIS to PACS for adoption. These were to be operationalised in all implementing States with effect from April 1, 2008.The standardised set is intended to aid decision making at PACS, higher financing agencies, regulators and other agencies. NABARD has prepared two separate training modules, designed training material and trainers' guides for secretaries and staff of PACS and the elected board. These were made available in local languages as well. Training was imparted to 250 master trainers from 15 implementing States who, in turn, trained 1,121 district level trainers for conducting actual field level programmes. Training of secretaries and elected members of PACS has been initiated in 11 States. So far, 58,212 secretaries/staff and 75,108 elected members of PACS have been trained along with 491 DCCB personnel. A Technical Committee under the chairmanship of Managing Director, NABARD has finalised guidelines on computerisation of CAS and MIS of PACS.

4.151 In a move towards recapitalising eligible PACS, NABARD released Rs.3,980 crore as the Government of India's share in recapitalisation. The release of funds has been made conditional on the concerned state Governments promulgating an ordinance or passing a bill for amending their CSAs and releasing their share. The Governments of seven States have released their shares to the tune of Rs.380 crore for recapitalisation assistance of PACS.

Long-Term Rural Co-operative Credit Structure

4.152 The Task Force appointed by the Government of India for the revival of Long-Term Co-operative Credit Structure (LTCCS) (Chairman: Prof. A. Vaidyanathan) submitted its report in August 2006. The report was circulated to all States and Union Territories inviting their observations and suggestions. After discussions and consultations with all concerned, a draft package was formulated by the Government of India and sent to all the State Governments for their concurrence. At the time of the presentation of the budget for 2008-09, Hon'ble Union Finance Minister announced that the Government of India and the State Governments have reached an agreement on the contents of the package to implement Vaidyanathan Committee Report on revival of LTCCS. The cost of the package is estimated at Rs.3,074 crore, of which the Central Government's share would be Rs.2,642 crore.

Chapter V

MICRO FINANCE

Introduction

5.1 Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognised that micro finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively.

5.2 In the case of India, the banking sector witnessed large scale branch expansion after the nationalisation of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. It was, however, realised that, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs.

5.3 The beginning of the micro finance movement in India could be traced to the self-help group (SHG) - bank linkage programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). This programme not only proved to be very successful, but has also emerged as the most popular model of micro finance in India. Other approaches like micro finance institutions (MFIs) also emerged subsequently in the country.

5.4 Recognising the potential of micro finance to positively influence the development of the poor, the Reserve Bank, NABARD and Small Industries Development Bank of India (SIDBI) have taken several initiatives over the years to give a further fillip to the micro finance movement in India.

5.5 The Chapter traces the evolution of micro finance movement in India, the supporting policies and current status in this regard. The Chapter is orgainsed into five Sections. Section 2 discusses various micro finance delivery models in India. Section 3 discusses the various policy initiatives undertaken by Reserve Bank, NABARD and SIDBI in the context of micro finance movement in India. Section 4 evaluates the progress of micro finance in India and Section 5 discusses impact of micro finance movement in India.

2. Micro Finance Delivery Models in India

5.6 The non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India. Accordingly, both the Government and the Reserve Bank have taken several initiatives, from time to time, such as nationalisation of banks, prescription of priority sector lending norms and concessional interest rate for the weaker sections. It was, however, realised that further direct efforts were required to address the credit needs of poor. In response to this requirement, the micro finance movement started in India with the introduction of SHG-bank linkage programme (SBLP) in the early 1990s. At present, there are two models of micro finance delivery in India: the SBLP model and the MFI model. The SBLP model has emerged as the dominant model in terms of number of borrowers and loans outstanding. In terms of coverage, this model is considered to be the largest micro finance programme in the world. The Reserve Bank, NABARD and SIDBI have also taken a range of initiatives to provide a momentum to the micro finance movement in India. The developments relating to evolution of various models of the micro finance movement are detailed in the present section.

SHG-Bank Linkage Programme

5.7 The micro finance sector started getting recognition in India after the launch of the SBLP. Internationally however, a lot of groundwork and consultative efforts had been in progress since the 1980s, which set a backdrop for micro finance efforts in India. The field of micro finance is diverse and still evolving. There is no single approach or model that fits in all the circumstances. The concept of micro finance implies informal and flexible approach to the credit needs of the poor. As such, each model has to be tailored according to the circumstances and the local needs. It is in this context that a study of different models of micro finance developed internationally becomes interesting. One of the oldest and most successful models internationally has been the *Grameen* Bank Model in Bangladesh (Box V.1).

Box V.1: The *Grameen* Bank Model in Bangladesh

The *Grameen* Bank (GB) was launched as a project in a village of Bangladesh in 1976 to assist the poor families by providing credit to help them overcome poverty. In 1983, it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. GB has reversed conventional banking practice by obviating the need for collateral. It has created a banking system based on mutual trust, accountability, participation and creativity. It offers credit for creating self-employment, income-generating activities and housing for the poor, as opposed to consumption. It provides service at the doorstep of the poor based on the principle that the people should not go to the bank, but the bank should go to the people. In order to obtain loans, a borrower must join a group of borrowers. Although each borrower must belong to a five member group, the group is not required to give any guarantee for a loan to its member. The repayment responsibility solely rests on the individual borrower, while the group and the centre/branch oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability, *i.e.*, group members are not responsible to pay on behalf of a defaulting member. Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid. All loans are to be paid back in instalments (weekly or fortnightly). The GB initially focussed on providing credit facilities and paid little attention to voluntary deposit mobilisation. This policy was changed in 2000, with increased emphasis on deposit mobilisation.

GB currently offers four kinds of savings, namely personal savings account, special savings account, *Grameen* pension savings and credit-life insurance savings fund. After operating group lending for 25 years, the GB switched to individual lending recognising that with repeated loan cycles and greater credit exposure, homogeneity of the group would weaken as loan requirements vary with variation in the levels of upliftment attained. Thus, the more flexible *Grameen* II is more appropriate for reaching the poor because its products can be conveniently used for everyday money management as well as for microenterprises. GB II dispensed with the general loans, seasonal loans, family loans, and more than a dozen other types of loans. It also gave up the group fund; the branch-wise and zone-wise loan ceiling; fixed size weekly instalment; the rule to borrow for one whole year, even when the borrower needed the loan only for three months.

The Government of Bangladesh has fixed interest rate for government-run micro credit programmes at 11 per cent at flat rate, which amounts to about 22 per cent on a declining balance basis. The interest rate charged by the *Grameen* Bank is lower than that fixed by the Government of Bangladesh. There are four interest rates for loans from *Grameen* Bank: 20 per cent (declining balance basis) for income generating loans, 8 per cent for housing loans, 5 per cent for student loans, and 0 per cent (interest-free) loans for struggling members (beggars). All interests are simple interest, calculated on declining balance method. This implies an annual interest rate of 10 per cent for income-generating loan which is less than that (11 per cent) fixed by the Government of Bangladesh. GB offers attractive rates for deposits ranging from 8.5 per cent to 12 per cent. As of end-March 2008, it had 7.46 million borrowers, 97 per cent of whom were women. With 2,504 branches, GB provides services in 81,574 villages, covering more than 97 per cent of the total villages in Bangladesh.

References : Website of *Grameen* Bank; www.grameen-info.org.
Reserve Bank of India, Report on Currency and Finance, 2006-08.

5.8 As early as December 1984, the Fifth General Assembly of the Asia Pacific Regional Agricultural Credit Association (APRACA) held at Bangkok exhorted the agricultural and rural development finance institutions in the region to mobilise savings from the rural areas with the objective of providing loanable funds for agriculture and rural development. The experience in some of the countries where informal self help groups (SHGs) of rural people which promoted savings among members and used these resources for meeting their credit needs, were considered useful innovations. Further, the Third Consultation on the Scheme for Agricultural Credit Development (SACRED) held at Rome in 1985 called for active promotion of linkages between banking institutions and SHGs as a mean of improving the access of low income group to banking services. The Executive Committee Session of APRACA held at Seoul in October 1985 approved the holding of a South-East Asian sub-regional workshop to devise ways and means of improving such linkages. The APRACA Regional Workshop held at Nanjing, China in May 1986 recommended national level consultation and organisation of national surveys of SHGs in collaboration with APRACA and other agencies.

5.9 The Sixth General Assembly of APRACA held at Kathmandu, Nepal in December 1986 considered a project proposal on 'promotion of linkages between banking institutions and SHGs in rural savings mobilisation and credit delivery to the rural poor'. It was decided that each member country would form a Task Force to conduct a survey of SHGs and thereafter, formulate suitable national level programmes. Consequent upon this, a Task Force was set up in India in the Ministry of Agriculture, to identify the existing SHGs, undertake a survey of the groups and draw a plan of action for channeling the flow of savings and credit between the rural poor and banks through SHGs and identify concrete projects for action research in this field. Accordingly, in February 1987, it was decided that a study team led by NABARD and comprising of representatives from various financial institutions, should be constituted to undertake the survey. The survey was undertaken in September 1987 and the report discussed at the 18th Executive Committee Session and 10th Foundation Anniversary of APRACA held at New Delhi in November 1987. This survey report laid the foundation of the SHG-bank linkage programme in India launched as a pilot project in 1992.

5.10 The pilot project was launched by NABARD after extensive consultations with Reserve Bank, commercial banks and non-Governmental Organisations (NGOs) with the following objectives: (i) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions; (ii) to build mutual trust and confidence between the bankers and the rural poor; and (iii) to encourage banking activity, both on the thrift as well as on credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

5.11 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. It was expected that the pilot project would prove advantageous to both banks as well as the SHGs. The banks would gain by a way of reduction in their transaction costs due to reduction in work relating to appraisal, supervision and monitoring of loans. The SHGs would benefit by getting access to a larger quantum of resources, as compared to their meager corpus generated through thrift. The banks were expected to provide credit in bulk to the group and the group, in turn, would undertake on-lending to the members. The quantum of credit given to the group by the bank would be in proportion to the savings mobilised by the group and could vary from 1:1 to 1:4. It was prescribed that the purposes for which the group would lend to its members should be left to the common wisdom of the group. The rate of interest to be charged by the SHG to its members was also left to the group to decide. The pilot project envisaged linking of only 500 SHGs to banks. By the end of March 1993, 225 SHGs were actually linked. With the figure reaching 620 at the end of March 1994, the pilot project was a success.

5.12 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.

5.13 Under the SBLP, the following three different models have emerged:

- Model I: SHGs promoted, guided and financed by banks.
- Model II: SHGs promoted by NGOs/ Government agencies and financed by banks.
- Model III: SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.

5.14 Model II has emerged as the most popular model under the SBLP programme. Commercial banks, co-operative banks and the regional rural banks have been actively participating in the SBLP.

Micro Finance Institution Approach

5.15 While the SBLP model remains the most widely used model of micro finance in India, the MFI model has also gained momentum in the recent past. The MFI model in India is characterised by a diversity of institutional and legal forms. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Co-operative Societies Acts of the States; and non-banking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities, there is no reliable estimate of the number of MFIs. The most frequently used estimate is that their number is likely to be around 800. Attempts have been made by some of the associations of MFIs like Sa-Dhan to capture the business volume of the MFI sector. As per the Bharat Micro Finance Report of Sa-Dhan, in March 2008, the 223 member MFIs of Sa-Dhan had an outreach of 14.1 million clients with an outstanding micro finance portfolio of Rs.5,954 crore.

Bank Partnership Model

5.16 Banks can use MFIs as their agent for handling credit, monitoring, supervision and recovery. In this model, the bank is the lender and the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery, while the borrower is the individual. The MFI acts as an agent – it takes care of all relationships with the client, from first contact through final repayment.

5.17 Another variation of this model is where the MFI, an NBFC, holds the individual loans on its books for a while, before securitising them and selling them to the bank. Such refinancing through securitisation enables the MFIs a greater funding access.

Banking Correspondents

5.18 In January 2006, the Reserve Bank permitted banks to utilise the services of NGOs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator 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. The BC model uses the MFI's ability to get close to poor clients – a necessity for savings mobilisation from the poor – while relying on the financial strength of the bank to safeguard the deposits. Pursuant to the announcement made by the Union Finance Minister in the Union Budget 2008-09, banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008, in addition to entities already permitted earlier, subject to appropriate due diligence.

3. Policy Initiatives in India

5.19 Several initiatives have been taken by the Reserve Bank, NABARD and also SIDBI with a view to giving a further fillip to the micro finance movement in India. A summary of major initiatives is presented in the present section.

Policy Initiatives by the Reserve Bank

5.20 In January 1993, SHGs, registered or unregistered were allowed by the Reserve Bank to open savings bank account with banks. Further, to study the potential of the micro finance movement, the Reserve Bank constituted in 1994 a 'Working Group on NGOs and SHGs' (Chairman: Shri S.K. Kalia). Based on its recommendations, banks were advised, *inter alia*, that financing of SHGs should be included by them as part of their lending to the weaker sections and that SHG lending should be reviewed at the State level banker's committee (SLBC) level and by the banks at regular intervals.

5.21 To further promote the SHG momentum in the country, banks were advised by the Reserve Bank in 1998 that SHGs which were engaged in promoting the savings habits among their members would be eligible to open savings bank accounts and that such SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts. Subsequent to the Monetary and Credit Policy announcement for the year 1999-2000, banks were also advised that interest rates applicable to loans given by banks to micro credit organisations or by the micro credit organisations to SHGs/ member beneficiaries, would be left to their discretion.

5.22 A Task Force on Supportive Policy and Regulatory Framework for micro finance was set up by NABARD in 1999 of which the Reserve Bank was a member. The Task Force looked into the entire gamut of issues related to micro finance, particularly regulatory issues. Recognising the growing importance of micro finance, the Reserve Bank constituted a micro credit special cell in the Bank in 1999 to suggest measures for mainstreaming micro credit and accelerating flow of credit to MFIs. The special cell has since been converted into a micro finance and financial inclusion division in the Reserve Bank.

5.23 Several non-banking finance companies (NBFCs) and residuary non-banking companies (RNBCs) also started entering the micro finance sector, gradually recognising the potential in the sector. In order to further facilitate the process, in January 2000, all NBFCs and RNBCs were advised by the Reserve Bank that those NBFCs which were engaged in micro financing activities, licensed under Section 25 of the Companies Act, 1956, and which were not accepting public deposits were exempted from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of a portion of profits to Reserve Fund) of the Reserve Bank of India Act, 1934.

5.24 Based on the reports of the special cell constituted in the Reserve Bank and the Task Force on Supportive Policy and Regulatory Framework, the Reserve Bank issued comprehensive guidelines to banks in February 2000 for mainstreaming micro credit and enhancing the outreach of micro credit providers. These guidelines, *inter alia*, stipulated that micro credit extended by banks to individual borrowers directly, or through any intermediary, would from then onwards be reckoned as part of their priority sector lending. Banks were given freedom to formulate their own model/s or choose any conduit/intermediary for extending micro credit. Banks were also permitted to prescribe their own lending norms so as to provide maximum flexibility with regard to micro lending. Such credit was to cover not only consumption and production loans for various farm and non-farm activities of the poor, but also include their other credit needs. Banks were asked to delegate adequate sanctioning powers to branch managers and to keep the loan procedures and documents simple for providing prompt and hassle free micro credit.

5.25 The rapid development of the sector necessitated addressing the various issues associated with the sector. In October 2002, the Reserve Bank set up four informal groups to look into issues relating to: (i) structure and sustainability; (ii) funding; (iii) regulations; and (iv) capacity building of micro finance institutions. Taking into consideration the recommendations of the groups, banks were advised that they should provide adequate incentives to their branches for financing the SHGs and that the group dynamics of working of the SHGs should be left to them.

5.26 Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V S Vyas), which submitted its final report in June 2004, it was announced in the Annual Policy Statement for the year 2004-05 that in view of the need to protect the interest of depositors, MFIs would not be permitted to accept public deposits unless they complied with the extant regulatory framework of the Reserve Bank. However, as an additional channel for resource mobilisation, the Reserve Bank in April 2005 enabled NGOs engaged in micro finance activities to access the external commercial borrowings (ECBs) up to US$ 5 million during a financial year for permitted end use, under the automatic route.

5.27 In order to examine issues relating to rural credit and micro finance, an internal group (Chairman: Shri H.R. Khan) was set up in 2005. Based on the recommendations of the group and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted in January 2006 to use the services of NGOs/SHGs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.

5.28 All Regional Directors of the Reserve Bank were advised in April 2006 that whenever issues relating to micro finance were noticed in the areas under their jurisdiction, they may offer to constitute a coordination forum comprising representatives of SLBC convenor banks, NABARD, SIDBI, State Government officials, and representatives of MFIs (including NBFCs) and NGOs/SHGs to facilitate discussion on the issues affecting the operations in the sector and find local solutions to the local problems.

5.29 In May 2006, a joint fact-finding study was conducted by Reserve Bank and a few major banks. It was observed during the study that some of the MFIs financed by banks or acting as their intermediaries/partners were focussing on relatively better banked areas and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households. Further, many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent and banks did not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. Guidelines were, therefore, issued to banks in November 2006, advising them to take appropriate corrective action.

5.30 The Union Budget for the year 2008-09 announced that banks would be encouraged to embrace the concept of total financial inclusion. The Government would request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely: (a) income generation activities; (b) social needs like housing, education, marriage: and (c) debt swapping. Consequent upon this, in April 2008, banks were advised by the Reserve Bank to meet the entire credit requirements of SHG members, as envisaged in the Union Budget.

Recent Initiatives by NABARD

5.31 NABARD has been playing a crucial developmental role for the micro finance sector in India. NABARD has been organising/sponsoring training programmes and exposure visits for the benefit of bank officials, NGOs, SHGs and Government agencies to enhance their effectiveness in the field of micro finance. The best practices and innovations with respect to the sector are widely circulated among Government agencies, banks and NGOs. NABARD also provides support for capacity building, exposure and awareness building of the SHGs and NGOs.

5.32 NABARD launched the 'Micro-Enterprise Development Programme' (MEDP) for skill development in March 2006. The basic objective was to enhance the capacities of matured SHGs to take up micro enterprises through appropriate skill upgradation. The programme envisaged development of enterprise management skills in existing or new livelihood activities, both in farm and non-farm sectors. The duration of training can vary between 3 to 13 days depending upon the objective and the nature of training. During the year 2007-08, 394 MEDPs were conducted covering 9,182 SHG members on activities like bee-keeping, mushroom cultivation, horticulture and floriculture, vermi-compost/organic manure preparation and dairy. As on March 31, 2008, 674 MEDPs had been conducted covering 16,761 participants.

5.33 In 2005-06, a pilot project for 'promotion of micro-enterprises' was launched among members of matured SHGs. This is being implemented by 14 NGOs acting as 'micro-enterprise promotion agency' (MEPA) in nine districts, *viz.,* Ajmer (Rajasthan), Chandrapur (Maharashtra), Kangra (Himachal Pradesh), Madurai (Tamil Nadu), Mysore (Karnataka), Panchmahal (Gujarat), 24 north Pargana (West Bengal), Puri (Orissa) and Rae Bareli (Uttar Pradesh). The project is being implemented by each NGO in two blocks in each of the selected district. As on March 31, 2008, 2,759 micro-enterprises were established under the project involving bank credit of Rs.238 lakh.

5.34 NABARD also provides marketing support to the SHGs for exhibiting their products. During the year 2007-08, NABARD supported three exhibitions of products prepared by various SHGs at Bhopal, Chennai and Navi Mumbai involving grant of Rs.3.8 lakh. In addition, NABARD also provides promotional grant support to NGOs, RRBs, DCCBs, farmer's clubs and individual volunteers and assists in developing capacity building of various partner agencies. NABARD has been making efforts to increase the number of partner institutions as self-help promoting institutions (SHPIs).

5.35 NABARD launched a pilot project in December 2003 to link post-offices with the SHGs with the objective of examining the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on an agency basis (Box V.2).

5.36 The SHG Federations are emerging as important players in nurturing SHG, increasing the bargaining power of group members and livelihood promotion. The features and functions of SHG federation

Box V.2: SHG-Post office Linkage Programme

A pilot SHG-post office linkage programme was launched by NABARD in December 2003. This programme envisaged credit linking 200 SHGs in select 5 districts, *viz.*, Sivaganga, Pudukottai, Tiruvannamalai, Tanjavur and Tiruvarur districts of Tamil Nadu. The objectives of the pilot programme were to (i) examine the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on agency basis; and (ii) to test the efficacy of Department of Posts in providing micro finance services to rural clientele. The salient features of the scheme are:

(i) Post offices open savings accounts in the name of SHGs promoted by identified NGOs.

(ii) The SHGs with savings accounts in the post office and which are six months old are provided loan by the post office, in multiples of their savings, based on the rating exercise on the lines of those adopted by banks.

(iii) Post offices provide term loans to SHGs repayable within two years in 24 monthly installments.

(iv) Post offices charge an interest of 9 per cent per annum on the loans given to SHGs using a reducing balance method.

(v) Post offices do not collect any loan processing charges or any other charges from SHGs.

(vi) Project Implementation and Monitoring Committee (PIMCs) at district and State level are constituted by the post office.

(vii) The district PIMC is responsible for smooth grounding of the project, sorting out operational issues and identification of appropriate NGOs. The PIMC meets on a quarterly basis.

(viii) State level PIMCs review overall implementation of the project, suggest new initiatives and recommend release of funds by NABARD to the Department of Posts.

(ix) Department of Posts maintain separate books of accounts for all transactions relating to utilisation and operations of Revolving Fund Assistance (RFA) from NABARD.

Under the project, NABARD would provide financial support for capacity building programmes of postal officials. While loans are given at interest rates of 9 per cent per annum to SHGs by post offices, post offices would be allowed to retain an interest margin of 3 per cent. The amount of actual interest collected from the SHGs would be shared between NABARD and post offices in the ratio of 2:1.

As at end-March 2008, an aggregate of 1,963 branch post offices/sub post offices in the identified districts are implementing the project. A total of Rs.100 lakh has been sanctioned as RFA to the post offices by NABARD. So far 1,142 postal staff have been given training and Rs.49 lakh has been released as loans to SHGs as of March 2008. Roll out of the pilot project in a few other States is under consideration.

models promoted in the country vary, depending on the promoting agencies. Recognising the growing role of the SHG Federations and their value addition to SHG functioning, NABARD, during the year 2007-08 decided to support the Federations on a model neutral basis. Support is extended to the Federation by way of grant assistance for training, capacity building and exposure visits of SHG members. NABARD has also formulated the broad norms for deciding the grant of financial assistance to SHG Federations. During the year 2007-08, grant assistance amounting to Rs 10 lakhs was sanctioned to two federations.

5.37 Recognising the role played by MFIs, in extending micro finance services in the unbanked areas, NABARD extends support to these institutions through grant and loan based assistance. NABARD has been selectively supporting MFIs for experimenting with various micro finance models such as replication of Grameen Model, NGO networking (bigger NGOs supporting smaller NGOs), credit unions and SHGs federations, among others, to meet credit requirements of the unreached poor. NABARD provides loan funds in the form of revolving fund assistance (RFA) on a selective basis to MFIs to be used by them for on-lending to SHGs or individuals. This loan has to be repaid along with service charge, within a period of 5 to 6 years. During the year 2007-08, RFA amounting to Rs.8 crore was sanctioned to six agencies taking the cumulative credit sanctioned to Rs.36 crore covering 35 agencies.

5.38 In order to identify, classify and rate MFIs, NABARD introduced a scheme for commercial banks and RRBs to enable them to avail the services of accredited rating agencies for rating of MFIs. Banks can avail the services of credit rating agencies like CRISIL, M-CRIL, ICRA, CARE and Planet Finance for rating of MFIs and avail financial assistance by way of grant to the extent of 100 per cent of the total professional fees of the credit rating agency, subject to a maximum of Rs. one lakh. The assistance is available for the first rating of MFIs with a minimum loan outstanding of Rs.50 lakh and maximum loan outstanding of Rs.500 lakh. During the year 2007-08, rating support amounting to Rs 3 lakh to four agencies was provided.

5.39 Recognising the need for upscaling the micro finance intervention in the country, the Union Finance Minister, in the budget for the year 2000-01, announced creation of a Micro Finance Development Fund (MFDF). The objective of the MFDF is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability. Consequently MFDF with a corpus of Rs.100 crore was established in NABARD. The Reserve Bank and NABARD contributed Rs.40 crore each to the fund, while the balance was contributed by eleven select public sector banks.

5.40 As per the Union Budget announcement for the year 2005-06, the MFDF was re-designated as 'Micro Finance Development and Equity Fund' (MFDEF) with an increased corpus of Rs.200 crore. The fund is being managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Reserve Bank is a member of the Advisory Committee of the MFDEF.

5.41 The MFDEF maintained by NABARD is used for promotion of micro finance through scaling-up of the SHG-bank linkage programme, extending RFA and capital support to MFIs and undertake various promotional initiatives. During 2007-08, Rs.27 crore was utilised from the fund towards micro finance related activities (Box V.3).

Box V.3: Micro Finance Development and Equity Fund (MFDEF)

The objective of the MFDEF, which was set up following the announcement in the Union Budget 2005-06, is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly to women and vulnerable sections of the society consistent with sustainability.

Activities to be Supported Out of the MFDEF

The Fund would be utilised to support interventions to eligible institutions and stakeholders. The components of assistance will include, *inter alia*, the following purposes :

Capacity Building

(i) Training of SHGs and other groups for livelihood, skill upgradation and micro enterprise development.

(ii) Capacity building of staff of institutions involved in micro finance promotion such as banks, NGOs, government departments, NABARD, among others.

(iii) Capacity building of MFIs.

Funding Support

(i) Contributing equity/other forms of capital support to MFIs and service providers, among others.

(ii) Providing financial support for start-up and on-lending for micro finance activities.

(iii) Supporting self help promotion initiatives (SHPI) of banks and other SHPIs.

(iv) Meeting on a selective basis the operational deficit of financial intermediary NGOs/MFIs at the start up stage.

(v) Rating of MFIs and self regulation.

Management Information Services (MIS)

(i) Supporting systems management with regard to MIS, accounting, internal controls, audits and impact assessment.

(ii) Building an appropriate data base and supporting development thereof.

Regulatory and Supervisory Framework

Recommending regulatory and supervisory framework based on an on-going review.

Studies and Publications

(i) Commissioning studies, consultancies, action research, evaluation studies, *etc.*, relating to the sector.

(ii) Promoting seminars, conferences and other mechanisms for discussion and dissemination.

(iii) Granting support for research

(iv) Documentation, publication and dissemination of micro finance literature.

Others

Any other activities recommended by the Advisory Board to Fund.

Eligible Institutions

The following types of structures, community based organisations and institutions, would be eligible for support from the Fund :

(i) *Training:* SHGs, community based organisations (CBOs), NGOs, banks, MFIs, NABARD, training establishments, networks and service providers.

(ii) *Funding Support :* NGOs, CBOs, MFIs, Banks.

(iii) *MIS :* SHGs, NGOs/voluntary associations (VAs), Banks, MFIs, NABARD.

(iv) *Regulatory and Supervisory Framework :* Banks, MFIs, Self Regulatory Organisation (SROs), NGOs, MFI Networks, NABARD.

(v) *Studies and Publications :* Banks, MFIs, NABARD, training and research organisations, academic institutions and universities

(vi) Any other organisation as may be decided by the Advisory Board from time to time.

Mode of Assistance

Mode of assistance from the Fund would include the following :

(i) Promotional support for training and other promotional measures.

(ii) Loans and advances including soft loans.

(iii) Revolving Fund Assistance (RFA) to NGOs/ MFIs.

(iv) Equity and quasi equity support to MFIs.

(v) Administrative subsidies and grants.

(vi) Administering Charges.

Management of Fund

The Fund is being managed and administered by NABARD. The interest accrued/ income earned from the fund is ploughed back to the fund. The administrative charges incurred by NABARD in conduct of Advisory Board meeting and salaries, allowances of the NABARD staff involved in micro finance programmes will be met out of the Fund on such basis as may be determined from time to time. As per extant practice, meetings of the banks contributing to the MFDEF will be convened from time to time in which they will be informed regarding the status and utilisation of fund.

Advisory Body to MFDEF

The Advisory Board guides and renders advice on the various aspects relating to the micro finance sector. The Board determines its own procedures for day-to-day working, including constitution of committees and task forces, among others, for examination of various issues. The Advisory Board meets at such intervals as deemed necessary but in any case once in a quarter to review the status and progress of outflow and to render policy advice for orderly growth and development of the sector.

5.42 The North-Eastern Council (NEC), Shillong parked a fund of Rs.50 lakh with NABARD during the year 2007-08 for facilitating miscellaneous training programmes involving Government/bank officials, NGOs, SHGs from States in the NER and Sikkim. During the year 2007-08, 73 programmes were sanctioned out of the fund involving a total grant assistance of Rs.45 lakh.

Micro Finance Initiatives by SIDBI

5.43 SIDBI launched its micro finance programme in February 1994 on a pilot basis. The programme provided small doses of credit funds to the NGOs all across the country. NGOs acted as financial intermediaries and on-lent funds to their clients. Limited amount of capacity building grant was also provided to the NGOs.

5.44 With a view to reducing the procedural bottlenecks, expanding the outreach, meeting the huge unmet demand of the sector and striving towards its formalisation, SIDBI reoriented its policy and approach to create a sustainable micro finance model that would significantly increase the flow of credit to the sector. To take the agenda forward, the SIDBI Foundation for Micro Credit (SFMC) was created in January 1999. SFMC's mission is "to create a national network of strong, viable and sustainable Micro Finance Institutions from the informal and formal financial sector to provide micro finance services to the poor, especially women".

5.45 SIDBI was one of the first institutions that identified and recognised NGO/MFI route as an effective delivery channel for reaching financial services to those segments of the population not reached by the formal banking network. As a result of bulk lending funds provided, coupled with intensive capacity building support to the entire micro finance sector, it has come to occupy a significant position in the Indian micro finance sector. Today, SIDBI is one of the largest providers of micro finance through the MFIs.

5.46 SIDBI's pilot programme of 1994 brought out one of the major shortcomings in micro finance lending programme. It showed that collateral-based lending does not work insofar as micro finance is concerned. NGOs/MFIs acting as financial intermediaries do not have tangible collateral to offer as security for the loans. Doing away with collateral-based lending in MF necessitated that a mechanism be developed which would minimise the risks associated with lending. With a view to catering to this objective, SIDBI pioneered the concept of capacity assessment rating (CAR) for the MFIs. As part of its developmental agenda, SIDBI encouraged a private sector development consulting firm to develop a rating tool for the MFIs which was rolled out in 1999. Today, rating is a widely accepted tool in this sector. SIDBI has also succeeded in developing a market for rating services. Two mainstream rating agencies, *viz*., CRISIL and CARE have also started undertaking micro finance ratings, besides M-CRIL. SIDBI has also adopted the institutional capacity assessment tool (I-CAT) of access development services (ADS), a private sector consulting organisation, for rating of start-up/small and mid-sized MFIs.

5.47 SIDBI introduced a product called 'transformation loan' in 2003 to enable the MFIs to transform themselves from an informal set up to more formal entities. This loan is a quasi-equity product with longer repayment period and features for conversion into equity at a later date, when the MFI decides to convert itself into a corporate entity. Consequently, a number of MFIs went ahead with the transformation and some of them have now grown significantly and are serving millions of clients across several states. Recognising the need to offer the MFIs equity capital so as to adequately capitalise them, SIDBI set up a fund of Rs. 50 crore which was christened as SIDBI Growth Fund for MFIs. The fund takes care of equity investment in large corporate MFIs, as also equity capital in start-up/smaller institutions, along with quasi-equity support for MFIs on the verge of transformation.

5.48 SIDBI also supports incubation of potential local community based organisations through two-tier/umbrella NGOs/MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelise finance to smaller NGOs that otherwise may not meet the criteria for availing direct assistance from SIDBI. SIDBI has also been able to nurture and develop a few new intermediaries set up by experienced professionals. Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development/micro finance professionals. The incubation support is either given through well-reputed management institutes or through institutions specialising in capacity building and technical support services.

5.49 As at March 31, 2008, the SIDBI had 58 partners in the underserved States, out of its total partner base of 104. The increased thrust on development of underserved States has also resulted in the share of these States going up from 19 per cent (Rs.38 crore) in the total outstanding micro finance portfolio of SIDBI in the financial year 2005 to over 31 per cent (Rs.299 crore) in the financial year 2007-08.

5.50 Substantial growth of the micro finance sector would be possible only if the capacities of all stakeholders are built up adequately. SIDBI has taken some initiatives in this direction. One such initiative has been in the area of human resources where SIDBI has tried to address the issue both from the demand and supply side factors. On the demand side, MFIs are encouraged to hire young management/accounting graduates from reputed institutes through campus placement and SIDBI provides partial salary support for these young professionals (YPs) for a period of two years. Additionally, MFIs are also provided grant funds for hiring trained and experienced professionals as second line managers. This helps in bringing and retaining the talent in the micro finance sector. On the supply side, some of the management training institutes have been provided support in the form of training and exposure visit of their faculty members to reputed national and international training programmes and other MFIs across the world. Besides, SIDBI was instrumental in bringing international experts to lend support to these institutes for developing a course on micro finance that has been incorporated as an elective in their rural management courses.

5.51 Other major initiatives towards capacity building of the sector comprised developing the capacities of consultants and technical service providers (TSPs), developing a common chart of accounts for the sector, creating gender and environment awareness, promoting innovations and action research on emerging concepts.

Regulation of Micro Finance Institutions

5.52 The rapid growth of the micro finance sector and varied number of micro finance providers influencing the lives of millions of clients have necessitated the need for regulating the sector. In India, micro finance is provided by a variety of entities. These include banks (including commercial banks RRBs and co-operative banks), primary agricultural credit societies, SHGs linked to banks and MFIs that include NBFCs, Section 25 companies, trusts and societies as also co-operatives (under MACS). Currently, banks and NBFCs fall under the regulatory purview of the Reserve Bank. Other entities are covered in varying degrees of regulation under the respective State legislations. There is no single regulator for this sector. In this context, for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro Financial Sector (Development and Regulation Bill), 2007 which is under consideration of the Parliament. The Bill envisages NABARD to be the regulator and provides that all micro finance organisations desirous of offering thrift services may get registered with NABARD.The legislation, however, is yet to be enacted (Refer Chapter II, para 2.219).

5.53 In the meantime, formulation of a code of ethics has been formulated by Sa-Dhan in 2007, to be followed by their member institutions (Box V.4).

Micro Insurance

5.54 Social security in the form of micro insurance can be a boon for the poor, when the income raising ability of the bread winner is impaired. In India, the micro insurance schemes are mostly implemented by the MFIs as a compulsory element along with the micro credit provided. Micro insurance schemes can be considered as a stepping stone to social protection. One of the best examples of micro insurance scheme is the one which is linked to the *Grameen* Bank scheme in Bangladesh. *Grameen* established a separate organisation called *Grameen Kalyan* (village welfare) which uses the women groups for the collection of annual premiums for micro insurance.

5.55 With the recent arrival of a number of private insurance companies in India, there has been significant innovation in new product development, as well as delivery in the insurance sector. Several MFIs are entering the domain of micro insurance. However, the sector is still in its early days and evolving rapidly. More than half of the 83 MFIs that responded to a Sa-Dhan study in 2005 were offering insurance, with life insurance being more widespread than non-life insurance. Insurance Regulatory Development Agency (IRDA)'s micro insurance regulations of November 2005 formally recognised NGOs, SHGs and MFIs as "micro insurance agents" for acting as intermediaries between insurance companies and beneficiaries. The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), which submitted its report in January 2008, highlighted the importance of micro insurance and made wide ranging recommendations in this regard (Box V.5).

5.56 Generally, micro insurance schemes cover health care, life, accident expenses, maternity protection and disability. Both the public sector and private sector insurance companies have tied up with various MFIs in the country to offer micro insurance schemes. One of the difficulties in the implemention of micro insurance scheme is that poor have a lesser understanding of risk pooling and are often reluctant to join schemes where payments have to be made with no immediate returns.

4. Progress of Micro Finance in India

5.57 The micro finance movement has come a long way since its inception in the early 1990s and has assumed enormous significance in the delivery of credit to the hitherto excluded sections of the population. While the SBLP has emerged as the most dominant model, the MFI model has also been gaining importance.

Box V.4: Sa-Dhan's Voluntary Mutual Code of Conduct for its Member Institutions

In January 2007, Sa-Dhan issued a voluntary mutual code of conduct applicable to all the categories of member micro finance institutions.

Objectives

The member institutions agree to promote and strengthen the micro finance movement in the country by bringing the low income clients to the mainstream financial sector. They also agree to build progressive, sustainable and client-centric micro finance institutions in the country to provide integrated financial services to the clients. Their aim should be to promote co-operation and co-ordination among micro finance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better.

Integrity

The member institutions agree to:

i) Act honestly, fairly and reasonably in conducting micro finance activities.

ii) Conduct micro finance activities by means of fair competition, not seeking competitive advantages through illegal or unethical micro finance practices. No officer, employee, agent or other person acting on their behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.

iii) Prominently display the core values and code of conduct on the notice board of head office and all branches and put systems in place to ensure compliance.

iv) Ensure that their staff and all persons acting for them or on their behalf, are trained or oriented to put these values into practice.

Transparency

The member institutions agree to:

i) Disclose to clients all the terms and conditions of the financial services offered in the language understood by the client.

ii) Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.

iii) Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/ quarterly/half-yearly), terms of repayment and any other information related to interest rates and other charges.

iv) Provide information to clients on the rate of interest offered on the thrift services provided.

v) Provide information to clients related to the premium and other fees being charged on insurance and pension services offered as intermediaries.

vi) Provide periodical statements of the MFI's accounts to the clients.

Fair Practices

Member institutions are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. Member institutions agreed to:

i) Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.

ii) Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.

iii) Recognise their responsibility to provide financial services to clients based upon their needs and repayment capacity.

iv) Promise that, in case of loans to individual clients below Rs. 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, *etc.*, as collateral security for loans, except when obtaining copies of these for fulfilling "know your customers" norms of the Reserve Bank. Only in case of loan to individual clients of Rs 25,000 and above can obtain land titles, house pattas, vehicle RC books, as collateral security.

v) Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.

vi) Maintain decency and decorum during the visit to the clients' place for collection of dues.

vii) Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.

viii) Avoid any demeanour that would suggest any kind of threat or violence.

ix) Emphasise using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what the obligations of social collateral are.

Governance

i) Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of board of directors. The MFI should ensure that the majority of the directors are independent directors and/or duly elected representatives of the community served, and that the board would be involved in all policy formulation and other important decisions.

ii) Ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.

iii) Put in the best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).

iv) Place before the board of directors, a compliance report indicating the extent of compliance with this voluntary mutual code of conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

Feedback/ Grievance Mechanisms

i) Establish effective and efficient feedback mechanism.

ii) Take steps to correct any errors and handle complaints speedily and efficiently.

Wherever a complainant is not satisfied with the outcome of the investigation into her complaint, she should be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Reference :

Sa-Dhan, 2007. Core Values and Voluntary Mutual Code of Conduct for Micro Finance Institutions, available on www.sa-dhan.net/Resources/corevalues.pdf

Box V.5: Recommendations of Rangarajan Committee on Micro Insurance

The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), which submitted its report in January 2008, observed in its report that micro insurance should provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. Micro insurance in conjunction with micro savings and micro credit could go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

The Committee suggested that in order to economise on costs and to increase the outreach of micro insurance to the poor, the insurers need to utilise existing Government organisations and NGOs, having greater acceptability among the financially excluded. In the opinion of the Committee, there is a need to emphasise linking of micro credit with micro insurance. Further, as it helps in bringing down the inherent risk cost of lending, NABARD should be regularly involved in issues relating to rural and micro insurance to leverage on its experience of being a catalyst in the field of micro credit. The Committee suggested that the technology platforms being envisaged to facilitate financial inclusion should enable micro insurance transactions also. Towards this end, according to the Committee, there is a need to integrate the various modules - savings, credit, insurance, *etc*. - into the technology framework so that holistic inclusive efforts are possible in the rural areas.

The Committee observed that there are a large number of group life and health insurance schemes which are run by various central ministries and State Governments. The level of actual coverage in terms of claims preferred and settled in such schemes is disturbingly low. These schemes should be reviewed by an expert group set up by the Insurance Regulatory and Development Authority (IRDA).

Making specific recommendations about various insurance schemes available, the Committee observed that a wide range of products are available in life insurance category but penetration is really limited in rural areas. The procedural requirements at the time of entry and in case of claims settlement are cumbersome. The commission structure for agents is also heavily weighed in favour of getting new policies with very little incentive to service existing policies. In this regard, Micro Insurance Guidelines (MIG) 2005 issued by IRDA has provided for equal commission throughout the life of a policy and this will now remove the disincentive in servicing existing policy holders.

As far as health insurance is concerned, the Committee observed that its penetration level was even much lower than life insurance. The two categories *viz*., critical illness and hospitalisation are the main product segments. Some State Governments have developed health insurance schemes which are still in very early stages. The Committee has recommended mutual health insurance models as a better alternative to the take care of existing situation.

As regards crop insurance, the committee recommended that policies be evolved to make crop insurance universal, *viz*., applicable to all crops/regions and pricing actuarial.

About asset insurance the Committee again recommended that involving local NGOs, MFIs and SHGs, among others, as distribution channels as well as facilitators of claims settlements would be quite useful.

Reference :

Rangarajan, C. 2008. Report of the Committee on Financial Inclusion, available on www.nabard.org/report_comfinancial.asp

SHG-Bank Linkage Programme Approach

5.58 The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks as also the bank loans disbursed by SHGs. The cumulative number of SHGs credit linked with banks increased sharply from 33,000 in 1992-99 to 264,000 in 2000-01 and further to 2,239,000 in 2005-06. During the above period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from Rs. 57 crore in 1992-99 to Rs.481 crore in 2000-01 and further to Rs.11,398 crore in 2005-06 (Table V.1 and Chart V.1).

5.59 The provisional data available so far indicates that during the year 2007-08, 552,992 new SHGs were provided with bank loan and 186,883 existing SHGs with repeat loans. Total bank loans disbursed during the year were at Rs.4,228 crore, of which repeat bank loans to existing SHGs were at Rs.1,686 crore. The growth of number of SHGs has decelerated in recent years, particularly in the southern region, where rapid progress was made earlier. The scheme is catching up slowly in the northern region. The MFIs have also expanded their operations, which might have impacted the growth of the SBLP to some extent.

5.60 In terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks (Table V.2). Among the commercial banks, public sector banks accounted for the largest share of loans

Table V.1: 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	150
	(147.9)	(247.9)	(138.1)	(238.1)	(88.5)	(188.5)
2000-01	149	264	288	481	244	394
	(82.3)	(129.9)	(112.0)	(149.2)	(149.0)	(162.7)
2001-02	198	461	545	1,026	395	790
	(32.6)	(74.9)	(89.0)	(113.4)	(61.9)	(100.5)
2002-03	256	717	1,022	2,049	622	1,412
	(29.5)	(55.4)	(87.0)	(99.6)	(57.2)	(78.7)
2003-04	362	1,079	1,856	3,904	705	2,118
	(41.4)	(50.4)	(81.0)	(90.6)	(13.3)	(50.0)
2004-05	539	1,618	2,994	6,898	968	3,086
	(49.1)	(50.0)	(61.0)	(76.7)	(37.3)	(45.7)
2005-06	620	2,239	4,499	11,398	1,068	4,153
	(15.0)	(38.3)	(50.3)	(65.2)	(10.3)	(34.6)
2006-07	1,106	–	6,570	–	1,293	5,446
2007-08 P	740	–	4,228	–	1,616	7,062

P : Provisional. – : Not Available

* : Relating to commercial banks, RRBs and Co-operative banks.

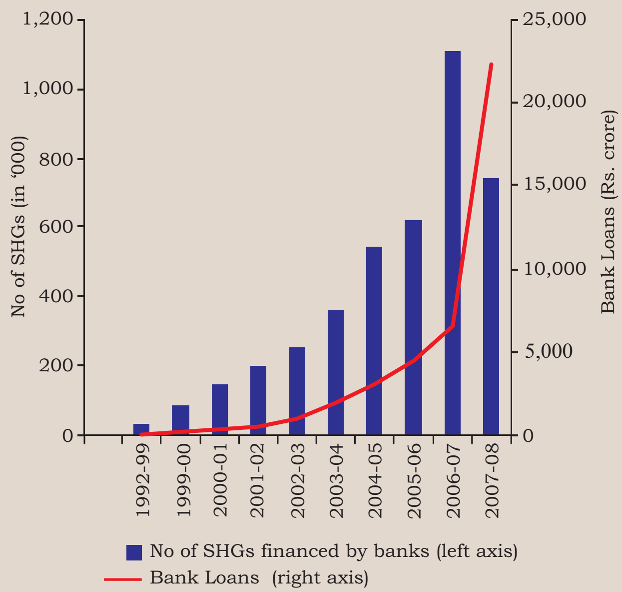
Note : 1. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of *'Swarnjayanti Gram Swarozgar Yojna'* (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07. As such data for 2006-07 onwards are not comparable with the data in the previous years.

2. Figures in parentheses indicate percentage variations over the year.

Source : NABARD.

disbursed to SHG sector (88.8 per cent) in 2006-07. Out of the total loans disbursed by the commercial banks, 86.9 per cent of the loans were disbursed exclusively to women SHGs (Appendix V.1).

Chart V.1: Progress of SHG- Bank Linkage Programme



5.61 Under the SBLP, as on March 31, 2007, 2.9 million SHGs had outstanding bank loans of Rs.12,366 crore (Table V.3).

5.62 Of the three models under the SBLP, the Model II, *viz.*, SHGs promoted by NGOs/ Government agencies and financed by banks has emerged as the most dominant model in the case of India (Table V.4).

Table V.2: Agency-wise SHG -Bank Linkage Position

(Amount in Rs. crore)

Agency	SHGs Credit Linked (in '000)		Bank Loan Disbursed	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
Commercial Banks	572	312	3,919	2,043
	(52)	(42)	(60)	(48)
RRBs	381	241	2,053	1,599
	(34)	(33)	(31)	(38)
Co-operative Banks	153	187	599	586
	(14)	(25)	(09)	(14)
Total	**1,106**	**740**	**6,570**	**4,228**

P : Provisional data.

Note : 1) Figures in parentheses are percentage shares in the respective total.

Source : NABARD.

Table V.3: Bank Loans Outstanding under SBLP
(as at end-March 2007)

(Amount in Rs. crore)

Agency	No. of SHGs	Loans Outstanding
1	2	3
Commercial Banks	1,893,016	8,760
	(65.4)	(70.8)
Regional Rural Banks	729,255	2,802
	(25.2)	(22.7)
Co-operative Banks	272,234	804
	(9.4)	(6.5)
Total	**2,894,505**	**12,366**
	(100.0)	**(100.0)**

Note : Figures in parentheses are percentages to the respective totals.
Source : NABARD.

5.63 The region-wise pattern of SHGs linked to banks showed greater concentration in the southern region, although the spatial disparity has declined in the last few years with some increase in the share of other regions, particularly the eastern region (Table V.5).

5.64 In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal) with high incidence of rural poverty and where the micro finance movement had not taken roots were identified by NABARD. Special efforts by NABARD resulted in an increase in the number of SHGs credit linked in these States from 100 thousand as on March 31, 2002 to 1.4 million as on March 31, 2007. Thus, the spread of the programme in the 13 States led to a significant decline in the share of the southern States in SHGs linked to banks.

5.65 As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs. 3,513 crore, thereby covering more than 58 million poor households under the programme. Commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent) (Table V.6). Among the commercial banks, the public sector banks accounted for the largest share of savings (95.9 per cent), while private sector banks accounted for marginal share (4.1 per cent). It is noteworthy that around 87.3 per cent of the savings were by exclusive women SHGs (Appendix V.2).

Table V.4: Model-wise Cumulative Linkage Position
(as at end-March)

Model Type	2004		2005		2006	
	No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)	No. of SHGs ('000)	Bank loans (Rs. crore)
1	2	3	4	5	6	7
(i) Model I- SHGs promoted, guided and financed by banks	218	550	343	1,013	449	1,637
	(20.0)	(14.0)	(21.2)	(14.7)	(20.1)	(14.4)
(ii) Model II- SHGs promoted by NGOs/ Government agencies and financed by banks	777	3,165	1,158	5,529	1,646	9,200
	(72.0)	(81.0)	(71.6)	(80.2)	(73.5)	(80.7)
(iii) Model III- SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries	84	189	117	356	143	561
	(8.0)	(5.0)	(7.2)	(5.2)	(6.4)	(4.9)
Total (i+ii+iii)	**1,079**	**3,904**	**1,618**	**6,898**	**2,239**	**11,398**

Note : 1. NABARD has changed the data reporting format since 2006-07 and now does not publish model-wise cumulative figures relating to SHG Bank Linkage Programme.
2. Figures in parentheses are percentages to the respective total.

Source : NABARD.

Table V.5: Regional Pattern of SBLP

(as at end-March)

(Per cent to total)

Region	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7
Northern	3.4	4.2	4.9	4.9	5.3	5.9
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8
Eastern	8.4	9.9	12.7	14.7	16.4	17.6
Central	10.9	10.4	11.4	11.8	12.2	12.0
Western	5.9	6.4	5.9	5.1	5.9	7.4
Southern	71.1	68.8	64.6	62.5	58.0	54.3
All-India	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : NABARD.

5.66 About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks reported recovery in the range of 50-79 per cent. Some differences were observed in recovery rates of commercial banks, co-operative banks and regional rural banks (Table V.7). While the recovery rate of public sector banks varied between 52 per cent and 99 per cent, the same of private sector banks varied between 60 per cent and 100 per cent. Out of the 26 private sector banks, the recovery rate of four banks was 100 per cent (Appendix V.3).

5.67 Many groups promoted under various Government sponsored programmes also constituted a part of the SBLP. As on March 31, 2007, the number of SHGs having outstanding bank loans under the *Swarnjayanti Gram Swarozgar Yojana* (SGSY) were at 700 thousand constituting 23.7 per cent of the total SHGs under the SBLP. The loan amount outstanding under these SGSY loans were Rs.3,273 crore which constituted 26.5 per cent of the total amount outstanding under the SBLP.

Table V.6: Savings of SHGs with Banks

(as at end-March 2007)

(Amount in Rs. crore)

Agency	Total Savings		Exclusive Women SHGs	
	No. of SHGs	Amount of Outstanding Savings	No. of SHGs	Amount of Outstanding Savings
1	2	3	4	5
Commercial Banks	2,293,771 (55.1)	1,892 (53.9)	1,794,720 (54.9)	1,651 (54.6)
Regional Rural Banks	1,183,065 (28.4)	1,158 (32.9)	974,811 (29.8)	1,043 (34.5)
Co-operative Banks	683,748 (16.4)	462 (13.2)	501,708 (15.3)	331 (10.9)
Total	**4,160,584 (100.0)**	**3,513 (100.0)**	**3,271,239 (100.0)**	**3,025 (100.0)**

Note : Figures in parentheses are percentages to the respective totals.
Source : NABARD

MFI Approach

5.68 The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognised and the banking sector has been extending loans to MFIs for on-lending to SHGs. During the year 2006-07, bank loans amounting Rs. 1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to Rs.1,584 crore to 550 MFIs as on March 31, 2007 (Table V.8).

Table V.7: Recovery Performance of Bank Loans to SHGs

(as at end-March 2007)

(No of banks)

Agency	Total No. of Reporting Banks	Recovery Performance of Bank Loans to SHGs			
		95 per cent and above	80-94 per cent	50-79 per cent	less than 50 per cent
1	2	3	4	5	6
Commercial Banks	36	11 (30.6)	15 (41.7)	10 (27.8)	0 (0.0)
Regional Rural Banks	73	20 (27.4)	35 (47.9)	13 (17.8)	5 (6.8)
Co-operative Banks	181	76 (42.0)	55 (30.4)	35 (19.3)	15 (8.3)
Total	**290**	**107 (36.9)**	**105 (36.2)**	**58 (20.0)**	**20 (6.9)**

Note : Figures in parentheses indicate percentage shares in agency-wise totals.
Source : NABARD

Table V.8: Bank Loans Provided to MFIs
(as at end-March 2007)

(Amount in Rs. crore)

Agency	Loans Disbursed by Banks to MFIs during 2006-07		Outstanding Bank Loans to MFIs as on March 31,2007	
	No. of MFIs	Amount	No. of MFIs	Amount
1	2	3	4	5
Commercial Banks	327	1,151	541	1,584
Regional Rural Banks	7	0.2	8	0.2
Co-operative Banks	–	–	1	0.01
Total	**334**	**1,152**	**550**	**1,584**

– : Nil/ Negligible.
Note: 1) Figures may not add up to their respective total due to rounding off.
2) The actual number of MFIs would be less as some MFIs have availed loans from more than one bank.
Source: NABARD.

5.69 The Reserve Bank carried out a survey of MFIs in 2007, which revealed that most of the MFIs have a good recovery rate. Commercial banks remained the most important source of funds for almost all the MFIs. Even though some complaints regarding high interest rates and forcible loan recovery were registered in some parts of the country, most of the borrowers reported that it was easy or very easy to get a loan from MFIs (Box V.6).

5. Micro Finance in India - Impact

5.70 There are several instances of experiments of SHGs that have made a positive impact on the income and employment situation of the poor (Box V.7).

5.71 A few assessment studies have been carried out on the impact of the SBLP in India at the grassroot level. Puhazhendi and Satyasai (2000)[1] observed a shift towards higher income slabs between pre and post-SHG situation. About 74 per cent of the sample households were below an annual income level of Rs.22,500 during pre-SHG situation. The proportion declined to 57 per cent in the post-SHG situation indicating increased income levels. Further, involvement in the group significantly contributed to improving the self-confidence of the members. The communication with other group members also improved after association with the SHGs. The members were relatively more assertive in confronting with social evils and problematic situations.

5.72 In another assessment, Puhazhendi and Badatya (2002)[2] found that availing loans from moneylenders and other informal sources with higher interest rates was significantly reduced due to SHG intervention. It was also observed that consumption oriented loans were replaced by production oriented loans during post-SHG situation.

5.73 Some studies have also indicated that the size of the loans is small and is often not sufficient to take up income generating activities. As a result, the loans are utilised for consumption purposes or for taking up subsistence-income generating activities.

5.74 The study conducted by EDA Rural Systems and APMAS (2006) brought out that a significant proportion of sampled groups (40 per cent) had a weak record of account keeping.The study pointed out that financial statements are not being regularly prepared by the SHGs. Only 28 per cent of the SHGs (22 per cent in the South and 35 per cent in the North) prepared an income and expenditure statement and an equal number of SHGs prepared a balance sheet and portfolio information. While members were usually able to provide approximate figures of total savings and total SHG loans outstanding, they were not able to provide information about profits earned or loan outstanding to banks. Further, the SHGs do not have a clear policy on how to deal with defaults or with dropouts, which formed about 10 per cent of membership.

[1] Puhazhendi, V. and K. J. S. Satyasai, 2000, *Microfinance for Rural People: An Impact Evaluation*, NABARD
[2] Puhazhendi, V. and K. C. Badatya, 2002, SHG Bank Linkage Programme for Rural Poor-An Impact Assessment, available on www.microfinancegateway.org

Box V.6: Reserve Bank Survey on MFIs

In order to have a better understanding of the working of MFIs, regional offices of the Reserve Bank carried out a survey of MFIs operating in their areas of jurisdiction in November-December 2007. The objective of the study was to gain an insight into the activities of MFIs, especially in rural areas, to assess the financial services needs of the rural households and the informal products and processes that currently meet these needs. The study was aimed at gaining a better understanding of the operations of the MFIs and explore the possibility of linkages with banks resulting in extending banking outreach to the poor. In all, 77 MFIs were surveyed in the States of Karnataka, Orissa, Andhra Pradesh, Madhya Pradesh, Bihar, West Bengal, Kerala, Maharashtra, Rajasthan and Tamil Nadu. The survey was carried out through the lead district officers (LDOs) who held discussions with officials of district administration, branch managers, borrowers and MFIs.

The survey revealed that MFIs were adopting various models for micro finance such as through the SHGs, *Grameen* model/joint liability groups (JLGs) model, individuals as well as through cluster associations of the SHGs. The loan range varied widely across MFIs and across states. The loan range also varied across individuals and across SHGs. For individuals the loans ranged from as low as Rs.1,000 to Rs.20,000. For the SHGs, the range was between Rs.30,000 to Rs.2 lakh.

The number of clients served by the MFIs varied significantly across the States and ranged from as low as 79 to more than 100,000. The average loan range per client was between Rs.4,000 to Rs.5,000 for individuals and between Rs.60,000 to Rs. 1.3 lakh for the SHGs.

Majority of the loans given by the MFIs in the surveyed States were for work or occupation related purposes. Occupation related loans ranged from 46 to 100 per cent of the total loans in most of the states. This was followed by other purposes like consumption, social events, health, travel and education.

The duration of the loans ranged from 6 to 20 months. The interest rates charged by the MFIs were not uniform and varied widely across MFIs and across states. While some MFIs charged flat rates of interest, others charged diminishing rates. The flat rates ranged between 10-14 per cent and the diminishing rates ranged between 10-27 per cent. Besides, many MFIs charged flat processing fee in the rage of 1 to 1.5 per cent.

Apart from the loans, some of the MFIs offered other services such as health insurance and life insurance. In many cases, asset insurance was compulsory, especially when it related to loans for animal husbandary.

Almost all the MFIs reported good recovery percentage of the loans, *i.e.*, more than 90 per cent. Most of the borrowers also reported that the MFIs adopted fair practices for recovery. The MFIs have a close monitoring system which ensures that there are minimum defaults.

Only a few MFIs were providing performance related incentives to their staff. Some of the parameters used for providing the incentives were (i) business turnover; (ii) maintenance of clientele (low customer drop out rate); (iii) reaching the annual target about number of customers; (iv) recovery performance; (v) percentage of insurance coverage; and (vi) loan utilisation.

Only in the States of Karnataka and Andhra Pradesh, MFIs reported that the money lending legislations were applicable to them. In other States the MFIs reported that they were not bound by the money lending legislations. Almost in all States surveyed, the enforceability of money lending legislation was very poor.

Commercial banks remained the most important source of funds for almost all the MFIs. Some of the MFIs also received funds from other financial and developmental institutions and donor agencies.

The survey attempted to find out what additional support the MFIs expected from banks. Some of the suggestions and expectations were (i) low interest loans; (ii) loans for operational and infrastructure expenses; (iii) flexible banking products; (iv) continuous lending support; (v) better customer service; (vi) simplified access; (vii) capacity building by banks; (viii) IT and EDP support; (ix) sharing establishment costs; and (x) training.

Almost all the MFIs were willing to work as business correspondents (BC) of banks. One MFI however suggested that it was unwilling to work as a BC because it would lose focus on its core activity. Another MFI was unwilling to work as a BC because of the stringent conditions stipulated by banks for their BCs.

In most of the States surveyed, district administration was not maintaining the details of MFIs in the district as it was not compulsory. Furthermore, there were only very few complaints against the MFIs received by the district administration. In Krishna district in Andhra Pradesh there were complaints against MFIs for charging high rates of interest and forcible loan recovery. In Madhya Pradesh also there were some complaints pertaining to high interest rates.

The survey also attempted to obtain the response of clients with respect to the ease of availing loans from MFIs. Most of the borrowers surveyed reported that it was easy or a easy to get a loan from MFIs.

Almost all the bank branch managers opined that MFIs were good customers of banks and they could be used as business facilitators or correspondents.

5.75 The study also observed that 30 per cent of SHGs in the sample were involved in community actions. These involved improving community services (43 per cent of the total actions, including water supply, education, health care, veterinary care, village road), trying to stop alcohol sale and consumption (31 per cent), contributing finance and labour for new infrastructure (12 per cent), protecting natural resources and acts of charity (to non-members). The most common type of action taken up by SHGs was the attempt to close down local liquor outlets.

Box V.7: Innovative Approaches of SHGs

The self help group movement in India has gained momentum in recent years and it has been responsible for bringing in a qualitative change in the lives of thousands of people. Some of the innovative experiments in this regard are:

Sheetal SHG, Saharanpur, is an excellent example of people who have brought transformation in their socio-economic status by determinative and collective efforts. This SHG was formed in September 2006 with the joint motivation of the Punjab National Bank and a social organisation named "SANKALP" which has been working for mainstreaming the disabled and their families. Fourteen *dalit* women had volunteered to become members of this SHG, of which two were disabled. They started saving Rs.100 every month and opened their bank account with bank's branch in October 2006. NABARD helped in providing 30 days of vocational training in commercial candle making with exposure to market for purchases and sales. They were also given training for making *dhoop battis* and *agarbattis*.

Four members of this group have now started a candle making unit with the help of loan from the bank. The women now work in their spare times and are earning additional income for their families. They have become self-dependent and are confidently meeting the bank and Government officials and also travelling independently for the business requirements. The SHG has now multiplied into eight women SHGs and have recently formed a 'Mahila Manch', which is exclusively working for the economic and social upliftment of their families.

Annapurna SHG of Tidhara village in Navsari tehsil in Gujarat supported by Bank of Baroda consists of elevan women members from below poverty line. They were working as daily wage labourers in the village and started saving from their little earnings and opened an account with the bank branch. The group after managing to save a decent corpus of fund started catering service in the village with guidance from the bank branch. The group opened a canteen at the village panchayat office with a loan of Rs. one lakh from the bank. They also gained additional income by extending their services to various ceremonies and other occasions in the village and neighbouring areas. The group has gained popularity in the area for providing tasty and hygienic food to the locals and each group member earns a minimum of Rs.2,500 per month.

Pragathi Mahila Sakthi Sangham of Kurakapalli village in East Godavari district of Andhra Pradesh comprises members who worked as agricultural labours. The members took an initial loan of Rs.25,000 from Bank of Baroda which was used for internal loaning purposes. The members then ventured into agriculture with another loan of Rs.1,80,000 after repaying the earlier loan. They took agriculture land on lease and prospered by cultivating and distributing the profits among themselves. The group has become a role model for other landless agriculture labourers in the village.

Source : Punjab National Bank
Bank of Baroda.

5.76 The study also pointed out that such community actions inculcated a new boldness and confidence amongst women, often putting pressure on the authorities (*panchayat*, district officers and police) to do their jobs, whether through petitions or by staging rallies and blockades.

5.77 Some of the States like Andhra Pradesh are trying to implement various developmental and poverty alleviation schemes through SHGs.

5.78 To sum up, micro finance has come of age in India. Although it is not a panacea for the poor, it has now developed into an important delivery mechanism for reaching the poor and achieving financial inclusion. Studies have brought out the positive impact of micro finance on participating clients. As such, its role in enhancing human capital in the long-term would be considerable. It has particularly helped women to become owners of assets, have an increased say in decision making and take up leadership positions. The challenges facing the sector are being addressed on a continuing basis, in consultation with all stakeholders.

Chapter VI

Non-Banking Financial Institutions

Introduction

6.1 Non-banking financial institutions (NBFIs) are an important part of the Indian financial system. A wide range of financial institutions (FIs) have evolved in the Indian financial system over the years, with a view to providing medium to long-term finance to different sectors of the economy. The NBFIs at present consist of a heterogenous group of institutions, catering to a wide range of financial requirements. The major intermediaries that are included in the NBFI group are development finance institutions (DFIs) (which are mostly Government-owned and have been the traditional providers of long-term project loans), insurance companies, non-banking financial companies (NBFCs), primary dealers (PDs) and capital market intermediaries such as mutual funds.

6.2 As on March 31, 2008 there were four development finance institutions regulated by the Reserve Bank, *viz.*, EXIM Bank, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI). During 2007-08, two institutions, *viz.*, IFCI Ltd. and Tourism Finance Corporation of India (TFCI) Ltd, which are registered as NBFCs with the Reserve Bank and were earlier exempted from NBFC regulations and as such were being regulated as FIs, were restored to NBFC regulations. During 2007-08, the Reserve Bank continued with the regulatory initiatives to further strengthen the FIs. While financial assistance sanctioned by FIs accelerated sharply during 2007-08, the disbursements witnessed a modest deceleration. Concomitantly, their balance sheets also expanded at a significantly higher rate. Though the net interest income as well as non-interest income witnessed a sharp growth, the sharp rise in operating expenses resulted in lower operating profits for the FIs. Asset quality of FIs remained satisfactory during the year. The capital adequacy ratio, in general, continued to be significantly higher than the minimum prescribed.

6.3 Until some years back, the prudential norms applicable to banking and non-banking financial companies (NBFCs) were not uniform. Even within the NBFC group, the deposit taking NBFCs (NBFCs-D) were subjected to more stringent norms as compared with non-deposit taking NBFCs (NBFCs-ND). In recent years however, with a view to leveling the playing field as also reducing the systemic risk in their operations, the Reserve Bank has initiated steps to reduce the scope of ‘regulatory arbitrage’ between banks, NBFCs-D and NBFCs-ND.

6.4 The NBFCs-ND have inter-linkages with financial markets, banks and other financial institutions. They have witnessed substantial growth in number, product variety and size in recent years. In order to address the systemic concerns arising from minimal regulation in the case of non-deposit taking NBFCs, NBFCs-ND with asset size of Rs.100 crore and above have been classified as systemically important NBFCs (NBFCs-ND-SI) and these are now being subjected to limited regulations. A system of monthly reporting on important parameters such as capital market exposure has been introduced. A system of asset-liability management (ALM) reporting and additional disclosures in the balance sheet was also introduced. With a view to further strengthening their resilience, their CRAR has been enhanced to 12 per cent to be reached by March 31, 2009 and further to 15 per cent by March 31, 2010. In order to address the issue of their funding requirements, NBFCs-ND-SI have been permitted to augment their capital funds by issuance of perpetual debt instruments (PDI) in rupees, subject to certain conditions. In October 2008, the issue of transient liquidity strain being faced by NBFCs-ND-SI was addressed and as a temporary measure, they were also permitted to raise short-term foreign currency borrowings, under the approval route, subject to certain conditions. On November 1, 2008, the facility of liquidity support, which was earlier introduced for mutual funds, was extended to NBFCs also and banks were allowed to avail liquidity support under the liquidity adjustment facility (LAF) through relaxation in the maintenance of statutory liquidity ratio (SLR) to the extent of up to 1.5 per cent of their net deposit and time liabilities (NDTL). On November 15, 2008, the Reserve Bank announced that this special term repo facility would continue till end-March 2009.

6.5 The assets/liabilities of NBFCs (excluding residuary non-banking companies (RNBCs)) expanded at a much higher rate during 2007-08 as compared with that during 2006-07. Financial performance of NBFCs continued to improve during 2007-08. Both fund-based income (79.8 per cent) and fee-based income (56.6 per cent) increased sharply. As a result, notwithstanding the rise in expenditure, the operating profits and net profits also witnessed a sharp rise.

6.6 In order to strengthen the market infrastructure of the Government securities market and make it vibrant, liquid and broad-based, the primary dealers (PDs) system in the Government securities market was introduced by Reserve Bank in 1995. The PD system has developed substantially over the years and presently it serves as an effective conduit for conducting open market operations. Of the 19 PDs in existence at present, nine PDs are stand-alone non-bank entities. Lehman Brothers Fixed Income Securities Private Limited (LBFISL), was authorised to undertake PD business with effect from November 1, 2007. However, following the filing of a petition under Chapter 11 of the US Bankruptcy code by Lehman Brothers Holdings Inc., LBFISL was advised by the Reserve Bank not to declare any interim dividend or remit any amount to its holding company or any other group company without prior approval. Further, they have been advised not to undertake transactions in Government securities as a PD in the primary market.

6.7 The Primary Dealer (PD) system continued to play a significant role in the government securities market during the year 2007-08. Income earned by PDs declined by 33 per cent during 2007-08, mainly due to restructuring of business by PDs. Concomitantly however, their expenditure also declined sharply. The net profit declined by 16 per cent during the year. However, the CRAR of stand-alone PDs remained above the minimum requirement of 15 per cent.

6.8 The present chapter is organised into four sections. The regulatory and supervisory initiatives, business operations and financial performance of financial institutions are set out in Section 2. Section 3 focuses on the policy developments and the financial performance of NBFCs. The final section of the Chapter deals with the policy developments relating to primary dealers and their operations.

2. Financial Institutions

6.9 A wide range of financial institutions (FIs) have evolved in the Indian financial sector over the years, with a view to meeting the medium to long-term funding requirements of the different sectors of the economy. Based on the major activity undertaken by them, FIs are classified into three broad categories. First, there exist the term-lending institutions *viz.*, EXIM Bank, whose main activity is direct lending by way of term loans and investments. Second, there are refinance institutions such as National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB), which mainly 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 of 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.

6.10 Two FIs, *viz.*, IFCI Ltd. and TFCI Ltd., were registered as NBFCs with the Reserve Bank. However, they were earlier exempted from NBFC regulations and as such were being regulated as FIs. The IFCI Ltd. with effect from August 2007 and the TFCI Ltd. with effect from November 2007 are again being treated as NBFCs and are subject to NBFC regulations. Among others, Industrial Investment Bank of India (IIBI) is in the process of voluntary winding up in view of its very poor financial position. As on March 31, 2008, there were four institutions, *viz.*, EXIM Bank, NABARD, NHB and SIDBI which were under full-fledged regulation and supervision of the Reserve Bank.

Regulatory Initiatives for Financial Institutions

6.11 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 2007-08.

Exposure of SIDBI to SFCs

6.12 A sizeable portion of exposure of SIDBI is by way of refinance to SFCs. In view of the poor financial health of SFCs, which is likely to have spillover effect on the financial health of SIDBI, measures were taken to strengthen the regulatory focus of SIDBI over SFCs and the risk management guidelines, particularly, with regard to its exposure to SFCs. The risk weight in respect of SIDBI's exposure to SFCs was raised from 100 per cent to 125 per cent. SIDBI was instructed to make full provisions in respect of SFCs that had defaulted even after restructuring/extension of one-time settlement (OTS) package. SIDBI was also instructed not to sanction refinance to SFCs that continued to show negative net worth. However, on a review, based on the information received from the Government of India that four State Governments had committed to provide funds to the SFCs in their jurisdiction in a time bound manner to make the net worth of the concerned SFCs positive, it was decided that SIDBI could provide refinance to those SFCs, as long as the concerned State Governments kept their commitments. Furthermore, SIDBI was advised to follow the norms applicable to banks in asset classification and provisioning in respect of its exposure to SFCs (it involved a change to "borrower-wise" classification from that of "facility-wise" classification applicable to FIs). SIDBI was also advised to ensure that all SFCs follow uniform accounting standards similar to those followed by banks.

Valuation of non-SLR securities issued by the Government of India

6.13 The Government of India has, from time to time, issued several special securities which do not qualify for meeting the SLR requirements of banks. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread. At present, such special securities comprise of oil bonds, fertiliser bonds, bonds issued to the erstwhile Unit Trust of India, IFCI Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation. Currently, the guidelines issued by Fixed Income Money Market and Derivatives Association of India (FIMMDA) regarding the valuation of such non-SLR/Debt securities provide that such securities be valued by applying a mark-up of 50 basis points (bps) above the corresponding yield on Government of India securities. The issue of valuation of such special securities was reexamined and in June 2008 FIs were advised that, for the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities from the financial year 2008–09.

Prudential guidelines on capital adequacy

6.14 The method of calculation of Tier I capital by financial institutions was reviewed in the light of the international best practices and FIs were advised that while complying with the capital adequacy norms, the deferred tax assets (DTA) associated with accumulated losses and the DTA (excluding DTA associated with accumulated losses), net of deferred tax liabilities (DTL) should be deducted from Tier I. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against DTA associated with accumulated losses nor added to Tier I capital.

Refinance Facility to SIDBI and NHB

615 With a view to enhancing credit delivery to the employment intensive micro and small enterprises (MSE) sector, it was decided on December 6, 2008 to provide refinance of Rs.7,000 crore to SIDBI. Similar refinance facility of Rs.4,000 crore for NHB is being worked out. (Refer Chapter II, Box II.2 for details).

Operations of Financial Institutions

6.16 Financial assistance sanctioned by FIs accelerated sharply during 2007-08 as against the deceleration witnessed during the previous year. The acceleration in sanctions was accounted for mainly by investment institutions (especially LIC). Notwithstanding the acceleration in sanctions, the disbursements slowed down during the year, especially by LIC (Table VI.1 and Appendix Table VI.1).

6.17 On balance thus, even though, both financial assistance sanctioned and disbursed by FIs increased during 2007-08, the increase

Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in Rs. crore)

Category	Amount				Percentage Variation	
	2006-07		2007-08		2007-08	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-lending Institutions*	11,102	10,225	16,181	15,098	45.7	47.6
(ii) Specialised Financial Institutions#	..	..	..	..	..	..
(iii) Investment Institutions@	18,862	27,757	39,617	28,414	110.0	2.4
Total Assistance by FIs (i+ii+iii)	**29,964**	**37,982**	**55,798**	**43,512**	**86.2**	**14.6**

S : Sanctions. D : Disbursements.
* : Relating to SIDBI and IIBI. # : Relating to IVCF and ICICI Venture.
@ : Relating to LIC and GIC & erstwhile subsidiaries (NIA,UIIC & OIC).
.. : Not available.
Note : All data are provisional.
Data for 2006-07 has been recalculated to exclude IFCI Ltd. and TFCI Ltd. as they are being regulated as NBFCs as on March 31, 2008.
Source: Respective Financial Institutions.

was more pronounced in respect of sanctions (86.2 per cent) than the disbursements (14.6 per cent) (Chart VI.1).

Assets and Liabilities of FIs

6.18 The combined balance sheets of select FIs (NABARD, NHB, SIDBI and EXIM Bank) during 2007-08 expanded sharply by 19.5 per cent. On the liabilities side, the resources raised by way of bonds and debentures (which form a major constituent with a share of 32.5 per cent in the total liabilities) declined by 3.5 per cent during 2007-08. However, deposits and borrowings recorded a sharp increase of 54.1 per cent and 56.7 per cent, respectively. On the assets side, loans and advances continued to expand, while the investment portfolio continued to decline (9.3 per cent). Cash and bank balances as well as other assets, registered a sharp turnaround during the year (Table VI.2).

Resources Mobilised by FIs

6.19 Resources raised by FIs during 2007-08 were considerably higher than those during the previous year. While the long-term resources raised witnessed a sharp rise during 2007-08 as compared with that a year ago, the short-term resources raised declined. Resources raised in foreign currency increased significantly. EXIM Bank mobilised the largest amount of resources, followed by NABARD and NHB (Table VI.3 and Appendix Table VI.2).

6.20 Resources raised by FIs from the money market during 2007-08 were higher than those raised during 2006-07. FIs, utilised 22.9 per cent of the umbrella limit sanctioned to them; the utilisation was 17.3 per cent during the previous year (Table VI.4).

Chart VI.1: Financial Assistance by AIFIs

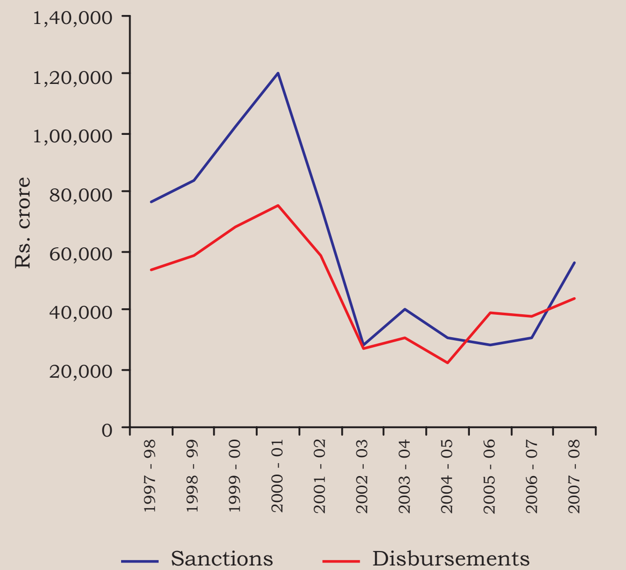


Table VI.2: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Item	Amount 2007	Amount 2008	Percentage Variation 2007-08
1	2	3	4
Liabilities			
1. Capital	3,899.99 (2.6)	3,999.99 (2.3)	2.6
2. Reserves	15,852.37 (10.7)	17,137.23 (9.6)	8.1
3. Bonds and Debentures	59,860.85 (40.2)	57,741.16 (32.5)	-3.5
4. Deposits	21,997.58 (14.8)	33,907.70 (19.1)	54.1
5. Borrowings	21,510.72 (14.5)	33,716.10 (19.0)	56.7
6. Other Liabilities	25,665.40 (17.3)	31,262.82 (17.6)	21.8
Total Liabilities /Assets	**1,48,786.91 (100.0)**	**1,77,765.00 (100.0)**	**19.5**
Assets			
1. Cash and Bank Balance	8,831.85 (5.9)	13,796.47 (7.8)	56.2
2. Investments	7,035.25 (4.7)	6383.30 (3.6)	-9.3
3. Loans and Advances	1,25,194.91 (84.1)	1,47,008.43 (82.7)	17.4
4. Bills Discounted/ Rediscounted	1,916.41 (1.3)	2,043.82 (1.2)	6.7
5. Fixed Assets	529.64 (0.4)	539.51 (0.3)	1.9
6. Other Assets	5,278.85 (3.6)	7,993.47 (4.5)	51.4

Notes : 1. Data pertain to four FIs, *viz.*, NABARD, NHB, SIDBI and EXIM Bank. IIBI Ltd. was under voluntary winding up as on March 31, 2008. Data for 2007 has been recalculated to exclude IFCI Ltd. and TFCI Ltd. as they are being regulated as NBFCs as on March 31, 2008.
2. Figures in parentheses are percentages to total liabilities/assets.

Source : Balance sheets of respective FIs. Unaudited Off-site returns for NHB.

Table VI.3: Resources Mobilised by Financial Institutions

(Amount in Rs. crore)

Institutions	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-Term		Short-Term		Foreign Currency		Total			
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2007	2008
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	3,212	6,825	3,249	2,180	4,159	5,553	10,620	14,558	21,662	29,326
NABARD	10,899	12,198	-	1,422	-	-	10,899	13,620	31,260	32,630
NHB	4,781	3,100	3,079	2,421	-	-	7,860	5,521	19,003	17,313
SIDBI	572	4,531	1,,274	461	331	92	2,176	5,084	10,928	14,665
Total	**19,464**	**26,654**	**7,602**	**6,484**	**4,490**	**5,645**	**31,555**	**38,783**	**82,853**	**93,934**

- : Nil/Negligible

Notes : Long-term rupee resources comprise of borrowings by way of bonds/debentures; and short-term resources comprise of CPs, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise of largely bonds and borrowings in the international market.

Source : Respective FIs.

Sources and Uses of Funds

6.21 Total sources/deployment of funds of FIs increased sharply by 32.2 per cent to Rs.2,13,954 crore during 2007-08. In continuation of the pattern witnessed last year, major part of the funds of FIs were raised externally (51.7 per cent) followed by internal sources (47.2 per cent). 'Other sources' formed only a marginal part of funds of FIs. A large part of the funds raised were used for fresh deployments (58.7 per cent) during 2007-08. The repayment of past borrowing, which constituted 32.3 per cent of the total deployment of funds, also registered a sharp rise. Other deployments, including interest payments, too increased sharply during the year (Table VI.5 and Appendix Table VI.3).

Cost and Maturity of Borrowings

6.22 The weighted average cost of rupee resources raised by financial institutions increased substantially during 2007-08, reflecting the general hardening of interest rates in the domestic market (Table VI.6 and Appendix Table VI.4). The weighted average maturity of long-term resources raised by other all-India financial institutions, barring NHB, decreased.

Table VI.4: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instruments	2005-06	2006-07	2007-08
1	2	3	4
A. Total	**1,977**	**3,293**	**4,458**
i) Term Deposits	44	89	508
ii) Term Money	-	-	250
iii) Inter-corporate Deposits	-	-	-
iv) Certificates of Deposit	2	663	2,286
v) Commercial Paper	1,931	2,540	1,414
Memo:			
B. Umbrella Limit	**15,157**	**19,001**	**19,500**
C. Utilisation of Umbrella limit (A as percentage of B)	**13.1**	**17.3**	**22.9**

- : Nil/Negligible.

Note : Figures may not add up due to rounding off.

Source : Fortnightly return of resource mobilised by FIs.

Lending Interest Rates

6.23 While NHB and SIDBI maintained their Prime Lending Rates (PLR), EXIM Bank raised its PLR during the year (Table VI.7).

Table VI.5: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Item	2006-07	2007-08	Percentage Variation 2007-08
1	2	3	4
A) Sources of Funds (i+ii+iii)	**1,61,803 (100.0)**	**2,13,954 (100.0)**	**32.2**
(i) Internal	67,646 (41.8)	1,00,944 (47.2)	49.2
(ii) External	86,860 (53.7)	1,10,604 (51.7)	27.3
(iii) Others@	7,295 (4.5)	2,406 (1.1)	-67.0
B) Deployment of Funds (i+ii+iii)	**1,61,803** (100.0)	**2,13,954** (100.0)	**32.2**
(i) Fresh Deployments	95,221 (58.8)	1,25,522 (58.7)	31.8
(ii) Repayment of past Borrowings	55,482 (34.3)	69,096 (32.3)	24.5
(iii) Other Deployments	11,101 (6.9)	19,333 (9.0)	74.2
of which : Interest Payments	4,801 (3.0)	6,916 (3.2)	44.1

* : Data pertain to EXIM Bank, NABARD, NHB and SIDBI.

@ : Includes cash and balances with banks, balances with the Reserve Bank and other banks.

Note : Figures in parentheses are percentages to the totals.

Source : Respective FIs.

Table VI.6: Weighted Average Cost and Maturity of Rupee Resources Raised by Select Financial Instituions

Institutions	Weighted Average Cost (per cent)		Weighted Average Maturity (years)	
	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5
EXIM Bank	7.8	8.2	3.7	3.0
SIDBI	6.9	8.2	6.5	1.0
NABARD	8.7	9.5	5.0	4.0
NHB	7.4	7.7	2.4	2.8

- : Nil/Negligible.
Note : Data are provisional.
Source : Respective FIs.

Financial Performance of Financial Institutions

6.24 Net interest income of FIs increased by 19.7 per cent to Rs.2,642 crore during 2007-08 from Rs.2,208 crore during 2006-07. In line with the trend in the previous years, non-interest income of FIs increased significantly by 71.8 per cent during the year. However, in contrast with the decline in the previous year, the operating expenses of FIs registered a sharp rise of 46.6 per cent during the year, even though the wage bill declined substantially by 32.7 per cent. The operating profit recorded an increase of 30.1 per cent during the year. The net profit of FIs also increased, even though provision for taxation declined (Table VI.8).

Table VI.7: Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	NHB	EXIM Bank	SIDBI
1	2	3	4
March 2007	10.5	12.5	12.0
March 2008	10.5	13.5	12.0

Source : Respective FIs.

Table VI.8: Financial Performance of Financial Institutions*

(Amount in Rs. crore)

Item	2006-07	2007-08	Variation 2007-08	
			Amount	Percentage
1	2	3	4	5
A) Income (a+b)	**9,073**	**11,541**	**2,467**	**27.2**
a) Interest Income	8,138	9,934	1,796	22.1
	(89.7)	(86.1)		
b) Non-Interest Income	935	1607	671	71.8
	(10.3)	(13.9)		
B) Expenditure (a+b)	**6,895**	**8,707**	**1,812**	**26.3**
a) Interest Expenditure	5,930	7,292	1,362	23.0
	(86.0)	(83.8)		
b) Operating Expenses	965	1414	450	46.6
	(14.0)	(16.2)		
of which : Wage Bill	425	286	-139	-32.7
C) Provisions for Taxation	**632**	**936**	**304**	**48.1**
D) Profit				
Operating Profit (PBT)	2,178	2,834	656	30.1
Net Profit (PAT)	1,546	1,898	352	22.7
E) Financial Ratios@				
Operating Profit (PBT)	1.5	1.6		
Net Profit (PAT)	1.0	1.0		
Income	6.0	6.5		
Interest Income	5.5	5.6		
Other Income	0.6	0.9		
Expenditure	4.6	4.9		
Interest expenditure	4.0	4.1		
Other Operating Expenses	0.6	0.8		
Wage Bill	0.3	0.2		
Provisions	0.4	0.5		
Spread (Net Interest Income)	1.5	1.5		

* : Data pertain to four FIs, *viz.*, NABARD, NHB, SIDBI and EXIM Bank. IIBI Ltd. was under voluntary winding up as on March 31, 2008. Data for 2007 has been recalculated to exclude IFCI Ltd. and TFCI Ltd. as they are being regulated as NBFCs as on March 31, 2008.
@ : As percentage of total assets.
Note : Figures in parentheses are percentage shares to the respective total.
Source : Annual Accounts of respective FIs, unaudited off-site returns for NHB.

6.25 Interest income as a percentage of working funds declined for NABARD, while it increased for other FIs. The non-interest income as a percentage of working funds increased for all the FIs. Operating profit as a percentage of working funds improved for all FIs except SIDBI. Return on average assets declined for all the FIs, except NHB. The return on average assets was highest for SIDBI followed by NABARD, EXIM Bank and NHB. Net profit per employee was more than Rs.1 crore in case of EXIM Bank during 2007-08 (Table VI.9).

Soundness Indicators

Asset Quality

6.26 In absolute terms, net NPAs of EXIM Bank and NABARD declined during 2007-08, while that of SIDBI increased sharply (Table VI.10). In terms of net NPA to net loans ratio, the asset quality of EXIM Bank improved sharply, while that of NABARD improved marginally. Although the net NPAs to net loans ratio increased in respect of SIDBI at end-March 2008 as compared with end-March 2007, the ratio was quite low otherwise. Significantly, in continuation of the trend witnessed during last few years, NHB did not have any NPAs.

Table VI.10: Net Non-Performing Assets of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Institutions	Net NPAs		Net NPAs/Net Loans (per cent)	
	2007	2008	2007	2008
1	2	3	4	5
EXIM Bank	115	83	0.50	0.29
NABARD	23	19	0.03	0.02
NHB*	-	-	-	-
SIDBI	22	49	0.15	0.25

- : Nil/Negligible.
* : Position as at end-June.
Source: Annual Accounts of respective FIs, unaudited off-site returns for NHB.

6.27 Reflecting the improvement in asset quality, NPAs in the sub-standard and doubtful category of all FIs constituted a very small share. Also none of the FIs had any assets in the 'loss' category (Table VI.11).

Capital Adequacy

6.28 The capital adequacy ratio of all the FIs continued to be significantly higher than the minimum stipulated norm of 9 per cent (Table VI.12). The CRAR of SIDBI increased significantly to 41.8 per cent at end-March 2008 as compared with 37.5 per cent at end-March 2007. The CRAR of NHB also improved marginally, while that of EXIM Bank and NABARD declined marginally during the year.

Table VI.9: Select Financial Parameters of Financial Institutions
(As at end-March)

(Per cent)

Institutions	Interest Income/ Average Working Fund		Non-Interest Income/Average Working Fund		Operating Profit/Average Working Fund		Return on Average Assets		Net Profit per employee (Rs. crore)	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	8.1	8.2	0.5	1.3	1.7	2.5	1.3	1.1	1.4	1.5
NABARD	6.8	6.1	-0.2	0.1	1.8	2.0	1.6	1.4	0.2	0.3
NHB*	6.8	7.3	0.1	0.3	0.9	1.0	0.5	0.6	..	..
SIDBI	7.1	8.5	0.4	0.7	3.8	3.1	2.2	1.6	0.4	0.2

.. : Not Available.
* : Position as at end-June.
Source : Balance sheet of respective FIs, unaudited off-site returns for NHB.

Table VI.11: Asset Classification of Financial Institutions

(Amount in Rs. crore)

Institutions	At end-March							
	Standard		Sub-Standard		Doubtful		Loss	
	2007	2008	2007	2008	2007	2008	2007	2008
1	2	3	4	5	6	7	8	9
EXIM Bank	22,772	28,728	108	41	7	42	-	-
	(99.5)	(99.7)	(0.5)	(0.1)	(0.03)	(0.1)		
NABARD	69,485	82,853	18	2	5	17	-	-
	(99.96)	(99.96)	(0.03)	(0.002)	(0.01)	(0.02)		
NHB*	18,917	18,917	-	-	-	-	-	-
	(100.0)	(100.0)						
SIDBI	15,123	19,927	17	24	5	25	-	-
	(99.87)	(99.80)	(0.1)	(0.1)	(0.03)	(0.1)		
All FIs	**1,26,297**	**1,50,425**	**143**	**67**	**17**	**84**	**-**	**-**

- : Nil/Negligible.

* : Position as at end-June.

Note : Figures in parentheses represent percentage share in the respective totals of each institution.
Figures may not add up due to rounding off.

Source: Annual Accounts of respective FIs, unaudited off-site returns for NHB.

3. Non-Banking Financial Companies

6.29 The non-banking financial companies (NBFCs) flourished in India in the decade of the 1980s against the backdrop of a highly regulated banking sector. While the simplified sanction procedures and low entry barriers encouraged the entry of a host of NBFCs, factors like flexibility, timeliness in meeting credit needs and low operating cost provided the NBFCs with an edge over the banking sector. The flourishing NBFC sector, however, also raised some regulatory concerns. An amendment to the Reserve Bank of India Act, 1934 was, therefore, carried out in 1997, which authorised the Reserve Bank to determine policies, and issue directions to NBFCs regarding income recognition, accounting standards, NPAs, capital adequacy, *etc.* The amended Act, *inter alia*, provided for compulsory registration of all NBFCs into three broad categories, *viz.*, (i) NBFCs accepting public deposit; (ii) NBFCs not accepting/holding public deposit; and (iii) core investment companies (*i.e.*, those acquiring shares/securities of their group/holding/subsidiary companies to the extent of not less than 90 per cent of total assets and which do not accept public deposit).

6.30 This section begins with an account of the regulatory and supervisory initiatives for the NBFC sector undertaken by the Reserve Bank during the year, followed by an analysis

Table VI.12: Capital Adequacy Ratio of Select Financial Institutions*

(Per cent)

Institutions	As at end-March							
	2001	2002	2003	2004	2005	2006	2007	2008
1	2	3	4	5	6	7	8	9
EXIM Bank	23.8	33.1	26.9	23.5	21.6	18.4	16.4	15.1
NABARD	38.5	36.9	39.1	39.4	38.8	34.4	27.0	26.6
NHB@	16.8	22.1	27.9	30.5	22.5	22.3	21.7	24.7
SIDBI	28.1	45.0	44.0	51.6	50.7	43.2	37.5	41.8

* : Net of provisioning and write offs.

@ : Position as at end-June.

Source : Annual Accounts of respective FIs, unaudited off-site returns for NHB.

of the operations of NBFCs and RNBCs which are dealt with separately in view of their diverse nature. Considering the evolving regulatory initiatives for NBFCs not accepting public deposits but having asset size of Rs.100 crore and above (NBFCs-ND-SI) and considering the systemic implications of their operations, a separate section has been devoted for an analysis of their operations.

Regulatory and Supervisory Initiatives

6.31 Until some years back, the prudential norms applicable to banking and non-banking financial companies were not uniform. Moreover, within the NBFC group, the prudential norms applicable to deposit taking NBFCs (NBFCs-D) were more stringent than those for non-deposit taking NBFCs (NBFCs-ND). Since the NBFCs-ND were not subjected to any exposure norms, they could take large exposures. The absence of capital adequacy requirements resulted in high leverage by the NBFCs. Since 2000 however, the Reserve Bank has initiated measures to reduce the scope of 'regulatory arbitrage' between banks, NBFCs-D and NBFCs-ND (Box VI.1).

Advertisement in Electronic Media

6.32 On April 4, 2007, NBFCs were advised that it is possible that the advertisement released by NBFCs accepting deposits purely for promoting their business may attract deposits. Therefore, in order to ensure transparency in the interest of depositors in the context of such advertisements, a provision was incorporated in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, in terms of which companies are required to state that they have a valid Certificate of Registration issued by the Reserve Bank. 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.

Amendments to NBFC Regulations - Ceiling on Rate of Interest

6.33 The maximum interest rate payable on public deposits by NBFCs was revised to 12.5 per cent per annum on and from April 24, 2007. It was also clarified that this was the maximum permissible rate an NBFC can pay on its public deposits and they may 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).

Unsolicited Commercial Communications-National Do Not Call Registry

6.34 With a view to protecting the right to privacy of the members of public and to curb the complaints relating to unsolicited commercial communications being received by customers/non-customers, the Telecom Regulatory Authority of India (TRAI) framed the Telecom Unsolicited Commercial Communications (UCC) Regulations for curbing UCC. Further, the Department of Telecommunications (DoT) has issued relevant guidelines for telemarketers alongwith the registration procedure on June 6, 2007. The Reserve Bank announced on November 26, 2007 that the instructions would be equally applicable to NBFCs and accordingly they have been advised: (i) not to engage telemarketers who do not have any valid registration certificate from DoT, Government of India, as telemarketers; (ii) to furnish the list of telemarketers engaged by them alongwith the registered telephone numbers being used by them for making telemarketing calls to TRAI; and (iii) to ensure that all agents presently engaged by them

Box VI.1: Change in Regulatory Focus in Respect of NBFCs

With a view to protecting the interests of depositors, the regulatory attention was mostly focused on NBFCs accepting public deposits (NBFS-D) until recently. Over the last few years however, this regulatory framework has undergone a significant change, with increasingly more attention now being paid to non-deposit taking NBFCs (NBFCs-ND) as well. This change was necessitated mainly on account of a significant increase in both the number and balance sheet size of NBFCs-ND segment which gave rise to systemic concerns. To address this issue, NBFCs-ND with asset size of Rs.100 crore and above were classified as systemically important NBFCs (NBFCs-ND-SI) and were subjected to 'limited regulations'. The NBFCs-ND-SI are now subject to CRAR and exposure norms prescribed by the Reserve Bank. Incidentally, the CRAR prescription for such companies has recently been raised to 12 per cent by March 31, 2009 and 15 per cent by March 31, 2010.

The changing regulatory policy also recognised that those activities of NBFCs which are asset creating must be given special consideration. Accordingly in December 2006, a re-classification of NBFCs was effected. In terms of the new classification, companies financing real/physical assets for productive/economic activity are classified as asset finance companies (AFC), subject to the fulfillment of certain norms. The prudential norms for AFCs vary from the norms for other NBFCs. The revised NBFC classification now comprises of AFCs, loan companies (LCs) and investment companies (ICs) instead of equipment leasing, hire purchase, loan companies and investment companies earlier.

Protection of Depositors' Interest

With a view to protecting the interests of the depositors further, the Reserve Bank initiated steps for creating a charge on the SLR securities in favour of the depositors. Accordingly, NBFCs accepting/holding public deposits were advised in January 2007 to create 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.

Furthermore, with a view to containing the systemic risk relating to NBFCs-D, measures were initiated to ensure that only financially sound NBFCs accept deposits. It was, therefore, prescribed in June 2008 that NBFCs having net owned funds (NOF) of less than Rs.200 lakh may freeze their deposits at the level then held by them. Asset Finance Companies (AFC) having minimum investment grade credit rating and CRAR of 12 per cent may bring down public deposits to a level that is 1.5 times their NOF, while all other companies may bring down their public deposits to a level equal to their NOF by March 31, 2009.

Development in Respect of Residuary Non-Banking Companies (RNBCs)

The issues relating to RNBCs, which have raised substantial deposits from public in the last few years and thus have acquired highly leveraged positions, are being addressed under the provisions of the RBI Act. In fact, two of the three RNBCs holding almost 99.9 per cent of the deposits of the RNBC segment have agreed to migrate to another business model and the companies would reduce their deposit to nil by the year 2015. The third company, with miniscule deposit, has been converted into a non-deposit taking NBFC.

Transparency in Operations of the NBFCs

Alongwith measures for enhancing the financial strength of NBFCs, initiatives to inculcate fair corporate governance practices and good treatment of customers were also undertaken. The Reserve Bank issued guidelines on Fair Practices Code for NBFCs in September 2006. NBFCs were advised to invariably furnish a copy of the loan agreement alongwith a copy each of all enclosures quoted in the loan agreement to all borrowers at the time of sanction/ disbursement of loans. Deposit – taking NBFCs with deposits of Rs 20 crore and above and NBFCs-ND-SI have been advised to frame internal guidelines on corporate governance which should include, *inter alia*, constitution of audit committee, nomination committee and risk management committee, among others. Certain disclosure and transparency practices have also been specified for them. NBFCs have been advised to lay down appropriate internal principles and procedures for determining interest rates and processing and other charges, even though interest rates are not regulated by the Reserve Bank. In order to ensure that only NBFCs which are actually engaged in the business of NBFI hold Certificate of Registration (CoR), it has been decided that all NBFCs should obtain and submit an annual certificate from their statutory auditors to the effect that they continue to undertake the business of NBFI to be eligible for holding of CoR.

Other Fee Based Services for Income Generation

To strengthen their financial viability, NBFCs were permitted in December 2006 to undertake fee based business to augment their income, subject to certain norms. The diversification businesses that may be permitted include, marketing and distribution of mutual fund products as agents of mutual funds and issuing co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Reserve Bank, for an initial period of two years and a review thereafter.

Foreign Direct Investment (FDI) in NBFC sector

In view of the interest evinced in FDI participation in the NBFC sector, regulatory measures have also been undertaken in respect of foreign direct investment (FDI) in the NBFCs sector. FDI under automatic route is permitted in respect of 18 NBFC activities, subject to prescribed minimum capitalisation norms. While allowing FDI in NBFCs, the Reserve Bank takes into consideration fit and proper criteria of directors, information about the overseas regulator of the companies bringing in the FDI into India and inter-regulatory views. Bank is monitoring minimum capitalisation norms as regards FDI with a view to ensuring that NBFC activities are limited to permissible activities.

Developmental Role - Mortgage Guarantee Companies (MGCs)

The Reserve Bank in February 2008 laid down guidelines for registration of MGCs. Prudential and investment guidelines applicable to MGCs were also evolved.

register themselves with DoT as telemarketers.

FIMMDA Reporting Platform for Corporate Bond Transactions

6.35 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. The FIMMDA platform has gone live with effect from September 1, 2007. All NBFCs were required to report their secondary market transactions in corporate bonds in the OTC market on FIMMDA's reporting platform with effect from September 1, 2007. Detailed operational guidelines in this regard were issued separately by FIMMDA.

Monitoring of Frauds in NBFCs

6.36 In March 2008 all deposit taking NBFCs (including RNBCs) were advised that the extant instructions with regard to monitoring of frauds were revised and as such cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' were to be reported as fraud if the intention to cheat/defraud was suspected/proved. However, in cases where fraudulent intention was not suspected/ proved at the time of detection but involve cash shortages of more than ten thousand rupees and cases where cash shortages more than five thousand rupees were detected by management/auditor/inspecting officer and not reported on the occurrence by the persons handling cash, then such cases may also be treated as fraud and reported accordingly.

Guidelines on Registration, Operations, Prudential Norms and Investment Directions for Mortgage Guarantee Companies

6.37 Mortgage Guarantee Companies were notified as NBFCs by the Reserve Bank with the prior approval of the Central Government on January 15, 2008 in exercise of the powers conferred under Section 45 I (f)(iii) of the Reserve Bank of India Act, 1934. The guidelines on registration, operations, prudential norms and investment directions applicable to these companies were placed on the Reserve Bank's website on February 15, 2008. According to these guidelines, a mortgage guarantee company was required to: (i) obtain a certificate of registration from the Reserve Bank before commencing business of mortgage guarantee; (ii) have a minimum net owned fund of Rs.100 crore at the time of commencement of business; (iii) have a diversified share holding; (iv) maintain minimum capital adequacy ratio of 10 per cent of which at least 6 per cent was to be Tier I capital; (v) not accept public deposits, not avail external commercial borrowings and adhere to prescribed prudential norms; (vi) create and maintain a contingency reserve by transfer of 40 per cent of the premium or fee earned or 25 per cent of the profit after provision or tax, whichever is higher; (vii) make good the guarantee liability without demur on the happening of trigger event[1]. Moreover, these companies were directed not to provide mortgage guarantee for a housing loan with 90 per cent and above loan to value (LTV) ratio.

6.38 Major features of the prudential norms for the mortgage guarantee companies are: (i) an asset acquired from creditor institution on the happening of the trigger event shall straightway be classified as non-performing asset; (ii) income on an asset taken over from creditor is required to be recognised only on a cash basis, other income would be recognised in accordance with directions applicable to non-deposit taking NBFCs; and (iii) the premium or fee on the mortgage guarantee contracts should be treated as income in the profit and loss account in accordance with the accounting standards issued by the Institute of Chartered Accountants of India.

[1] Trigger event is defined as the classification of the account of the borrower as non-performing asset in the books of the creditor institution.

6.39 The investment directions for mortgage guarantee companies are: (i) the company should frame a policy in line with the investment directions issued by the Reserve Bank; (ii) the company should invest only in government securities, securities of corporate bodies/public sector undertakings guaranteed by Government, fixed deposit/certificates of deposit/bonds of scheduled commercial banks/PFIs; listed and rated debentures/bonds of corporates; fully debt oriented mutual fund units; unquoted Government securities and Government guaranteed bonds; (iii) the company should hold not less than 25 per cent of the total investment portfolio in Central/State Government securities and the remaining investments with a ceiling of 25 per cent in any one of the above categories; and (iv) all investment should be marked to market.

NDS-OM: Extension of Indirect Access to Other Entities

6.40 When the Order Matching segment on the Negotiated Dealing System (NDS-OM) for trading in Government securities was launched in August 2005, direct access was granted only to banks and PDs. Subsequently, the access was extended to other NDS members such as insurance companies, mutual funds and large provident funds. To widen the reach of the NDS-OM, in May 2007, indirect access through the constituents' subsidiary general ledger (CSGL) route was extended to certain qualified entities, *viz.*, deposit-taking NBFCs, provident funds, pension funds, mutual funds, insurance companies, co-operative banks, RRBs and the trusts maintaining gilt accounts with NDS members. The indirect access was extended to the systemically important non-deposit taking NBFCs in November 2007. These entities could place orders on the NDS-OM through its direct members, *i.e.*, banks and PDs, using the CSGL route. Such trades get settled through the CSGL account and current account of the NDS-OM members. In May 2008, following the announcement made in the Annual Policy Statement for 2008-09, this indirect access was extended to other segments of investors such as other non-deposit taking NBFCs, corporates and FIIs.

Guidelines for Securitisation Companies (SCs) and Reconstruction Companies (RCs)

6.41 The SCs and RCs are special purpose vehicles established under the SARFAESI Act to securitise and reconstruct financial assets. The Reserve Bank evolved guidelines on various regulatory and supervisory issues relating to SCs and RCs (Box VI.2).

Treatment of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) for Computation of Capital

6.42 As creation of deferred tax assets (DTA) or DTL gives rise to certain issues impacting the balance sheet of the company, NBFCs were advised on July 31, 2008 regarding the regulatory treatment to be given to these issues. As per these guidelines, the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose as it is not an eligible item of capital. DTA will be treated as an intangible asset and should be deducted from Tier I capital. NBFCs were advised to ensure compliance with these guidelines from the accounting year ending March 31, 2009.

Prevention of Money Laundering Act, 2002 – Obligation of NBFCs

6.43 It was reiterated in August 2008 that NBFCs, as a part of transaction monitoring mechanism, are required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorisation and updated profile of customers. In the case of NBFCs, where all the branches are not yet fully computerised, the

Box VI.2: Guidance Notes for Securitisation Companies and Reconstruction Companies

'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act ' was enacted in June 2002, with a view to making adequate provisions for the recovery of loans and also to foreclose the security. In exercise of the powers conferred therein, the Reserve Bank framed guidelines and issued directions to SCs and RCs relating to their registration and other matters like acquisition of financial assets, prudential norms relating to income recognition, classification of assets, provisioning, accounting standards, capital adequacy, measures for asset reconstruction and deployment of funds. The aim of these guidelines was to ensure that the process of asset reconstruction proceeded on smooth and sound lines. These guidelines, which were first issued on April 23, 2003 have evolved over a period of time. In addition, the Reserve Bank has evolved guidance notes based on guidelines issued on various matters, the salient features of which are given below.

Acquisition of Financial Assets

Every SC or RC is required to evolve asset acquisition policy to ensure that the transactions take place in a transparent manner and at a fair price in a well informed market, and the transactions are executed at arm's length in exercise of due diligence. The share of financial assets to be acquired from the bank /FI should be appropriately and objectively worked out keeping in view the provision in the Act. For easy and faster realisability, all the financial assets due from a single debtor to various banks/FIs be considered for acquisition. Similarly, financial assets having linkages to the same collateral may be considered for acquisition to ensure relatively faster and easy realisation. Both fund and non-fund based financial assets may be included in the list of assets for acquisition. Standard assets in the books of originator likely to face distress prospectively may also be acquired. Acquisition of funded assets should not include takeover of outstanding commitments, if any, of any bank/ FI to lend further. Loans not backed by proper documentation should be avoided. The assets acquired by SC/RC should be transferred to the trusts set up by the SC /RC at the price at which these were acquired from the originator of the asset.

Issue of Security Receipts (SR)

Every SC/RC is required to issue the security receipts through the trust set up exclusively for the purpose. The trust should issue security receipts only to qualified institutional buyers and such security receipts should be transferable/assignable only in favour of other qualified institutional buyers. Every SC/RC intending to issue security receipts is required to make disclosures in the offer document as prescribed by the Reserve Bank from time to time.

Every SC or RC is required to invest in the security receipts issued by trusts set up for the purpose of securitisation, an amount not less than 5 per cent under each scheme. Every SC or RC is required to declare net asset value (NAV) of the security receipts issued by it at periodical interval to enable the qualified institutional buyers to value their investment in SRs. For arriving at NAV, the SRs are required to be rated on 'recovery rating scale' and the rating agencies are also required to disclose the rationale for rating.

Application of Prudential Norms

Every SC or RC is required to maintain, on an ongoing basis, a capital adequacy ratio of not less than 15 per cent of its total risk weighted assets. Every securitisation company or reconstruction company is also required to classify the assets as standard assets or non- performing assets after taking into account the period of delinquency and other weaknesses having a bearing on the realisability of the asset. A SC or RC is allowed to invest in equity of another SC or RC or may deploy its surplus funds only in Government securities or as deposits with scheduled commercial banks. No SC or RC is allowed to invest out of its minimum required owned funds in land and building.

Approval of Policy Documents by the Board of Directors

Every SC or RC is directed to frame policy guidelines with the approval of its Board of Directors on issues relating to asset acquisition, rescheduling of debt due from borrowers, settlement of debt payable by the borrowers, issue of security receipts and policy regarding deployment of surplus funds. The policy relating to acquisition of financial assets is required to be evolved within 90 days of grant of certificate of registration to securitisation company or reconstruction company.

Regulatory Reporting

Every SC or RC is required to submit quarterly statement, *viz.*, SCRC1 and SCRC 2 to the Reserve Bank covering information about, inter-alia, owned funds position, value of assets acquired, security receipts issued, and investment in security receipts by various qualified institutional buyers (QIBs), among others. Apart from this, SCs and RCs are required to furnish to the Reserve Bank a copy of the audited balance sheet along with directors/ auditors report within one month from the date of annual general meeting in which the audited accounts of the company are adopted.

Audit

The operations and activities of such companies are subjected to periodic audit and checks by internal/external agencies with a view to ensuring functioning of SCs or RCs on healthy lines.

Principal Officer of the NBFC should cull out the transaction details from branches which are not computerised and suitably arrange to feed the data into an electronic file with the help of the editable electronic utilities of cash transaction report (CTR) and suspicious transaction reports (STR) as have been made available by Financial Intelligence Unit-India (FIU-IND) on their website. It was further clarified that cash transaction reporting by branches/offices of NBFCs to their Principal Officer should invariably be submitted on a monthly basis and the Principal Officer, in turn, should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

Facility of Liquidity Support for NBFCs

6.44 On October 15, 2008 the Reserve Bank announced, purely as a temporary measure, that banks may avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds (MFs) to the extent of up to 0.5 per cent of their NDTL. Further, it was decided, on a purely temporary and *ad hoc* basis, subject to review, to extend this facility and allow banks to avail liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. This relaxation in SLR is to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs. Banks can apportion the total accommodation allowed above between MFs and NBFCs flexibly as per their business needs.

Policy Initiatives for NBFCs-ND-SI

6.45 The number, product variety and size of NBFCs-ND-SI have witnessed substantial growth in recent years and as a result the operations of these companies have increasingly assumed systemic implications. As a response to these developments, the 'minimal regulatory regime' that existed for these companies has been transformed into 'limited regulatory regime' by the Reserve Bank. In line with the growing focus on NBFCs-ND-SI in recent years, certain important policy initiatives were undertaken in 2007-08.

Guidelines on Capital Adequacy, Liquidity and Disclosure Norms for NBFC-ND-SI

6.46 The Reserve Bank reviewed the guidelines relating to NBFCs-ND-SI. In terms of the final guidelines, placed on the Reserve Bank's website on August 1, 2008, the minimum capital to risk-weighted assets ratio (CRAR) for each NBFC-ND-SI was raised from the existing 10 per cent to 12 per cent to be reached by March 31, 2009 and further to 15 per cent by March 31, 2010. The NBFCs-ND-SI are required to make additional disclosures relating to CRAR, exposure to the real estate sector and maturity pattern of assets and liabilities in their balance sheet from the year ending March 31, 2009. In view of the possibility of leveraged investments, and asset-liability mismatches resulting from use of short-term sources to fund NBFC activities, a system of reporting for NBFCs-ND-SI was introduced with effect from the period ended September 30, 2008. However, to enable the NBFCs to fine tune the system, the first return for the period ended September 2008 is required to be submitted by the first week of January 2009.

Issuance of Perpetual Debt Instruments

6.47 Taking into consideration the need for enhanced funds for increasing business and meeting regulatory requirements, NBFCs-ND-SI were permitted to augment their capital funds by issue of Perpetual Debt Instruments (PDI). PDIs may be issued in Indian rupees only and the aggregate amount to be raised by issue of such instruments has to be within the overall limits of Tier I and Tier II. The aggregate amount is allowed to be raised in tranches. However, the minimum investment by a single investor in each such issue/tranche has to be Rs 5 lakh. The PDI is eligible to be treated as Tier I capital up to 15 per cent of total Tier I capital as on March 31 of the previous year. The amount of PDI in excess of amount admissible as Tier I can qualify as Tier II capital, subject to certain conditions. The interest payable to the investors on PDI may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate. NBFCs-ND-SI can issue PDI as plain vanilla instruments only. However, NBFCs-ND-SI may issue PDI with a 'call option'.

Access to Short-Term Foreign Currency Borrowings

6.48 As a temporary measure, NBFCs-ND-SI were permitted to raise short- term foreign currency borrowings under the approval route, subject to certain conditions like eligibility of borrowers and lenders, end-use of funds, maturity, *etc.* The maximum amount should not exceed 50 per cent of the net owned funds (NOF) or USD 10 million (or its equivalent), whichever is higher. The all-in-cost ceiling has been fixed at not exceeding 6 months Libor + 200 bps. The borrowings should be fully swapped into rupees for the entire maturity.

Profile of NBFCs (including RNBCs)

6.49 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 12,968 at end-June 2007 to 12,809 at end-June 2008 (Table VI.13). The number of NBFCs-D declined from 401 at end-June 2007 to 364 at end-June 2008, mainly due to the exit of many NBFCs from deposit taking activity. The number of RNBCs declined to two at end-March 2008.

6.50 Of the 364 deposit-taking NBFCs, 335 NBFCs filed annual return for the year ended March 2008 by the cut-off date of September 30, 2008. Even though the public deposits declined by Rs.304 crore in 2007-08 over the previous year, partly reflecting the decline in number of reporting NBFCs, total assets increased significantly by Rs.23,019 crore (32.1 per cent), while net owned funds increased by Rs.3,974 crore (48.0 per cent) during the same period (Table VI.14). The rise in total assets and net owned funds reflected partly the restoration of IFCI Ltd. and TFCI Ltd. to the NBFC category. The share of public deposits held by RNBCs in the total deposits of all NBFCs remained constant at 91.6 per cent in 2007-08 as compared with 2006-07. However, the share of RNBCs in total assets of NBFCs declined to 25.8 per cent at end-March 2008 from 32.3 per cent at end-March 2007.

6.51 The ratio of deposits of reporting NBFCs to the aggregate deposits of scheduled commercial banks dropped to 0.73 per cent at end-March 2008 from 0.92 per cent at end-March 2007 mainly due to the decline in deposits of reporting NBFCs. The share of NBFC deposits in broad liquidity aggregate (L_3) also declined during the period (Chart VI.2).

Table VI.13: Number of NBFCs Registered with the Reserve Bank

End-June	Number of Registered NBFCs	NBFCs-D
1	2	3
1999	7,855	624
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710
2004	13,764	604
2005	13,261	507
2006	13,014	428
2007	12,968	401
2008	12,809	364

Table VI.14: Profile of NBFCs*

(Amount in Rs.crore)

Item	As at End-March			
	2007		2008 P	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5
Total Assets	71,725	23,172 (32.3)	94,744	24,452 (25.8)
Public Deposits	24,699	22,622 (91.6)	24,395	22,358 (91.6)
Net Owned Funds	8,287	1,366 (16.5)	12,261	1,714 (14.0)

P : Provisional

* : Of the 376 registered NBFCs as on March 31, 2008, 335 filed Annual Returns by the cut-off date of September 30, 2008.

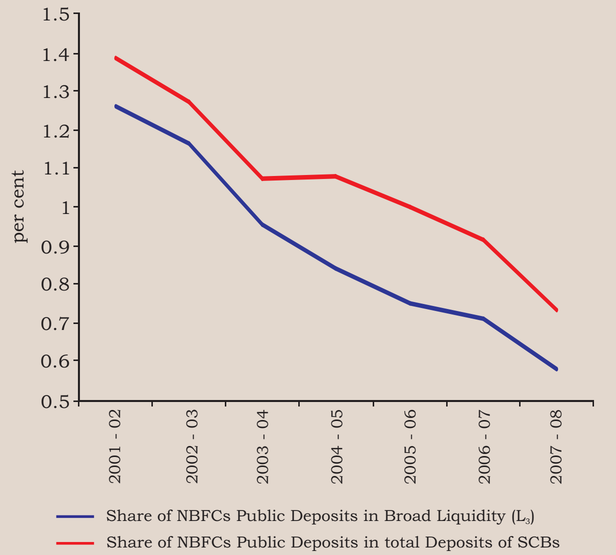
Note : 1) NBFCs comprise NBFCs-D and RNBCs.
2) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
3) Figures in parentheses are percentage shares in the respective total of NBFCs.

Source : Annual Returns.

Operations of NBFCs (excluding RNBCs)

6.52 Total assets/liabilities of NBFCs (excluding RNBCs) expanded at a much higher rate of 44.8 per cent during 2007-08 compared with 28.4 per cent during 2006-07 (Table VI.15). Borrowings, which is the major source of funds for NBFCs, increased by 55.3 per cent during the year, while public deposits declined by 1.9 per cent indicating the continuing shift in the pattern of resources raised. On the assets side, hire purchase assets witnessed a deceleration, while loans and advances witnessed a sharp rise during 2007-08. Total investments of NBFCs decelerated mainly due to deceleration in investments in approved securities. Other investments, which had declined during 2006-07, increased sharply by 33.1 per cent during 2007-08.

Chart VI.2: Share of Public Deposits of NBFCs in Broad Liquidity (L_3) and Total SCBs Deposits



6.53 Among NBFC groups, asset finance companies (AFCs) held the largest share in

Table VI:15 Consolidated Balance Sheet of NBFCs-D

(Amount in Rs. crore)

Item	As at End-March		Variations			
			2006-07		2007-08 P	
	2007	2008 P	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7
Liabilities						
1. Paid Up Capital	2,268 (4.7)	3,240 (4.6)	441	24.2	971	42.8
2. Reserves & Surplus	5,861 (12.1)	8,630 (12.3)	236	4.2	2,768	47.2
3. Public Deposit	2,077 (4.3)	2,038 (2.9)	-370	-15.1	-40	-1.9
4. Borrowings	32,452 (66.8)	50,384 (71.7)	7,510	30.1	17,932	55.3
5. Other Liabilities	5,895 (12.1)	6,001 (8.5)	2,908	97.3	107	1.8
Total Liabilities/Assets	**48,554**	**70,292**	**10,726**	**28.4**	**21,738**	**44.8**
Assets						
1. Investments	7,412 (15.3)	11,500 (16.4)	3,086	71.3	4,088	55.2
i) Approved Securities @	4,287	7,343	3,995	1368.3	3,055	71.3
ii) Other Investments	3,125	4,157	-909	-22.5	1,033	33.1
2. Loan & Advances	11,059 (22.8)	19,921 (28.3)	373	3.5	8,862	80.1
3. Hire Purchase Assets	26,222 (54.0)	32,842 (46.7)	6,214	31.1	6,619	25.2
4. Equipment Leasing Assets	1,365 (2.8)	1,100 (1.6)	-137	-9.1	-265	-19.4
5. Bill Business	7 (0.0)	10 (0.0)	-37	-83.1	3	39.8
6. Other Assets	2,488 (5.1)	4,919 (7.0)	1,227	97.3	2,430	97.7

P : Provisional.
@ : SLR Asset comprises 'Approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to total liabilities/assets.
Source : Annual Returns.

total assets/liabilities (64.1 per cent), followed by loan companies (27.5 per cent), hire purchase companies (7.5 per cent) and investment companies (0.6 per cent) (Table VI.16). The increase in assets / liabilities of AFCs was mainly on account of reclassification of NBFCs, which was initiated in December 2006 and the process of which is still continuing. On the other hand, the increase in assets / liabilities of loan companies was mainly on account of restoration of IFCI Ltd. and TFCI Ltd. from FIs category to the loan category of NBFCs. The share of equipment leasing companies declined to below 1 per cent subsequent upon the re-classification of NBFCs in 2006-07. The relative significance of various NBFC groups reflected largely the pattern of their borrowings as deposits constituted a small share (2.9 per cent) of their total liabilities. Of the total deposits held by all NBFCs, asset finance companies held the largest share in total deposits of NBFCs (56.7 per cent), followed distantly by hire purchase companies with a 26.2 per cent share and by loan companies with a share of 15.8 per cent (Table VI.16).

Deposits

Profile of Public Deposits of Different Categories of NBFCs

6.54 Continuing the trend of the previous year, public deposits held by all groups of NBFCs taken together, declined moderately during 2007-08. This trend is indicative of the shift in preference of NBFCs from public deposits to bank loans/ debentures. The decline in public deposits was mainly evident in the case of equipment leasing companies and hire purchase companies, mainly due to reclassification of some of these companies as asset finance companies. Concomitantly, deposits of asset finance companies increased by 522.4 per cent. The deposits of loan companies also increased by 174.3 per cent, mainly reflecting the inclusion of IFCI Ltd. and TFCI Ltd. in this category (Table VI.17).

Size-wise Classification of NBFCs Deposits

6.55 Deposits held by NBFCs ranged from less than Rs.0.5 crore to above Rs.50 crore (Table VI.18). The deposits held by NBFCs in all deposit-groups declined during 2007-08, except in the deposit-class 'more than Rs.2

Table VI.16: Major Components of Liabilities of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification of NBFCs	Liabilities		Deposits		Borrowings	
	2006-07	2007-08 P	2006-07	2007-08 P	2006-07	2007-08 P
1	2	3	4	5	6	7
Asset Finance	24,718	45,071	186	1,156	19,091	32,461
	(50.9)	(64.1)	(8.9)	(56.7)	(58.8)	(64.4)
Equipment Leasing	325	156	43	8	128	69
	(0.7)	(0.2)	(2.1)	(0.4)	(0.4)	(0.1)
Hire Purchase	17,376	5,302	1683	533	10,683	3,516
	(35.8)	(7.5)	(81.0)	(26.2)	(32.9)	(7.0)
Investment	1,633	402	45	19	133	358
	(3.4)	(0.6)	(2.2)	(0.9)	(0.4)	(0.7)
Loan	4,499	19,362	117	321	2,417	13,980
	(9.3)	(27.5)	(5.6)	(15.8)	(7.4)	(27.7)
MNBC	2	–	2	–	–	–
	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Total	**48,554**	**70,292**	**2,077**	**2,038**	**32,452**	**50,384**

– : Nil/Negligible. P : Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentage shares in respective total.

Source : Annual Returns.

Table VI.17: Public Deposits held by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March				Percentage Variations
	Number of NBFCs		Public Deposits		
	2007	2008 P	2007	2008 P	2007-08
1	2	3	4	5	6
Asset Finance	72	178	186 (8.9)	1,156 (56.7)	522.4
Equipment Leasing	28	14	43 (2.1)	8 (0.4)	-81.8
Hire Purchase	240	78	1,683 (81.0)	533 (26.2)	-68.3
Investment	3	1	45 (2.2)	19 (0.9)	-58.1
Loan	29	62	117 (5.6)	321 (15.8)	174.3
MNBC	1	–	2 (0.1)	– (0.0)	–
Total	**373**	**333**	**2,077**	**2,038**	**-1.9**

– : Nil/Negligible. P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

crore and up to Rs.10 crore' and 'Rs.50 crore and above'. Significantly, the share of the deposit class 'Rs.50 crore and above' in total deposits was 82 per cent, while that of other deposit classes combined together was only about 18 per cent of total public deposits of the NBFC sector.

Region-wise Composition of Deposits held by NBFCs

6.56 Following the trend of the previous year, deposits held by NBFCs across all the regions declined during 2007-08 (Table VI.19). As in the previous year, the southern region accounted for the largest share of

Table VI.18: Range of Deposits held by NBFCs-D

(Amount in Rs. crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of Deposit	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Less than Rs.0.5 crore	226	205	31 (1.5)	27 (1.3)
2. More than Rs.0.5 crore and up to Rs.2 crore	92	80	86 (4.1)	76 (3.7)
3. More than Rs.2 crore and up to Rs.10 crore	36	35	161 (7.7)	174 (8.5)
4. More than Rs.10 crore and up to Rs.20 crore	7	4	93 (4.5)	61 (3.0)
5. More than Rs.20 crore and up to Rs.50 crore	5	1	177 (8.5)	29 (1.4)
6. Rs.50 crore and above	7	8	1,529 (73.6)	1,671 (82.0)
Total	**373**	**333**	**2,077**	**2,038**

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Table VI.19: Public Deposits Held by NBFCs-D Region-wise

(Amount in Rs.crore)

Region	As at end-March			
	2007		2008 P	
	Number	Amount	Number	Amount
1	2	3	4	5
1. Central	59	27	51	23
		(1.3)		(1.1)
2. Eastern	9	28	8	16
		(1.3)		(0.8)
3. North-Eastern	1	0	0	0
		(0.0)		(0.0)
4. Northern	196	289	181	285
		(13.9)		(14.0)
5. Southern	85	1,647	70	1,630
		(79.3)		(80.0)
6. Western	23	86	23	84
		(4.2)		(4.1)
Total (1 to 6)	**373**	**2,077**	**333**	**2,038**
Memo				
Metropolitan cities:				
1. Kolkata	6	21	5	13
2. Chennai	47	1,541	36	1,564
3. Mumbai	10	78	10	76
4. New Delhi	68	219	64	205
Total (1 to 4)	**131**	**1,859**	**115**	**1,857**

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

deposits (80 per cent), followed by the northern region (14 per cent) and the western region (4.1 per cent). The presence of NBFCs in the north-eastern region continued to be nil during the year. Among the metropolitan cities, Chennai continued to hold the largest share of deposits, while New Delhi continued to account for the largest number of NBFCs.

Interest Rate on Public Deposits with NBFCs

6.57 The share of deposits contracted by NBFCs in the interest rates up to 10 per cent declined (from 88.5 per cent to 73.1 per cent), while those contracted in the bracket 'more than 10 per cent and up to 12 per cent' witnessed a sharp rise (from 9.7 per cent to 25.4 per cent), partly reflecting the hardening of interest rates during the year (Table VI.20).

Table VI.20: Distribution of Public Deposits of NBFCs-D According to Rate of Interest

(Amount in Rs.crore)

Deposit Interest Rate Range	As at end-March	
	2007	2008 P
1	2	3
Up to 10 per cent	1,839	1,489
	(88.5)	(73.1)
More than 10 per cent and up to 12 per cent	202	517
	(9.7)	(25.4)
12 per cent and above	36	32
	(1.7)	(1.5)
Total	**2,077**	**2,038**

P : Provisional.
Note : 1) Figures in respect of 2007-08 include ' IFCI Ltd' and ' TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Maturity Pattern of Public Deposits

6.58 Deposits with the maturity period of 'less than 1 year', 'more than 3 years and up to 5 years' and '5 years and above' declined during the year. Deposits in the maturity bucket of 'more than 1 years and up to 2 years' increased marginally, while deposits in the maturity bucket of ' more than 2 years and up to 3 years' increased significantly at end-March 2008. As a result, their share in total deposits increased (Table VI.21).

Borrowings by NBFCs

6.59 The outstanding borrowings by NBFCs increased by 55.3 per cent during 2007-08 (Table VI.22). Borrowings by equipment

Table VI.21: Maturity Pattern of Public Deposits Held by NBFCs-D

(Amount in Rs.crore)

Maturity Period	As at end-March	
	2007	2008 P
1	2	3
1. Less than 1 year	724	609
	(34.9)	(29.9)
2. More than 1 and up to 2 years	477	480
	(23.0)	(23.6)
3. More than 2 and up to 3 years	561	653
	(27.0)	(32.0)
4. More than 3 and up to 5 years	234	229
	(11.3)	(11.3)
5. 5 years and above	80	66
	(3.8)	(3.3)
Total	**2,077**	**2,038**

P : Provisional
Note:1)Figures in respect of 2007-08 include ' IFCI Ltd' and ' TFCI Ltd'
2)Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Table VI.22: Borrowings by NBFCs-D -Group-wise

(Amount in Rs.crore)

NBFC Classification	As at end-March				Percentage Variations
	Number of NBFCs		Total Borrowings		
	2007	2008 P	2007	2008 P	2007-08
1	2	3	4	5	6
Asset Finance	72	178	19,091 (58.8)	32,461 (64.4)	70.0
Equipment Leasing	28	14	128 (0.4)	69 (0.1)	-46.3
Hire Purchase	240	78	10,683 (32.9)	3,516 (7.0)	-67.1
Investment Company	3	1	133 (0.4)	358 (0.7)	168.9
Loan Company	29	62	2,417 (7.4)	13,980 (27.7)	478.3
MNBC	1	0	-	-	-
Total	**373**	**333**	**32,452**	**50,384**	**55.3**

P : Provisional

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'

2) Figures in parentheses are percentages to respective totals.

Source: Annual Returns.

leasing and hire purchase companies declined, while those by loan companies, investment companies and asset finance companies increased during the year partly reflecting the reclassification of NBFCs. AFCs continued to hold the largest share (64.4 per cent) of borrowings of all NBFCs, followed by loan companies (27.7 per cent).

6.60 Borrowings by NBFCs from banks and financial institutions and by way of bonds and debentures and 'other sources' (which include miscellaneous factors including *inter alia*, money borrowed from other companies, unsecured loans from directors/ promoters, commercial paper, borrowings from mutual funds and any other type of funds which are not treated as public deposits), increased sharply during 2007-08. This broadly reflected the pattern of borrowings of asset finance companies (Table VI.23). Significantly, the borrowing from Government, which was nil during 2006-07, increased sharply to Rs.2,319 crore during 2007-08 largely due to inclusion of IFCI Ltd. and TFCI Ltd. in this category.

Table VI.23: Sources of Borrowings by NBFCs-D - Group wise

(Amount in Rs. crore)

NBFC Classification	As at end-March									
	Government		External Sources @		Banks and Financial Institutions		Debentures		Others	
	2007	2008 P	2007	2008 P	2007	2008 P	2007	2008 P	2007	2008 P
1	2	3	4	5	6	7	8	9	10	11
Asset Finance	0	0	975	828 (-15.2)	9,148	16,329 (78.5)	5,808	10,216 (75.9)	3159	5,088 (61.1)
Equipment Leasing	0	0	0	0	39	2 (-95.5)	0	0	89	67 (-24.7)
Hire Purchase	0	0	225	0	4,295	501 (-88.3)	1,950	3 (-99.9)	4212	3,012 (-28.5)
Investment	0	72	0	0	0	82	7	0	126	204 (62.3)
Loan	0	2,247	1	627	1,442	1,848 (28.2)	901	1,690 (87.6)	74	7,568
MNBC	0	0	0	0	0	0	0	0	0	0
Total	**0**	**2,319**	**1,201**	**1,455 (21.1)**	**14,925**	**18,762 (25.7)**	**8,667**	**11,909 (37.4)**	**7,659**	**15,939 (108.1)**

P : Provisional. @ : Comprises (i) foreign Government, (ii) foreign authority, and (iii) foreign citizen or person.

Note : 1. Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

2. Figures in parentheses are percentage variations over the previous year.

Source : Annual Returns.

Assets of NBFCs

6.61 The sharp increase in assets of deposit-taking NBFCs was mainly on account of increase in assets of asset finance companies and loan companies. Loans and advances as well as investments of NBFCs also increased during the year (Table VI.24). At end-March 2008, 64.1 per cent of assets, 71.2 per cent of total loans and advances and 34.5 per cent of investments by all NBFCs were held by asset finance companies.

Distribution of NBFCs-D According to Asset Size

6.62 The asset size of NBFCs varies significantly from less than Rs.25 lakh to above Rs.500 crore. The asset holding pattern remained skewed in 2007-08, with fifteen NBFCs with asset size of 'above Rs.500 crore' holding 94.9 per cent of total assets of all NBFCs, while the remaining 318 NBFCs held about 5.1 per cent of total assets at end-March 2008 (Table VI.25).

Distribution of Assets of NBFCs – Type of Activity

6.63 While assets held in the form of equipment and leasing witnessed a sharp decline during 2007-08, assets in the form of loans and inter-corporate deposits as also other assets witnessed a sharp growth. Assets in the form of loans and bills, which had witnessed a decline during 2006-07, increased sharply by 39.8 per cent. Assets held in the hire purchase activity as well as investment activity, however witnessed a deceleration. The hire purchase activity continued to constitute the largest share (46.7 per cent) in total assets, followed by loans and inter-corporate deposits (28.3 per cent) and investments (16.4 per cent) (Table VI.26).

Table VI.24: Major Components of Assets of NBFCs-D -Group -wise

(Amount in Rs.crore)

Classification	As at end-March					
	Assets		Advances		Investment	
	2007	2008 P	2007	2008 P	2007	2008 P
1	2	3	4	5	6	7
Asset Finance	24,718	45,071	20,882	38,341	2,413	3,964
	(50.9)	(64.1)	(54.0)	(71.2)	(32.6)	(34.5)
Equipment Leasing	325	156	252	85	56	47
	(0.7)	(0.2)	(0.7)	(0.2)	(0.8)	(0.4)
Hire Purchase	17,376	5,302	14,781	4,953	1,743	238
	(35.8)	(7.5)	(38.2)	(9.2)	(23.5)	(2.1)
Investment	1,633	402	498	146	1,110	256
	(3.4)	(0.6)	(1.3)	(0.3)	(15.0)	(2.2)
Loan	4,499	19,362	2,240	10,348	2,089	6,995
	(9.3)	(27.5)	(5.8)	(19.2)	(28.2)	(60.8)
MNBC	2	0	0	0	0	0
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total	**48,554**	**70,292**	**38,653**	**53,873**	**7,412**	**11,500**

P: Provisional.

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'

2) Figures in parentheses are percentages to respective totals.

Source : Annual Returns.

Table VI.25: NBFCs-D According to Asset Size

(Amount in Rs.crore)

Asset Size	As at end-March			
	No. of Reporting Companies		Assets	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Less than 0.25 crore	8	38	1 (0.0)	4 (0.0)
2. More than 0.25 crore and up to 0.50 crore	27	27	11 (0.0)	10 (0.0)
3. More than 0.50 crore and up to 2 crore	163	114	185 (0.4)	127 (0.2)
4. More than 2 crore and up to 10 crore	102	86	435 (0.9)	361 (0.5)
5. More than 10 crore and up to 50 crore	45	37	1,073 (2.2)	764 (1.1)
6. More than 50 crore and up to 100 crore	5	9	339 (0.7)	558 (0.8)
7. More than 100 crore and up to 500 crore	8	7	1,386 (2.9)	1,729 (2.5)
8. Above 500 crore	15	15	45,125 (92.9)	66,739 (94.9)
Total	**373**	**333**	**48,554**	**70,292**

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd' .
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Financial Performance of NBFCs

6.64 Financial performance of NBFCs continued to improve during 2007-08. Both fund based income (79.8 per cent) and fee based income (56.6 per cent) increased sharply. As a result, even though expenditure witnessed an increase of 45.4 per cent, operating profits increased by 263.2 per cent and net profits by 298.3 per cent. The cost to income ratio declined sharply (to 68.5 per cent in 2007-08 from 84.4 per cent in 2006-07) (Table VI.27).

6.65 Out of the total cost incurred by NBFCs, the non-interest cost continued to constitute the largest share (94. 5 per cent in 2007-08 as compared with 89.5 per cent in 2006-07). The interest cost constituted a smaller share of the total cost (Table VI. 28).

6.66 While income as percentage of assets increased, expenditure (including provisions) as percentage of assets declined sharply, resulting in a rise in the net profits to asset ratio (Chart VI.3).

Table VI.26: Distribution of Assets of NBFCs-D Activity-wise

(Amount in Rs. crore)

Activity	As at end-March		Percentage Variations	
	2007	2008 P	2006-07	2007-08
1	2	3	4	5
Loans and Inter-corporate Deposits	11,059 (22.8)	19,921 (28.3)	3.5	80.1
Investments	7,412 (15.3)	11,500 (16.4)	71.3	55.2
Hire Purchase	26,222 (54.0)	32,842 (46.7)	31.1	25.2
Equipment and Leasing	740 (1.5)	411 (0.6)	20.0	-44.5
Bills	7 (0.0)	10 (0.0)	-83.1	39.8
Other assets	3,113 (6.4)	5,607 (8.0)	45.0	80.2
Total	**48,554**	**70,292**	**28.4**	**44.8**

P: Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

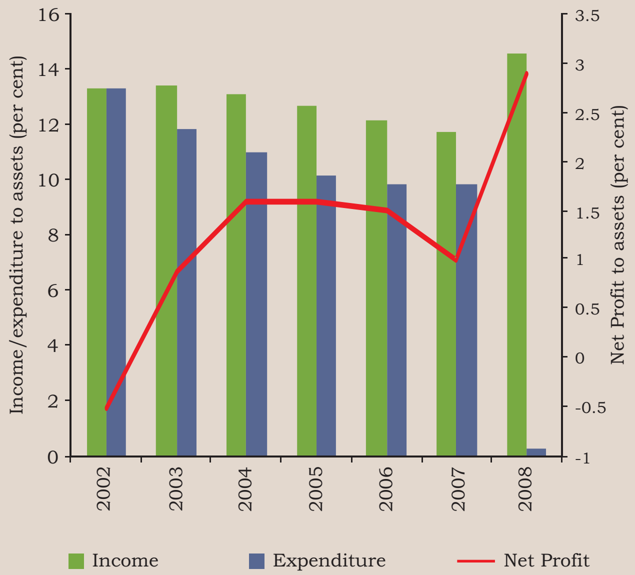
Table VI.27: Financial Performance of NBFCs-D

(Amount in Rs. crore)

Indicator	As at end-March 2007	2008 P	Percentage Variations 2006-07	2007-08 P
1	2	3	4	5
A. Income (i+ii)	**5,721**	**10,255**	**24.4**	**79.3**
(i) Fund Based	5,590	10,051	25.5	79.8
	(97.7)	(98.0)		
(ii) Fee-Based	131	204	-11.2	56.6
	(2.3)	(2.0)		
B. Expenditure (i+ii+iii)	**4,831**	**7,023**	**28.7**	**45.4**
(i) Financial	2,765	4,696	29.0	69.8
	(57.2)	(66.9)		
of which				
Interest Payment	508	385	-6.1	-24.1
(ii) Operating	1,261	2,167	33.4	71.9
	(26.1)	(30.9)		
(iii) Others	804	160	21.1	-80.1
	(16.6)	(2.3)		
C. Tax Provisions	**385**	**1,223**	**32.5**	**217.3**
D. Operating Profit (PBT)	**890**	**3,232**	**5.1**	**263.2**
E. Net Profit (PAT)	**504**	**2,009**	**-9.3**	**298.3**
F. Total Assets	**48,554**	**70,292**	**28.4**	**44.8**
G. Financial Ratios				
(as percentage of total assets)				
i) Income	11.8	14.6		
ii) Fund Income	11.5	14.3		
iii) Fee Income	0.3	0.3		
iv) Expenditure	9.9	10.0		
v) Financial Expenditure	5.7	6.7		
vi) Operating Expenditure	2.6	3.1		
vii) Tax Provision	0.8	1.7		
viii) Net Profit	1.0	2.9		
H. Cost to Income Ratio	**84.4**	**68.5**		

P : Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Chart VI.3: Financial Performance of NBFCs



Soundness Indicators

Asset Quality of NBFCs-D

6.67 Continuing the trend witnessed during the last few years, gross NPAs as well as net NPAs (as percentage of gross advances and net advances, respectively) of reporting NBFCs declined further during the year ended March 2008 (Table VI.29).

6.68 Gross NPAs (as percentage of gross advances) of equipment leasing and hire purchase companies increased during 2007-08, due to reclassification of NBFCs, while those of asset finance companies and loan companies declined. Net NPAs (as percentage of net advances) increased marginally in case of asset finance companies, hire purchase companies and investment companies, while those of equipment leasing companies, and loan companies improved further (Table VI.30).

Table VI.28: Interest Cost of NBFCs-D

(Amount in Rs. crore)

End-March	Total Income	Total Cost	Interest Cost	Non-Interest Cost
1	2	3	4	5
2006-07	5,721	4,831	508	4,323
2007-08 P	10,255	7,023	385	6,638

P: Provisional.
Note: 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to respective totals.
Source : Annual Returns.

Table VI.29: NPA Ratios 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	2.2	0.2
2008 P	1.5	-8.7

P: Provisional.
Note : Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
Source : Half-Yearly Returns.

Table VI.30: NPAs of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification / End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Percent to Gross Advances	Percent to Assets		Amount	Percent to Net Advances	Percent to Advances
1	2	3	4	5	6	7	8	9
Asset Finance								
2007	11,824	262	2.2	2.2	11,548	-14	-0.1	-0.1
2008 P	37,254	656	1.8	1.7	36,626	28	0.1	0.1
Equipment Leasing								
2001	4,118	304	7.4	6.1	3,826	12	0.3	0.2
2002	1,625	646	39.7	28.0	1,330	351	26.3	15.2
2003	5,969	932	15.6	11.1	5,506	469	8.5	5.6
2004	3,306	582	17.6	13.3	3,067	344	11.2	7.8
2005	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	1,057	45	4.2	4.0	992	-20	-1.9	-1.8
2008 P	26	6	24.3	7.2	-10	-29	-114.9	-34.2
Hire Purchase								
2001	8,296	1,324	16.0	12.3	7,604	631	8.3	5.9
2002	6,825	1,167	17.1	14.8	6,068	410	6.8	5.2
2003	16,489	1,288	7.8	6.8	15,305	104	0.7	0.5
2004	10,437	942	9.0	7.3	9,748	253	2.6	2.0
2005	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	18,280	464	2.5	2.3	17,884	67	0.4	0.3
2008 P	249	73	29.2	26.0	181	4	1.8	1.6
Investment								
2001	232	53	22.9	5.1	223	45	20.0	4.3
2002	149	2	1.6	0.1	147	1	0.4	–
2003	93	11	11.9	2.1	90	8	8.9	1.5
2004	63	15	24.2	2.6	55	7	12.7	1.2
2005	58	10	18.0	1.8	58	10	18.0	1.8
2006	59	–	0.4	0.0	59	–	0.4	–
2007	31	1	2.8	0.1	31	1	2.8	0.1
2008 P	–	–		–	–	–		–
Loan								
2001	7,414	595	8.0	5.9	7,118	299	4.2	3.0
2002	3,986	549	13.8	10.1	3,615	177	4.9	3.3
2003	2,707	144	5.3	4.8	2,503	-60	-2.4	-2.0
2004	2,038	142	7.0	4.1	1,833	-63	-3.4	-1.8
2005	1,955	117	6.0	5.1	1,772	-65	-3.7	-2.8
2006	690	252	36.5	19.3	483	45	9.3	3.4
2007	7,594	124	1.6	5.9	7,463	-6	-0.1	-0.3
2008 P	16,487	34	0.2	0.2	11,007	-5,447	-33.0	-27.7

– : Nil/Negligible. P: Provisional.

Note : Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.

Source : Half-Yearly Returns.

6.69 Asset quality of various types of NBFCs as reflected in various categories of NPAs (sub-standard, doubtful and loss) remained broadly at the previous year's level. The sharp increase in the standard assets of asset finance companies and the corresponding sharp decline in the case of equipment leasing companies and hire purchase companies was mainly due to the reclassification of NBFCs (Table VI.31).

Capital Adequacy Ratio

6.70 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

Table VI.31: Classification of Assets of NBFCs-D - Group-wise

(Amount in Rs. crore)

Classification/ End-March	Standard Assets	Sub-Standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Credit Exposure
1	2	3	4	5	6	7
Asset Finance						
2007	11,562	242	17	3	262	11,824
	(97.8)	(2.1)	(0.1)	–	(2.2)	
2008 P	36,599	586	41	29	656	37,254
	(98.2)	(1.6)	(0.1)	(0.1)	(1.8)	
Equipment Leasing						
2005	3,673	383	91	39	514	4,187
	(87.7)	(9.1)	(2.2)	(0.9)	(12.3)	
2006	2,809	12	21	36	69	2,878
	(97.6)	(0.4)	(0.7)	(1.2)	(2.4)	
2007	1,013	4	2	38	45	1,057
	(95.8)	(0.4)	(0.2)	(3.6)	(4.3)	
2008 P	19	1	1	4	6	26
	(75.7)	(4.7)	(4.5)	(15.0)	(24.3)	
Hire Purchase						
2005	15,290	386	130	94	610	15,900
	(96.2)	(2.4)	(0.8)	(0.6)	(3.8)	
2006	17,163	184	47	212	444	17,607
	(97.5)	(1.0)	(0.3)	(1.2)	(2.5)	
2007	17,817	194	81	188	464	18,280
	(97.5)	(1.1)	(0.4)	(1.0)	(2.5)	
2008 P	177	8	7	58	73	249
	(70.8)	(3.0)	(3.0)	(23.2)	(29.2)	
Investment						
2005	48	1	10	–	10	58
	(82.8)	(1.7)	(17.2)	–	(17.2)	
2006	59	–	–	–	–	59
	(99.6)	–	–	–	(0.4)	
2007	31	1	–	–	1	31
	(97.2)	(2.8)	–	–	(2.8)	
2008 P	–	–	–	–	–	–
Loan						
2005	1,837	14	42	61	117	1,955
	(94.0)	(0.7)	(2.1)	(3.1)	(6.0)	
2006	438	19	99	134	252	690
	(63.5)	(2.7)	(14.3)	(19.4)	(36.5)	
2007	7,470	9	91	24	124	7,594
	(98.4)	(0.1)	(1.2)	(0.3)	(1.6)	
2008 P	16,454	21	11	2	34	16,487
	(99.8)	(0.1)	(0.1)	–	(0.2)	

– : Nil/Negligible. P: Provisional

Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are percentages to credit exposures.

Source : Half-Yearly Returns

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 increased to 44 at end-March 2008 from 20 at end-March 2007 (Table VI.32). At end-March 2008, 276 out of 320 NBFCs had CRAR of 12 per cent or more as against 354 out of 374 NBFCs at end-March 2007. The number of NBFCs with CRAR more than 30 also declined to 238 at end-March 2008 from 305 at end-March 2007. Notwithstanding this, it is noteworthy that the NBFC sector is witnessing a consolidation process in the last few years, wherein the weaker NBFCs are gradually exiting, paving the way for a stronger NBFC sector.

6.71 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 other intangible assets, if any, and

Table VI.32: Capital Adequacy Ratio of NBFCs-D

(per cent)

CRAR Range	As at end-March									
	2007					2008 P				
	AFC	EL	HP	LC/IC	Total	AFC	EL	HP	LC/IC	Total
1	2	3	4	5	6	7	8	9	10	11
1) Less than 12 per cent (a+b)	0	4	13	3	20	20	4	12	8	44
a) Less than 9 per cent	0	4	13	3	20	20	4	12	7	43
b) More than 9 and up to 12 per cent	0	0	0	0	0	0	0	0	1	1
2) More than 12 and up to 15 per cent	2	0	2	0	4	3	0	0	1	4
3) More than 15 and up to 20 per cent	3	1	7	1	12	5	0	0	1	6
4) More than 20 and up to 30 per cent	2	2	23	6	33	24	0	1	3	28
5) Above 30 per cent	44	22	217	22	305	115	10	70	43	238
Total	**51**	**29**	**262**	**32**	**374**	**167**	**14**	**83**	**56**	**320**

P: Provisional.
Note : AFC: Asset Finance Companies; EL: Equipment Leasing Companies; HP: Hire Purchase Companies; LC/IC = Loan Companies/Investment Companies.
Source : Half-yearly Returns.

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 loan companies and MNBCs declined during the year ended March 2008, while that of other category companies witnessed a marginal increase. The ratio of equipment leasing companies continued to be negative because of negative net owned funds, although there was some moderation. The ratio of public deposit to NOF for all categories of NBFCs taken together was 0.2 per cent at end-March 2008 as compared with 0.3 per cent at end-March 2007 (Table VI.33).

Table VI.33 Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs.crore)

Classification	As at end-March			
	Net Owned Fund		Public Deposits	
	2007	2008 P	2007	2008 P
1	2	3	4	5
1. Asset Finance	2,673	6,452	186 (0.1)	1,156 (0.2)
2. Equipment Leasing	-15	-42	43 (-2.9)	8 (-0.2)
3. Hire Purchase	3,004	675	1,683 (0.6)	533 (0.8)
4. Investment	822	83	45 (0.1)	19 (0.2)
5. Loan	437	3,379	117 (0.3)	321 (0.1)
6. MNBC	0	0	2 (6.6)	0 (0.0)
Total	**6,921**	**10,546**	**2,077** **(0.3)**	**2,038** **(0.2)**

P: Provisional
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are ratio of public deposits to net owned fund.
Source : Annual Returns.

6.72 Net owned funds of NBFCs range from less than Rs.25 lakh to above Rs.500 crore. Public deposits, as ratio of NOF, held by NBFCs in the category of NOF of 'more than Rs.2 crore and up to Rs.10 crore', 'more than Rs.50 crore and upto Rs.100 crore' and 'above Rs.500 crore' remained constant, while those by NBFCs in all other ranges of NOF generally declined except in the case of the category 'more than Rs.100 crore and upto Rs.500 crore' (Table VI.34).

Residuary Non-Banking Companies (RNBCs)

6.73 Assets of the RNBCs increased by 5.5 per cent during the year ended March 2008. Their assets in the form of unencumbered approved securities declined, while those in bonds/debentures and fixed deposits/certificates of deposit of SCBs registered an increase. Net owned funds of RNBCs increased by 25.5 per cent during 2007-08 on top of the rise of 15.5 per cent witnessed during 2006-07 (Table VI.35).

6.74 In continuation of the trend witnessed in 2006-07, the increase in income of RNBCs during 2007-08 was more than the increase in expenditure, as a result of which the operating profit of RNBCs increased sharply. Even though the provision for taxation also registered a sharp rise, the net profit of RNBCs increased by 86.9 per cent during 2007-08 as compared with 27.5 per cent during 2006-07.

Regional Pattern of Deposits of RNBCs

6.75 Of the two RNBCs, one is based in the Eastern region (Kolkata) and the other in the Central region. The public deposits held by RNBCs in both the Eastern region and Central region registered a marginal decline. Of the four metropolitan cities, RNBCs held public deposits only in one metropolitan city, *i.e.*, Kolkata (Table VI.36).

Table VI.34: Range of Net Owned Funds *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs.crore)

Ranges of Net Owned Fund	As at end-March					
	2006-07			2007-08 P		
	No. of Companies	Net Owned Fund	Public Deposits	No. of Companies	Net Owned Fund	Public Deposits
1	2	3	4	5	6	7
1. Up to Rs.0.25 crore	18	-442	173 -(0.4)	8	-229	137 -(0.6)
2. More than Rs.0.25 crore and up to Rs.2 crore	255	181	101 (0.6)	227	163	88 (0.5)
3. More than Rs.2 crore and up to Rs.10 crore	63	287	129 (0.5)	60	258	135 (0.5)
4. More than Rs.10 crore and up to Rs.50 crore	22	498	275 (0.6)	21	440	145 (0.3)
5. More than Rs.50 crore and up to Rs.100 crore	2	125	45 (0.4)	3	226	91 (0.4)
6. More than Rs.100 crore and up to Rs.500 crore	7	1540	683 (0.4)	7	1496	677 (0.5)
7. Above Rs.500 crore	6	4733	671 (0.1)	7	8192	765 (0.1)
Total	**373**	**6,921**	**2,077** **(0.3)**	**333**	**10,546**	**2,038** **(0.2)**

P: Provisional.
Note : 1) Figures in respect of 2007-08 include 'IFCI Ltd' and 'TFCI Ltd'.
2) Figures in parentheses are ratio of public deposit to the respective net owned fund.
Source : Annual Returns.

Table VI.35: Profile of RNBCs

(Amount in Rs.crore)

Item	As at end-March		Percentage Variation	
	2007	2008 P	2006-07	2007-08 P
1	2	3	4	5
A. Assets (i to v)	**23,172**	**24,452**	**5.9**	**5.5**
(i) Investment in Unencumbered Approved Securities	3,317	3,137	41.4	-5.4
(ii) Investment in Fixed deposits/Certificates of Deposit of Scheduled Commercial Banks/Public Financial Institutions	5,604	6,562	-8.0	17.1
(iii) Debentures/Bonds/Commercial Papers of Govt. Companies/Public Sector Banks/Public Financial Institution/Corporation	11,700	12,320	22.2	5.3
(iv) Other investments	1,156	573	-30.2	-50.4
(v) Other Assets	1,394	1,860	-37.2	33.5
B. Net Owned Funds	**1,366**	**1,714**	**15.5**	**25.5**
C. Total Income (i+ii)	**1,893**	**2,325**	**16.9**	**22.8**
(i) Fund Income	1,886	2,303	16.7	22.1
(ii) Fee Income	8	22	156.7	191.7
D. Total Expenses (i+ii+iii)	**1,648**	**1,725**	**14.5**	**4.7**
(i) Financial Cost	1,230	1,321	5.5	7.5
(ii) Operating Cost	284	329	78.8	15.5
(iii) Other cost	134	75	17.4	-44.1
E. Taxation	**44**	**224**	**101.1**	**406.8**
F. Operating Profit (PBT)	**246**	**601**	**36.5**	**144.5**
G. Net profit (PAT)	**201**	**377**	**27.5**	**86.9**

P : Provisional
Note : PBT - Profit Before Tax; PAT - Profit After Tax
Source : Annual Returns.

Investment Pattern of RNBCs

6.76 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.

Table VI.36: Public Deposits Held by RNBCs - Region-wise

(Amount in Rs.crore)

Region	As at end-March			
	2006-07		2007-08 P	
	No of RNBCs	Amount	No of RNBCs	Amount
1	2	3	4	5
1. Central	1	18,108 (80.0)	1	18,056 (80.8)
2. Eastern	2	4,515 (20.0)	1	4,302 (19.2)
3. North-Eastern	-	-	-	-
4. Northern	-	-	-	-
5. Southern	-	-	-	-
6. Western	-	-	-	-
Total (1 to 6)	**3**	**22,622**	**2**	**22,358**
Metropolitan Cities:				
1. Chennai	-	-	-	-
2. Kolkata	2	4,515	1	4,302
3. Mumbai	-	-	-	-
4. New Delhi	-	-	-	-
Total (1 to 4)	**2**	**4,515**	**1**	**4,302**

-: Nil/Negligible; P: Provisional.
Note : Figures in parentheses are percentages to respective totals.
Source: Annual Return.

6.77 Aggregate liability to depositor (ALD) declined marginally by 1.7 per cent during 2007-08. While fixed deposits with banks and bonds and debentures increased, unencumbered approved securities and other investments registered a decline (Table VI.37).

Table VI.37: Investment Pattern of RNBCs

(Amount in Rs.crore)

Item	End- March	
	2006-07	2007-08 P
1	2	3
Aggregated Liabilities to the Depositors (ALD)	22,622	22,358
(i) Unencumbered Approved Securities	3,317	3,137
	(14.7)	(14.0)
(ii) Fixed Deposits with Banks	5,604	6,562
	(24.8)	(29.3)
(iii) Bonds or debentures or commercial papers of a Govt. company/ public sector bank/ public financial institution/ corporations	11,700	12,320
	(51.7)	(55.1)
(iv) Other investments	1,156	573
	(5.1)	(2.6)

P: Provisional.
Note : Figures in parentheses are percentages to ALDs.
Source : Annual Returns.

Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFCs - ND - SI)

6.78 Information based on the returns received from non-deposit taking systemically important NBFCs (with asset size of Rs.100 crore and above) for the year ended March 2008 showed an increase of 28.6 per cent in their liabilities/assets over the year ended March 2007. Unsecured loans continued to constitute the single largest source of funds for NBFCs-ND-SI, followed by secured loans and reserves and surplus (Table VI.38).

Borrowings

6.79 Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 28.0 per cent to Rs.2,71,288 crore during the year ended March 2008, constituting 66.4 per cent of their total liabilities. During the quarter ended June 2008, the total borrowings increased further by 3.0 per cent to Rs.2,79,491 crore (Table VI.39).

Application of Funds

6.80 The pattern of application of funds by NBFCs-ND-SI during the year ended March

TableVI.38: Liabilities of NBFCs-ND-SI

(Amount in Rs.crore)

Items	As at end		
	March 2007	March 2008	June 2008
1	2	3	4
Total Liabilities	**3,17,898**	**4,08,705**	**4,23,083**
of which:			
a) Paid up Capital	18,904	24,490	27,217
	(5.9)	(6.0)	(6.4)
b) Preference Shares	2,192	4,573	4,845
	(0.7)	(1.1)	(1.1)
c) Reserve & Surplus	52,090	81,055	78,467
	(16.4)	(19.8)	(18.5)
d) Secured Loans	93,765	1,21,082	1,23,764
	(29.5)	(29.6)	(29.3)
e) Unsecured Loans	1,18,221	1,50,206	1,55,727
	(37.2)	(36.8)	(36.8)

Note : Figures in parentheses are percentages to Total Liabilities.
Source : Monthly return by NBFCs-ND-SI.

Table VI.39: Borrowings by NBFCs-ND-SI

(Amount in Rs crore)

Items		As at end	
	March 2007	March 2008	June 2008
1	2	3	4
A Secured Borrowings (i to vi)	**93,765**	**1,21,082**	**1,23,764**
	(44.2)	(44.6)	(44.3)
i. Secured Debentures	32,564	44,439	44,809
	(15.4)	(16.4)	(16.0)
ii. Deferred Credit	0	0	0
	(0.0)	(0.0)	(0.0)
iii. Term Loan from Banks	19,503	25,774	27,795
	(9.2)	(9.5)	(9.9)
iv. Term Loan from FIs	5,030	5,988	5,757
	(2.4)	(2.2)	(2.1)
v. Others	35,745	42,864	42,608
	(16.9)	(15.8)	(15.2)
vi. Interest accrued	923	2,017	2,795
	(0.4)	(0.7)	(1.0)
B Unsecured borrowings(i to viii)	**1,18,221**	**1,50,206**	**1,55,727**
	(55.8)	(55.4)	(55.7)
i. Loans from Relatives	1,621	1,822	1,390
	(0.8)	(0.7)	(0.5)
ii. ICDs	20,018	22,019	20,610
	(9.4)	(8.1)	(7.4)
iii. Loans from Banks	33,191	46,243	45,946
	(15.7)	(17.0)	(16.4)
iv. Loans from FIs	4,218	2,956	4,030
	(2.0)	(1.1)	(1.4)
v. Commercial Papers	14,031	20,068	21,282
	(6.6)	(7.4)	(7.6)
vi. Unsecured Debentures	30,549	44,432	47,008
	(14.4)	(16.4)	(16.8)
vii. Others	13,786	10,847	13,193
	(6.5)	(4.0)	(4.7)
viii. Loans Interest accrued	807	1,819	2,268
	(0.4)	(0.7)	(0.8)
Total Borrowings	**2,11,986**	**2,71,288**	**2,79,491**
Memo:			
Total Liabilities	**3,17,898**	**4,08,705**	**4,23,083**

Note : Figures in parentheses are percentages to 'Total Borrowings'.
Source : Monthly returns of NBFCs-ND-SI.

2008 remained broadly in line with the pattern witnessed during the previous year. The secured loans continued to constitute the largest share (44.7 per cent), followed by unsecured loans with a share of 24.8 per cent (Table VI.40).

Financial Performance

6.81 NBFCs-ND-SI earned a profit of Rs.8,705 crore during the year ended March 2008, which was higher by 16.7 per cent as compared with the profit earned during the year ended March 2007 (Rs.7,460 crore) (Table VI.41).

6.82 The gross NPAs to total assets ratio of NBFCs-ND-SI remained unchanged at 2.3 per cent for the year ended March 2008 and also for the quarter ended June 2008. The net NPAs to total assets ratio increased from 1.5

Table VI.40: Select Indicators on Application of Funds by NBFCs-ND-SI

(Amount in Rs.crore)

Items	As at end March 2007	March 2008	June 2008
1	2	3	4
Secured Loan	1,14,898	1,60,017	1,67,767
	(41.5)	(44.7)	(44.0)
Unsecured Loan	69,609	88,783	90,746
	(25.2)	(24.8)	(23.8)
Hire Purchase Assets	28,160	29,832	34,693
	(10.2)	(8.3)	(9.1)
Long-term Investment	43,309	53,856	57,888
	(15.7)	(15.0)	(15.2)
Current Investment	20,671	25,758	29,763
	(7.5)	(7.2)	(7.8)
Total	**2,76,647**	**3,58,246**	**3,80,855**
Memo Items:			
Capital Market Exposure	81,435	1,11,630	1,05,111
of which:			
Equity Market	34,196	35,957	35,203

Note : Figures in parentheses are percentages to respective totals.
Source : Monthly returns of NBFCs-ND-SI.

per cent as at end March 2007 to 1.6 per cent as at end March 2008, but declined to 1.4 per cent during the quarter ended June 2008 (Table VI.42).

4. Primary Dealers

6.83 In order to strengthen the market infrastructure of Government securities market and make it vibrant, liquid and broad-based, the primary dealers (PDs) system was introduced by Reserve Bank in 1995. The PD system is designed to facilitate Government's market borrowing programme and improve the secondary market trading system by contributing to price discovery, enhancing liquidity and turnover and encouraging voluntary holding of Government securities amongst a wider investor base. The PD system developed significantly over the years and currently it serves as an effective conduit for conducting open market operations.

6.84 The PD system continued to play a significant role in the Government securities market during the year 2007-08. The number of PDs increased to 19 at end-March 2008 as compared with 17 at the end-March 2007. Of these 19 entities, 10 were banks undertaking PD business departmentally (Bank-PDs) and

Table VI.41: Financial Performance by NBFCs-ND-SI

(Amount in Rs.crore)

Items	Year Ended March 2007	Year Ended March 2008	Quarter Ended June 2008
1	2	3	4
Total Assets	3,17,898	4,08,705	4,23,083
Total Income @	31,281	39,537	11,564
	(9.8)	(9.7)	(2.7)
Total Expenses @	20,552	27,291	8,877
	(6.5)	(6.7)	(2.1)
Net Profit @	7,460	8,705	2,150
	(2.3)	(2.1)	(0.5)

@: Cumulative
Note: Figures in parentheses are percentages to Total Assets.
Source: Monthly returns of NBFCs-ND-SI.

Table VI.42: Gross and Net NPAs of NBFCs-ND-SI

(Per cent)

	Items	As at end March 2007	March 2008	June 2008
	1	2	3	4
1	Gross NPAs to Total Assets	2.3	2.3	2.3
2	Net NPAs to Total Assets	1.5	1.6	1.4
3	Gross NPAs to Total Credit Exposure	4.9	3.1	4.5
4	Net NPAs to Net Credit Exposure	1.9	2.0	2.2

Source : Monthly returns of NBFCs-ND-SI.

the remaining nine were stand-alone, non-bank entities. HDFC Bank Limited was authorised to take up PD business with effect from April 2, 2007 and one new stand-alone PD, *viz.*, Lehman Brothers Fixed Income Securities Pvt. Limited (LBFISL), was also authorised to undertake PD business with effect from November 1, 2007. However, following the filing of a petition under Chapter 11 of the US Bankruptcy code by Lehman Brothers Holding Inc. in the US, the Reserve Bank announced certain measures in public interest and in the interest of financial stability. As such, LBFISL was advised not to declare any interim dividend or remit any amount to its holding company or any other group company without prior approval of the Reserve Bank. Further, they were advised not to undertake transactions in Government securities as a PD in the primary market.

6.85 The regulatory guidelines issued in July 2006 prohibited PDs from setting up step-down subsidiaries. Accordingly, PDs that already had step-down subsidiaries (in India and abroad) were required to restructure the ownership pattern of those subsidiaries. The stand-alone PDs complied with these guidelines during the year.

6.86 The Reserve Bank initiated steps to phase out current account facility allowed to the non-bank and non-PD entities. The establishment of Multi Modal Settlements (MMS) system was a major step in this regard (Box VI.3)

6.87 In recent years, the non-competitive bidding facility has been receiving good response. The Working Group on Auction Process of Government of India Securities (Chairman: H.R. Khan), which submitted its report in March 2008, made several important recommendations regarding the non-competitive bidding facility (Box VI.4).

6.88 The bidding commitment of PDs in the underwriting auction of dated Government of India securities was revised from the earlier stipulation of a minimum of 3 per cent of the notified amount to an amount equal to the minimum underwriting commitment (MUC) with effect from November 22, 2007.

Operations and Performance of PDs

6.89 A significant portion of the market demand for Government securities in the primary market emanates from the PDs. The aggregate bids submitted by the PDs in the auctions of Treasury Bills and dated securities, as reflected in the bid-cover ratio, tended to increase in recent years in tandem with the increase in issuances. The PDs also maintained a dominant share of over 45 per cent in primary auction allotments.

6.90 During 2007-08, cumulative bidding commitments in Treasury Bills auctions were fixed to ensure that PDs bid for the notified

Box VI.3: Multi-Modal Settlement System

Currently, holding a current account and SGL account with the Reserve Bank is mandatory for settlement of Government security transactions by NDS members. However, the medium term objective of the Reserve Bank is to allow current accounts only to banks and primary dealers which necessitates phasing out of current accounts allowed to the non-bank and non-PD entities. To meet this objective, a system of 'multi modal settlements' (MMS) in Government securities market to facilitate the settlement of Government security transactions undertaken by the non-bank and non-PD NDS members was put in place from June 16, 2008. Under this arrangement, the funds leg of the transactions would be settled through the fund accounts maintained by these entities with select commercial banks chosen as 'designated settlement banks' (DSB), while all Government securities related transactions, *viz.*, secondary market, primary market and servicing of Government securities (interest payments and repayments) for these entities would be carried out through the current account of the DSB with whom the non-bank and non-PD entities open the settlement account. The Reserve Bank would debit/credit the current accounts of the DSBs maintained in Deposit Accounts Department, Reserve Bank and these DSBs would, in turn, debit/credit the accounts maintained by such members with them, as per the agreement between the DSBs and such members. The Clearing Corporation of India Ltd. (CCIL) has appointed three commercial banks, *viz.*, HDFC Bank, Axis Bank and Citibank as the DSBs. To start with, mutual funds have been advised to move over to the new settlement system. From June 30, 2008 onwards, secondary market transactions in government securities undertaken by mutual funds are being settled only through the DSBs. Arrangements for settlement of primary auction bidding outside the current accounts are being worked out.

Box VI.4: Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities

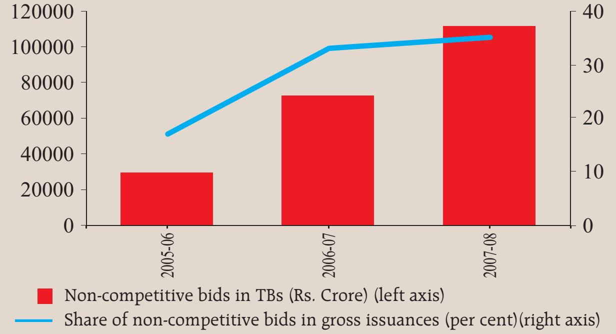
With a view to encouraging wider participation and retail holding of Government securities and to provide retail investors an opportunity to participate in the auction process, a scheme for non-competitive bidding facility was introduced in the auctions of government securities in January 2002. Participation on a "non-competitive" basis is open to any person including firms, companies, corporate bodies, institutions, provident funds, trusts, and any other entity as may be prescribed by the Reserve Bank as also to the investors who do not maintain current account (CA) or subsidiary general ledger (SGL) account with the Reserve Bank.

In every auction of dated securities, a maximum of 5 per cent of the notified amount is reserved for non-competitive bids. In the case of auction for Treasury Bills, there is no ceiling for non-competitive bids. However, non-competitive bidding in T-Bills is available only to State Governments and other select entities and is not available to the co-operative banks. Only one bid is allowed to be submitted by an investor either through a bank or primary dealer. For bidding under the scheme, an investor has to fill in an undertaking and send it along with the application for allotment of securities through a bank or a primary dealer.

The minimum amount and the maximum amount for a single bid are Rs.10,000 and Rs.2 crore respectively, in the case of an auction of dated securities. A bank or a primary dealer can charge an investor up to a maximum of 6 paise per Rs.100 of application money as commission for rendering its services. In case the total applications received for non-competitive bids exceed the ceiling of 5 per cent of the notified amount of the auction for dated securities, the bidders are allotted securities on a pro-rata basis. On the other hand, if the aggregate amount of bids is less than the reserved amount, the shortfall will be taken to the competitive portion. Allotment under the non-competitive segment is at the weighted average rate of yield/price that emerges in the auction on the basis of competitive bidding.

This facility has been receiving overwhelming response in recent years. During 2007-08, non-competitive bids aggregating Rs.1,11,551 crore of T-Bills were received as compared with Rs.72,514 crore during the previous year. The share of non-competitive bids in gross issuances of auctioned T-Bills increased to 35 per cent during 2007-08 from 33 per cent during 2006-07, almost entirely due to investments by the State Governments (Chart 1).

Chart 1 : Non-competitive Bidding Facility



Measures are being initiated to introduce the scheme of non-competitive bidding facility (which at present is limited to Central Government dated securities and T-Bills) in the auctions of State Government securities.

In March 2008, the Working Group on Auction Process of Government of India Securities (Chairman: H.R. Khan) made several important recommendations regarding the non-competitive bidding facility. The recommendations, *inter alia*, included (a) the time for submission of non-competitive bids in auctions of dated securities as well as Treasury Bills, both in electronic and physical form, may be advanced; (b) eligible entities and individuals desirous of submitting non-competitive bids be allowed access through a bank/PD only electronically; (c) Bank/PD be allowed to submit a single consolidated bid on behalf of all its constituents, with the responsibility of verifying the genuineness of non-competitive bids vesting with the bank/PD concerned.

The recommendations of the Working Group are being examined in consultation with the Government of India.

amount. The aggregate bids at Rs.3,18,201 crore were, however, much higher at 3.04 times of the aggregate commitment of Rs.1,04,385 crore (under the regular borrowing programme). Bids amounting to Rs.1,04,819 crores were accepted in Treasury Bill auctions. PDs are required to achieve a success ratio of 40 per cent of bidding commitment in respect of Treasury Bill auctions on a half-yearly basis. While the PDs achieved a success ratio of 94.43 per cent during the year 2006-07, the achievement during 2007-08 was higher at 100.42 per cent. The PDs' share in the primary auctions of Treasury Bills increased to 48 per cent during 2007-08 from 38 per cent during 2006-07.

6.91 In terms of the Fiscal Responsibility and Budget Management Act, 2003, the Reserve Bank was prohibited 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 Government of India securities. During 2007-08, the PDs offered to underwrite the auctions of Central Government dated securities to the extent of Rs.2,76,518 crore as against the notified amount of Rs.1,56,000 crore. This represented a bid-cover ratio of 1.77 in underwriting auctions. Of the total thirty five primary auctions of dated securities held during the year, there was a devolvement of Rs.957 crore on PDs in one auction.

6.92 The actual bids tendered by the PDs (Rs.2,54,253 crore) in the auction of dated securities were 1.6 times of the notified amount. Of the total bids made by PDs in dated securities, bids worth Rs.72,122 crore were accepted. The success ratio at 46.2 per cent was a marginal increase over 44.3 per cent during the period 2006-07 (Table VI.43).

6.93 The secondary market turnover of Treasury Bills and Government dated securities (both outright and repo) traded by stand-alone PDs amounted to Rs.1,57,747 crore and Rs.16,80,073 crore, respectively, constituting 16 per cent and 17 per cent, respectively, of the market turnover. The share of PDs in total market turnover worked out to 16 per cent.

Table VI.43: Performance of the PDs in the Primary Market

(At end-March)

(Amount in Rs. crore)

Items	2007	2008
1	2	3
Treasury Bills		
1. Bidding Commitment	1,02,675	1,04,385
2. Actual Bids Submitted	2,84,686	3,18,201
3. Bid to Cover Ratio (in per cent)	2.77	3.04
4. Bid Accepted	96,952	1,04,819
5. Success Ratio (in per cent)	94.43	100.42
Central Govt. Securities		
1. Notified Amount	1,46,000	1,56,000
2. Actual Bids submitted	2,02,462	2,54,253
3. Bid to Cover Ratio (in per cent)	1.39	1.63
4. Bid Accepted	64,727	72,122
5. Success Ratio in (in per cent)	44.33	46.23

Sources and Application of Funds

6.94 The consolidated balance sheet size of nine stand-alone PDs at end-March 2008 declined by 19.7 per cent as compared with the position at end-March 2007 due to restructuring of their businesses. Three PDs hived off their PD operations to newly set up group entities with reduced capital. Capital funds of the stand-alone PDs declined by 27.8 per cent as on March 31, 2008 in contrast with the sharp increase of 46.3 per cent as on March 31, 2007. On the sources side, secured loans increased by 17.1 per cent during 2007-08, while unsecured loans registered a sharp decline of 36.1 per cent. The decline in the growth rate of unsecured loans during 2007-08 was in contrast with the sharp rise (of 20.3 per cent) witnessed during 2006-07. On the deployment side, investments in corporate bonds increased by 4.3 per cent (from Rs.595 crore to Rs.621 crore) in contrast to the decline of 12.7 per cent witnessed during 2006-07. (Table VI.44). The share of Government securities and Treasury Bills in

Table VI.44: Sources and Applications of Funds of Primary Dealers

(Amount in Rs. crore)

	End-March		Percentage Variations	
Items	2007	2008	2007	2008
1	2	3	4	5
Sources of Funds	**13,557**	**10,882**	**26.1**	**-19.7**
1. Capital	2,088	1,508	46.3	-27.8
2. Reserves and Surplus	3,102	1,944	8.6	-37.3
3. Loans (a+b)	8,367	7,430	29.4	-11.2
a) Secured	3,910	4,580	41.7	17.1
b) Unsecured	4,457	2,850	20.3	-36.1
Application of Funds	**13,557**	**10,882**	**26.1**	**-19.7**
1. Fixed Assets	72	14	12.2	-80.5
2. Investments (a to c)	9,248	8,291	16.3	-10.3
a) Government Securities	7,412	7,584	11.5	2.3
b) Commercial Papers	1,241	86	98.2	-93.1
c) Corporate Bonds	595	621	-12.7	4.3
3. Loans and Advances	1,135	429	-39.7	-62.2
4. Non-current Assets	-	-	-	-
Equity, Mutual Funds, *etc.*	928	150	-	-83.9
Others*	2,174	2,148	156.4	-1.2
No. of PDs **	8	9	8	9

*: Others include cash+ bank balances + accrued interest + DTA - current liabilities and provisions.
** : Stand-alone PDs only.
Source : Annual Reports of respective PDs.

total assets of PDs increased to 70 per cent at end-March 2008 from 55 per cent at end-March 2007.

Financial Performance of PDs

6.95 The income earned by the PDs declined by 33 per cent during the year 2007-08 as compared with that in 2006-07, due to restructuring of business by PDs and consequent decline in income from other activities that were not allowed to be undertaken by PDs. However, a corresponding sharp decline on the expenditure front and a rise in trading profits restricted the decline in net profit during the year (Table VI.45).

6.96 All nine stand-alone PDs posted net profit during the year 2007-08 as compared with six PDs which posted net profits in the previous year. The restructuring of business by some PDs resulted in a decline in the return on average assets (ROA) from 3 per cent during 2006-07 to 2.5 per cent during 2007-08 (Table VI.46). Return on net worth (RoNW), however, increased from 9.5 per cent during 2006-07 to 10.8 per cent in 2007-08, reflecting the better use of capital. (Appendix Table VI.5). The cost-income ratio declined from 50 per cent in 2006-07 to 25 per cent in 2007-08 as some PDs significantly improved their efficiency ratio.

Table VI.45: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Items	2006-07	2007-08	Percentage Variations	
			2006-07	2007-08
1	2	3	4	5
A. Income (i to iii)	1,950	1,307	17	-33
i) Interest and discount	986	914	21	-7
ii) Trading Profit	-17	255	-	-
iii) Other income	979	138	22	-86
B. Expenses (i+ii)	1,314	775	49	-43
i) Interest	668	595	38	-11
ii) Administrative Costs	645	180	62	-76
Profit Before Tax	636	531	-18	-16
Profit After Tax	444	373	-20	-16
No. of PDs **	8	9	8	9

** : Stand-alone PDs only.
Source: Primary Dealers' Return (PDR)

Table VI.46 : Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Indicator	2006-07	2007-08
1	2	3
i) Net profit	444	373
ii) Average Assets	14,984	15,039
iii) Return on average assets (in per cent)	3.0	2.5
iv) Capital Funds	5,992	3,611
v) No. of PDs	8	9

Source : Primary Dealers' Return (PDR).

6.97 Stand-alone PDs continued to be adequately capitalised. The capital to risk weighted-assets ratio (CRAR) of individual stand-alone PDs remained above the prescribed minimum CRAR of 15 per cent. The CRAR of the stand-alone PDs as a group was at 38 per cent as on March 31, 2008. (Appendix Table VI.6 and Table VI.47).

Table VI.47: Select Indicators of Primary Dealers

(At end-March)

(Amount in Rs. crore)

Items	2007	2008
1	2	3
Total Assets*	13,557	10,882
Of which: Government Securities	7,412	7,584
Government Securities as Per cent of Total Assets	55	70
Total Capital Funds	4,026	3,611
CRAR (in per cent)	33	38
Liquidity Support Limit	3,000	3,000
No. of PDs **	8	9

* : Net of Current Assets and Liabilities.
** : Stand-alone PDs only.
Source : Primary Dealers' Returns (PDR).

Chapter VII

Financial Stability

Introduction

7.1 Financial stability has emerged as a major objective of public policy in developed and emerging economies in recent years, and particularly in recent months. Several factors, such as the increased frequency and high cost of financial crises, emergence of complex and new exotic financial instruments and significant growth in the volume of financial transactions, have led to this greater focus on financial stability. During the past year and a half, financial stability has occupied a centre stage in policy circles in the wake of the current global financial crises with wide ramifications. It is widely agreed that recurrence of systemic financial crises, *viz.*, banking, corporate, currency and sovereign debt crises, have negative effects on economic growth and lead to significant losses to investors. A vast body of literature, both empirical and analytical, suggests that in addition to many other important factors, the performance and long-run economic growth and welfare of a country are related to its degree of financial development measured by factors such as size, depth, access, efficiency and stability of a financial system, including its markets, intermediaries, range of assets, institutions and regulations.

7.2 As there is no general agreement on the definition of financial stability and systemic risk, both the terms tend to acquire a contextual meaning, and the recent developments in the international financial markets have highlighted new challenges leading to a deeper examination of issues causing instability as well as crisis management tools. Financial stability does not mean absence or avoidance of crisis, but presence of conditions conducive to efficient functioning of the financial system without serious disruption[1]. Financial stability involves smooth functioning of the financial system as a whole, both in normal conditions and in periods of stress. While under normal conditions, the financial system can be considered to be stable if it is generally free from imbalances, in periods of stress, financial stability would depend on the ability of financial markets (in terms of infrastructure and organisation) and participants in these markets (intermediaries, investors, financial providers) not only to absorb shocks, but also to work properly (*i.e.*, without major/lasting disruptions) when confronted with an unexpected shock of any nature (such as burst, bubble or terrorist attacks). Under this approach to understanding financial stability, there are two dimensions involved: *ex ante*, that of preventing the building up of imbalances in financial markets, and *ex post*, that of ensuring the ability of financial markets to accommodate the correction of these imbalances. Furthermore, in a stable financial system, money is expected to carry out its function as a means of payment and as a unit of account properly, while at the same time, the financial system can properly perform its role of mobilising savings, diversifying risks and allocating resources[2].

7.3 Different central banks have set out some working definitions of financial stability

[1] Reddy, Y.V., 2006, *Financial Sector Reform and Financial Stability*, at the 8th Global Conference of Actuaries held in Mumbai.
[2] Oosterloo, S. and J. de Haan, 2005, 'Arrangements for Financial Stability in OECD and EU Countries', in: Doug Evanoff & George Kaufman (eds.), *Systemic Financial Crises, Resolving Large Bank Insolvencies*, World Scientific Publishing Company.

in their publications. Further, for maintaining financial stability, central banks across countries have a wide range of legal, institutional and policy frameworks, and policy instruments at their disposal, which differ from country to country. Nevertheless, the major common elements that contribute to financial stability are the oversight of the financial infrastructure, in particular payments systems; regulation and supervision of financial institutions and markets; crisis management and provision of liquidity; and macrofinancial stability encompassing monitoring not only the behaviour of all important players in the financial sector but also non-financial sector balance sheets as well as those of the governments.

7.4 The financial turmoil that began to unfold in August 2007 - widely known as the sub-prime crisis - has brought financial stability issues to the forefront of policy discussions. The turmoil was a fallout of an exceptional credit boom and leverage in the financial system. On a hindsight, the present crisis appears to be a result of a macroeconomic environment with a prolonged period of low interest rates, high liquidity and low volatility, which led financial institutions to underestimate risks, a breakdown of credit and risk management practices in many financial institutions, and shortcomings in financial regulation and supervision[3]. A slowdown in the US real estate market triggered a series of defaults and this snowballed into accumulated losses, especially in the case of complex structured securities. The US subprime crisis has led to both the strained conditions of financial markets and the slowdown of the broader economy. The US economy continues to confront substantial challenges, including stresses in financial markets, a weakening labour market and deteriorating economic activity. The problems intensified significantly around mid-September 2008, when major losses led to failure of major financial institutions. The recent troubles at Lehman Brothers, Merrill Lynch, and Fannie Mae and Freddie Mac suggest the deep rooted problem in the global financial markets that the authorities have to address.

7.5 The ongoing financial turmoil took a serious turn when major financial institutions started experiencing extreme degrees of difficulty. Bear Stearns was the big first wall street investment banks of the five to collapse in March 2008, followed by the filing of chapter 11 bankruptcy petition by Lehman Brothers Holdings inc. and the sale of Merrill Lynch to Bank of America in September 2008. The remaining two, Goldman Sachs and Morgan Stanley, have abandoned their once-cherished investment bank business model to become bank holding companies to secure greater Fed protection and to soothe negative market sentiments. This was soon followed by the takeover of the sixth largest bank, Wachovia, by the CitiGroup. The recent turn of events prompted the US Government to come out with a $700 billion bail out package for banks to buy the distressed assets. Full prudential supervision and regulation at the hands of the central bank and the Federal Deposit Insurance Corporation would provide them access to permanent liquidity and funding by the Fed. Though the Fed had allowed investment banks to access discount window financing since Bear Stearns crumbled, this source was set to close at an unspecified point in 2009. The Securities and Exchanges Commission (SEC) was previously responsible for the supervision of the investment banks under the voluntary consolidated supervised enterprises regime. Lighter regulation of investment banks had enabled the industry reap greater rewards than their commercial banks counterparts in the boom preceding the

[3] Strauss-Kahn, Dominique, 2008, *Lessons from the Financial Market Crisis: Priorities for the World and for the IMF*, at Indian Council for Research on International Economic Research (ICRIER), New Delhi, India on February 13.

credit crisis. But the crunch has revealed the drawbacks of the industry's high-risk strategy. The shocks in the US financial system have reverberated in some European countries as well such as the UK, Switzerland and Germany. Though the direct impact on India and other Asian emerging market economies (EMEs) was muted, the indirect impact has been significant.

7.6 The initial impact of global financial contagion in India, however, has been limited for a variety of reasons. India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 per cent of GDP in the recent period. It also has a comfortable level of forex reserves. The credit derivatives market is in an embryonic stage; the originate-to-distribute model in India is not comparable to the ones prevailing in advanced markets and there are restrictions on investments by residents in such products issued abroad. Regulatory guidelines on securitisation do not permit immediate profit recognition. However, some impact has been felt through the credit, equity and the foreign exchange markets. Risk aversion, deleveraging and frozen money markets have not only raised the cost of funds for Indian corporates, but also its availability in the international markets. This additional demand for funds spilled over to the domestic credit market. Reduced investor interest in emerging economies has led to reversal of portfolio flows affecting the equity and the foreign exchange markets. The impending recession in the US and other advanced economies would also impact Indian exports and the growth momentum. Several measures have been initiated to mitigate the impact of global financial crisis on the domestic financial markets and its spillover impact on the real economy.

7.7 The global financial turmoil has reinforced the importance of putting special emphasis on preserving financial stability. Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent[4]. With increasing priority being given to financial stability, the central task for the conduct of monetary policy has become more complex and challenging than before. The current challenge is to strike an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations, and sustaining the growth momentum[5]. The relative emphasis between these objectives has varied from time to time, depending on the underlying macroeconomic conditions.

7.8 The recent developments in the global financial markets have been closely followed by market participants, central bankers, supervisors, multilateral institutions, political leaders, analysts, academicians, and also the general public. The ongoing debates cover several stability issues in the areas of regulation and supervision of institutions and markets, risk management strategies and practices of institutions, safety net and liquidity backstops. Simultaneously, the vexed issue of light *versus* tight regulation have also been receiving considerable attention. Financial stability in the current context is also being viewed in terms of a trade-off between risk and innovation/return. A financial system that is heavily regulated and supervised may be very stable and not prone to experiencing financial crises in contrast to a financial system that is very free and innovative and which is lightly regulated and supervised. A controlled system to its disadvantage could have lower financial

[4] Mohan, R., 2008, *Global Financial Crisis and Key Risks: Impact on India and Asia*, remarks at the IMF-FSF High-Level Meeting on the Recent Financial Turmoil and Policy Responses, Washington D.C., October 9.

[5] Governor, Dr. D. Subbarao's Press Statement on Stance of Monetary Policy for the Remaining Period of 2008-09, October 24, 2008.

development and innovation compared with a free and innovative system that increases returns, diversifies risks, and better allocates resources to the highest-return investments. The latter, however, may eventually become unstable and trigger credit booms and asset bubbles that could severely affect growth, returns and welfare. Though there is some trade-off between the stability of the financial system and its degree of innovation and sophistication, financial stability remains an important input in the process of financial development[6]. While there is a need for regulation staying ahead of the curve through continuous upgradation of skills and instruments, it is important to exercise caution so that regulation does not get so stringent as to stifle innovation.

7.9 Keeping in view the need to enhance the resilience of the global system, several menus of prescriptions have been proffered for the consideration of the policymakers, which mostly cover issues such as enhancing transparency, strengthening risk management frameworks including the governance arrangements in banks and financial institutions, refining Basel II, reforming deposit guarantee schemes, regulating rating agencies, and modifying monetary policymakers' operational frameworks. The policy dilemmas have become more acute at the current juncture. There are also calls for fundamental rethinking on macroeconomic, monetary and financial sector policies to meet the new challenges and realities alongwith inflation and structural shifts in the international financial architecture involving an enhanced degree of coordination among monetary authorities and regulators. A review of the policies relating to financial regulation, in a way, needs to address both the acute policy dilemmas in the short run and a fundamental rethink on broader frameworks of financial and economic policies over the medium-term.

7.10 The chapter reviews and analyses the developments in the Indian financial system from a financial stability perspective, particularly during 2007-08 and April-October 2008. The chapter is organised into five sections. Following the introductory section, section 2 presents an assessment of the performance of the Indian financial system covering financial institutions, financial markets as well as the payment and settlement systems. Under financial institutions, the commercial and co-operative banks, financial institutions, and non-banking financial companies are discussed, while financial markets cover developments in the money, foreign exchange and Government securities markets, besides the capital market. Section 3 identifies and discusses various risks emerging from global and domestic factors that may have a bearing on maintaining financial stability in India. The recent financial turbulence, as well as the challenges and issues brought out by the recent experience are also dealt with in detail in this section. Section 4 presents the ways of mitigating such risks emerging in the evolving macrofinancial conditions. Section 5 presents an overall assessment of the financial stability conditions in India.

2. An Assessment of the Indian Financial System

7.11 The Indian financial system comprises a wide network of financial institutions, financial markets and financial infrastructure. The financial institutions in India mainly consist of commercial banks (including regional rural banks - RRBs), urban co-operative banks, rural co-operative banks, (which, in turn, comprise short-term co-operative credit structure (state co-operative banks and district central co-operative banks) and long-term credit structure (state co-operative agriculture and rural development banks and primary co-operative agriculture

[6] *The Financial Development Report 2008*, World Economic Forum.

and rural development banks)], non-banking financial companies, insurance companies and mutual funds. A major feature of the financial system is the divergence in regulation and supervision over different institutions and segments of the financial markets.

7.12 Scheduled commercial banks form the bedrock of the Indian financial system accounting for around three-fourths of the total assets of all financial institutions, and their regulation and supervision falls under the ambit of the Reserve Bank as mandated in the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. The main elements of the regulatory framework, which have evolved from time to time, comprise, *inter alia*, prudential and exposure norms, accounting standards and disclosure norms. The Reserve Bank also regulates primary dealers (PDs), select all-India financial institutions (AIFIs) and non-banking financial companies (NBFCs). Urban co-operative banks (UCBs) are regulated by the Reserve Bank and the respective State Governments/ Central Government. In November 1994, the Board for Financial Supervision (BFS) was constituted comprising members of the Reserve Bank Board with a variety of professional expertise to exercise 'undivided attention to supervision' and ensure an integrated approach to supervision of commercial banks, AIFIs, NBFCs, UCBs and PDs. As on March 31, 2008, the BFS had supervisory jurisdiction over 79 scheduled commercial banks (62,099 branches), 4 local area banks, 91 regional rural banks (RRBs), 1,770 urban co-operative banks, 12,834 non-banking financial companies, 4 financial institutions (FIs) and 19 primary dealers. Insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA) and mutual funds and securities market by the Securities and Exchange Board of India (SEBI). In this section, developments in financial institutions, financial markets and financial infrastructure during 2007-08 and 2008-09 (period for which data are available) are analysed from the standpoint of financial stability.

Financial Institutions

7.13 The Reserve Bank continued to build a regulatory and supervisory architecture in line with the international best standards with country-specific adaptations with the ultimate objective of improving the efficiency and performance of the Indian financial sector. Various regulatory and supervisory measures were initiated by the Reserve Bank relating to banks and other financial institutions during 2007-08 (for policy developments in commercial banking, co-operative banking and non-banking financial institutions refer to Chapter II, IV and VI, respectively). The year witnessed major progress in the implementation of the New Capital Adequacy Framework (Basel II). The Pillar II guidelines were issued during the year. Certain amendments were also carried out in the framework issued earlier. Newer avenues of raising capital were provided to banks to accord them with greater flexibility in meeting the Basel II requirement. Special emphasis was laid upon liquidity and asset-liability management. Significant measures were also undertaken in the areas of anti-money laundering (AML) and know your customer (KYC) guidelines. Important initiatives in the area of corporate governance included guidelines on corporate social responsibility, sustainable development and non-financial reporting and guidelines on 'fit and proper' criteria for elected directors on the boards of public sector banks[7]. Policy initiatives relating to customer service included guidelines for recovery agents and grievance redressal mechanism.

[7] Fit and proper criteria for elected directors on boards of nationalised banks were issued on November 1, 2007, and fit and proper criteria for elected directors on board of the State Bank of India and its associate banks were issued on November 14, 2007.

7.14 UCBs were provided with greater business opportunities and capital raising options. Of the financial institutions supervised by the Reserve Bank, Industrial Finance Corporation of India Ltd. (IFCI) and Tourism Finance Corporation of India Ltd. (TFCI) were restored the NBFC status during the year. Industrial Investment Bank of India (IIBI) is in the process of being wound up. Important developments relating to NBFCs included formulation of regulatory framework for mortgage guarantee companies and various measures in the area of prudential guidelines and customer service. The efforts to strengthen the NBFCs continued with a focus on systemically important financial institutions within the sector.

7.15 The Board for Financial Supervision reviewed the inspection findings in respect of commercial banks/urban co-operative banks, periodical reports on critical areas of functioning of banks such as reconciliation of accounts, frauds monitoring, overseas operations, financial position of banks under monthly monitoring and issued a number of directions with a view to strengthening the functioning of banks. Future set up of local area banks, disclosure of supervisory ratings of banks and banks' exposure to the real estate sector were some other important issues examined by the BFS. A review of the role and set up of the financial institutions was undertaken with a view to providing clarity on their regulatory and supervisory architecture and their emerging role in the financial sector. Small Industries Development Bank of India (SIDBI) was advised to increase the risk weights on its exposure to State Financial Corporations (SFCs), make full provisioning in respect of SFCs which had defaulted even after extension of restructuring/one time settlement (OTS) packages and revise the norms for asset classification to 'borrower wise' instead of 'facility wise' in respect of its exposures to SFCs. Supervisory actions for UCBs were designed on the basis of Task Force for Urban Co-operative Banks (TAFCUB)'s recommendations. To contain the systemic risks arising out of the NBFCs sector, a fair practice code was designed, asset finance company (AFC) was introduced as a new class of NBFC, and the BFS deliberated upon the future set up of SIDBI and future framework of NHB.

7.16 Owing to the various initiatives taken since the early 1990s, the Indian financial system has become robust over the last few years and has displayed resilience to withstand the shocks. The commercial banking system in India has become strong, sound and competitive following the various measures taken to bring it in line with the global best practices. However, as the RRBs and the co-operative banks lagged behind in terms of soundness and efficiency after strengthening the commercial banking segment, the Reserve Bank and the Government in recent years have been bestowing greater attention to them. The banking and non-banking institutions are performing in a competitive environment and their regulatory framework is now aligned with the international best practices. The biggest achievement was in the case of UCB sector, wherein treading the path suggested in the vision document for UCBs 2005, the restructuring of the UCB sector succeeded in bringing about substantial improvement in the performance of the sector.

Scheduled Commercial Banks

7.17 The profitability of the scheduled commercial banks in India has improved over the years. Despite upturn in interest rate cycle in the recent period, SCBs have been able to maintain their return on assets. A significant improvement in the asset quality is reflected in the decline in gross and net NPA ratios, which are now comparable with the international standards. The strong capital position of the banking sector, which is significantly above the regulatory requirement of 9 per cent, has provided them with the much needed cushion to withstand shocks and other emerging risks. The performance of SCBs continued to improve during 2007-08 with return on assets (RoA) of SCBs showing an improvement to 1.0 per cent (from 0.9 per cent), capital adequacy ratio of SCBs improving further to 13.0 per cent (from 12.3 per cent) and gross NPA ratio declining to 2.3 per cent (from 2.5 per cent) (refer Chapter III for details).

Soundness and Efficiency Indicators: India vis-à-vis Other Countries

7.18 Several balance sheet and profitability indicators suggest that the Indian banking sector now compares well with the global benchmarks. The Indian banking system has been assessed in international perspective by comparing various financial and soundness indicators such as return on total assets, non-performing loans ratio and capital levels. The assessment could provide an indication of the areas where the Indian banking system needs to be strengthened further.

7.19 One of the most widely used indicators of profitability is RoA, which indicates the commercial soundness of the banking system. RoA of Indian scheduled commercial banks was at 1.0 per cent at end-March 2008, which is line with the international standards. Globally, the range varied from 0.2 per cent to 4.2 per cent in 2008. The RoA in several advanced countries and some emerging market economies were less than one per cent (Table VII.1).

7.20 Quality of assets of banks as reflected in the ratio of non-performing loans (NPLs) to total advances is also an important banking soundness indicator from the financial

Table VII.1: Benchmarking of Indian Banking Sector-2008

(Per cent)

Country	Return on Assets	Gross NPL to Gross Adv.	CRAR	Provisions to NPL	Capital to Assets
1	2	3	4	5	6
India	1.0	2.3	13.0	52.4	6.3
Emerging Markets					
Argentina	1.7	2.8	16.8	122.3	12.6
Brazil	2.8	2.9	18.1	181.7	9.5
Mexico	2.9	2.1	16.0	184.0	14.1
Korea	0.9	0.8	12.0	183.8	8.8
S. Africa	1.4 *	1.4 *	12.8 *	-	7.9 *
Developed Countries					
US	0.6	1.7	12.8	88.9	10.2
UK	0.4 *	0.9 *	12.6 *	54.6 ^	8.9 ^
Japan	0.3	1.4	12.3	26.4	4.3
Canada	0.3	0.9	12.3	36.7	5.3
Australia	1.0 *	0.3	10.5	128.6	4.1
Memo Item:					
Global Range					
Minimum	0.2	0.3	10.0	26.4	3.5
	(Montenegro)	(Australia)	(Sweden)	(Japan)	(Netherlands)
Maximum	4.2	13.2	28.7	187.5	22.7
	(Moldova)	(Bangladesh)	(Moldova)	(Chile)	(Armenia)

- : Not available.
* : Data pertains to 2007.
^ : Data pertains to 2006.
Source : IMF, Global Financial Stability Report, April 2008.

stability perspective. A low level of NPL ratio not only reflects the prudent business strategy followed by the banking system, but is also indicative of the conducive recovery climate and the legal framework for recovery of loans. Banks with adequate credit risk management practices are expected to have lower non-performing loans. In India, several measures taken by the Government and the Reserve Bank have enabled SCBs to substantially reduce their level of NPLs from 15.7 per cent at end-March 1997 to about 11 per cent at end-March 2001 and further to 2.3 per cent at end-March 2008. The global range for NPLs varied widely between 0.3 per cent and 13.2 per cent in 2008. The ratio of provisioning to NPLs reflects the ability of a bank to withstand losses in asset value. A low ratio of provisioning to NPLs makes the banking system vulnerable to shocks. The provisioning to NPL ratio of Indian banks was 52.4 per cent at the end-March 2008, as against the global range of 26 per cent and 187 per cent.

7.21 Bank capital acts as the ultimate buffer against losses that a bank may suffer. The minimum capital to risk-weighted asset ratio (CRAR) has been specified at 8 per cent by the Basel Committee on Banking Supervision (BCBS) under both the Basel I and Basel II frameworks. In the Indian context, the overall capital adequacy of the SCBs at 13.0 per cent as at end-March 2008, was well above the Basel norm of 8 per cent and the stipulated norm of 9 per cent for banks in India. The CRAR of 56 banks was over 12 per cent, of 21 banks was between 10-12 per cent, while those of the remaining two banks was between 9 and 10 per cent. The CRAR of Indian banks was comparable with most emerging markets and developed economies. The global range of CRAR in 2008 varied between 10.0 per cent and 28.7 per cent. A capital to asset ratio is another simple measure of soundness of a bank. The lower the ratio, the higher is the leverage and greater vulnerability of a bank. Globally, the ratio varied between 3.5 per cent to 22.7 per cent in 2008, while Indian banks' capital to assets ratio at 6.3 per cent suggested a lower degree of leverage and higher stability.

7.22 The financial sector in India is sound and healthy. Indian banks do not have direct financial exposure to the US sub-prime assets. Foreign subsidiaries and foreign branches of Indian banks have suffered some mark-to-market losses on financial instruments due to the general widening of credit spreads. These losses are modest relative to the size of their business for which adequate provisioning has been made.

7.23 Consequent upon filling of bankruptcy under Chapter 11 by Lehman Brothers, all banks were advised to report the details of their exposures to Lehman Brothers and related entities both in India and abroad. Out of 77 reporting banks, 14 reported exposures to Lehman Brothers and its related entities either in India or abroad. An analysis of the information reported by these banks revealed that most of the exposures reported by the banks pertained to subsidiaries of Lehman Bros Holdings Inc. which are not covered by the bankruptcy proceedings. Overall, these banks' exposure especially to Lehman Brothers Holding Inc. which has filed for bankruptcy is not significant and banks are reported to have made adequate provisions.

Urban Co-operative Banks

7.24 The UCB sector has witnessed significant improvement as a result of effective implementation of the suggestions made in the Vision Document released in March 2005. The first memorandum of understanding signed with Andhra Pradesh State Government in 2005 marked a new beginning for the co-operative sector. With the signing of Memoranda of Understanding (MoUs) between the Reserve Bank and the respective State Governments, a long standing issue of dual control of urban co-operative banks was attempted to be addressed. Between June 2005 and October 20, 2008, MoUs have been signed with 23 State Governments and with the

Central Government in respect of multi-State UCBs, out of which 6 States signed MoU during 2007-08. In terms of the MoUs, Task Force on Urban Co-operative Banks (TAFCUB) has been constituted in each of the 23 States and also with the Central Government in case of multi-State UCBs. In all 1,745 UCBs (98.6 per cent) have been covered under the MoUs representing 99.2 per cent of deposits of the sector. The mechanism of TAFCUBs has been able to restore the confidence in the UCB sector and there has been significant improvement in its operation and financial performance. A number of measures to strengthen the sector were initiated in the past five years. The option of merger/amalgamation, wherever necessary, was made available for revitalising and rehabilitating weak scheduled UCBs; consideration given to requests for shifting branches from one city to another within the same State, subject to certain conditions, and further professionalisation of their managements.

7.25 The above mentioned initiatives brought about a turnaround in the performance of UCBs. The number of Grade III and Grade IV UCBs taken together, implying weakness/sickness in UCBs, declined from 725 as at end-March 2005 to 496 as at end-March 2008[8] (refer Chapter IV for details).

7.26 The overall asset quality of UCBs also improved with the gross NPAs of the UCBs declining from 23.2 per cent of total advances in 2005 to 16.4 per cent in 2008. The increased public confidence in the UCB sector is reflected in the growth in their deposits by 14.1 per cent during 2007-08 as compared with the increase of 6.4 per cent during 2006-07 and 8.6 per cent in 2005-06, and against the negative growth of 4.8 per cent in 2004-05.

7.27 The increased comfort of coordinated supervision/regulation in States that have signed MOUs enabled the Reserve Bank to provide additional business opportunities to the eligible UCBs in such States and to the multi-State UCBs. These facilities included permission to set up currency chests, to sell mutual fund products, conduct insurance business on a non-risk participation basis, open new automated teller machines (ATMs), convert extension counters into branches and deal in foreign exchange as authorised dealers in categories I and II. Encouraged by the performance of the sector, the Reserve Bank decided to issue fresh licences from July 2008. As announced in the Annual Policy Statement for 2007-08, financially sound UCBs in such States were also permitted to open new branches, a facility which was discontinued in 2004. UCBs have been an important segment of Indian banking, and a healthy UCB sector is expected to play a vital role in strengthening competition and imparting stability to the Indian financial system (Box VII.1).

Non-Banking Financial Companies

7.28 NBFCs as an important segment of the financial sector play a crucial role in enhancing credit delivery to the dispersed, underbanked and underserviced sections of the economy. Apart from ensuring that the public deposit taking companies and systemically important non-deposit taking companies were well regulated, the Reserve Bank also initiated measures to further strengthen their asset base. The high dependence of NBFCs on banks for sources of funds raises the systemic risk in the financial system. In recent years, the Reserve Bank has taken measures to bring the regulatory norms for non-banks closer to those of banks, and also to make them uniform for deposit taking NBFCs (NBFCs-D) and non-deposit taking NBFCs (NBFCs-ND) (refer Chapter VI for details). Apart from providing a level playing field and reducing the 'regulatory arbitrage', these measures would also help reduce systemic risk in their operations, and thereby promote financial stability.

[8] The system of supervisory grading of UCBs into four grades - I to IV, introduced during 2005-06 is based on objective criteria defined in terms of CRAR, net NPA *etc*. Grade I refers to sound banks having no supervisory concerns. Banks in grades III and IV broadly correspond to 'weak' and 'sick' category under the earlier norms.

Box VII.1: Co-operative Banks and Financial Stability

Given the significant role played by urban co-operative banks in providing banking services to the middle and lower income people of India, their contribution to increasing financial deepening can hardly be over emphasised. Furthermore, co-operative banks in the Indian financial system mitigate credit-rationing to certain market segments, particularly SMEs. They could also be considered to have positive effects on stability by way of instilling greater competition.

The presence of co-operative banks also seems to have a positive effect on the solvency of the banking system. Using data from several banking systems, Hesse and Cihàk (2007) found that: (i) co-operative banks are more stable than commercial banks due to the lower volatility of their returns, and that (ii) the overall impact of a higher co-operative presence on bank stability is positive. In addition co-operative banks have higher capital ratios.

Hesse and Cihak find, somewhat surprisingly, that co-operative banks in advanced economies and emerging markets are more stable than commercial banks, as reflected in their high z-scores. The z-score measures the number of standard deviations a return realisation has to fall in order to deplete equity, under the assumption of normality of banks' returns. A higher z-score corresponds to a lower upper bound of insolvency risk - a higher z-score therefore implies a lower probability of insolvency risk.

This high z-scores of co-operative banks is due to much lower volatility of the co-operative banks' returns, which offsets their relatively lower profitability and capitalisation. This finding is quite robust with respect to various modifications in the measurement of volatility and z-scores. This observed lower variability of returns, and therefore the higher z-scores, are most likely caused by the fact that co-operative banks in normal times pass on most of their returns to customers, but are able to recoup that surplus in weaker periods. To some extent, this result could also reflect the mutual support mechanisms that many co-operative banks have created. Other risk measurements such as the value at risk concept or bank risk based on stock market data (distance-to-default) are not feasible since co-operatives are seldom listed on the stock exchanges (except for demutualised co-operatives).

A greater presence of co-operative bank could mean less space for commercial banks in the retail market and, therefore, their greater reliance on less stable revenue sources such as corporate banking or investment banking. This could have contributed to lower z-scores for commercial banks. This finding is consistent with Goodhart's (2004) hypothesis that the presence of non-profit-maximising entities in a financial system can weaken its stability. This is a reflection of the fact that the direct effect of higher z-scores in co-operative banks is largely offset by the negative impact of a higher co-operative bank presence on z-scores in commercial banks. The overall impact of a higher presence of co-operative banks on banking sector stability was thus slightly positive on an average, but insignificant in some specifications. While interpreting the results, it is important to keep in view some caveats of the z-score such as its reliance on accounting data and its focus on capital and profits rather than, say, liquidity or asset quality. Some possible alternatives to the z-scores, such as ratings of co-operative banks were also not found to be substantially worse than those for commercial banks.

Co-operatives typically face corporate governance issues that are larger than, and in some cases absent from, commercial banks (Caves and Fish, 2006). Among them is the presence of an owner-less endowment since members of co-operatives are only invested with the notional value of their shares and have no right to the accumulated capital. Furthermore, there is a collective action problem which might lead to empire building by the management. The governance framework of co-operative banks may hamper raising capital, particularly at time of distress, complicating the bank resolution process - especially for large banks - and may not provide adequate incentives to control the banks' management (Gutiérrez, 2008).

Co-operative banks can derive important benefits by forming networks, as it allows the pursuit of economies of scale and scope, and the provision of a safety net or mutual support mechanism. However, the more complex structure could also create new challenges for financial stability. Desrochers and Fischer (2005), in a cross-country survey on the level of integration of systems of financial co-operatives, note that lateral contracts between co-operative partners involve risks that counterparts will behave opportunistically to appropriate the rent generated by the alliance.

References:

Hesse, Heiko and Martin Cihák. *2007. "Cooperative Banks and Financial Stability." IMF Working Paper*. WP/07/2. January.

Allen, Franklin. and Douglas Gale. 2004. "Competition and Financial Stability." *Journal of Money, Credit and Banking*. Vol. 36. No. 3. pp. 453–80.

Barth, James R., Gerard Caprio Jr. and Ross Levine. 1999. "Banking Systems Around the Globe: Do Regulation and Ownership Affect Performance and Stability?" *World Bank Policy Research Working Paper No*. 2325. Washington: World Bank.

Cuevas, Carlos and Klaus Fischer. 2006. "Co-operative Financial Institutions: Issues in Governance, Regulation, and Supervision." *World Bank Working Paper No.* 82. Washington: World Bank.

Gutiérrez, Eva. 2008. "The Reform of Italian Co-operative Banks: Discussion of Proposals." *IMF Working Paper* 74. March.

Goodhart, C.A.E. 2004. "Some New Directions for Financial Stability." *The Per Jacobsson Lecture*. Basel: Bank for International Settlements.

7.29 An analysis of the sources of funds for NBFCs revealed that a few NBFCs relied heavily on funds from debt-oriented mutual funds, which subscribed to Commercial papers, non-convertible debentures and other structured products issued by them, thus creating an unsustainable asset-liability structure with short-term funds financing long-term assets. As mutual funds faced redemption pressures since June 2008 with several investors, especially institutional investors, rollover of maturing short-term instruments of NBFCs became difficult and fresh subscriptions dried up. Besides, the liquidity crunch faced by some banks made them reluctant to lend to NBFCs. In view of the liquidity constraints faced by NBFCs, the Reserve Bank initiated several measures to enhance availability of liquidity to NBFCs such as permitting NBFCs-ND-SI to augment their capital funds by issue of perpetual debt instruments (PDI) and as a temporary measure, permitting NBFCs-ND-SI to raise short-term foreign currency borrowings under the approval route, subject to certain conditions. The Reserve Bank also permitted banks, on a temporary basis, to avail liquidity support under the liquidity adjustment facility (LAF) window through relaxation in the maintenance of statutory liquidity ratio (SLR) to the extent of up to 1.5 per cent of their NDTL to be used exclusively for the purpose of meeting the funding requirements of NBFCs and mutual funds.

7.30 In the light of international developments and increasing exposure of banks to systemically important NBFCs, the regulations in respect of capital adequacy, liquidity and disclosure norms were reviewed in August 2008. Besides enhancing the CRAR from March 2009, a reporting mechanism regarding ALM was introduced for NBFCs-ND SI which would commence from January 2009 (refer Chapter VI for details).

Mutual Funds

7.31 Mutual funds have emerged as an important medium for directing individual savings to the capital market, thereby facilitating small retail investors' participation in the capital market. However, over the years, the corporates also invested heavily in units of mutual funds, partly due to tax benefits. The share of individuals in the total net asset value of all mutual funds declined to 37 per cent at end-March 2008 from 42 per cent in the previous year, while that of corporates/ institutions/others rose to 57 per cent from 50 per cent in the previous year. Net funds mobilised by mutual funds (net of redemptions) during 2007-08 rose sharply by 63.6 per cent to Rs.1,53,801 crore (Table VII.2). Accordingly, the net assets under management of mutual funds industry increased by 54.8 per cent during 2007-08. A significant increase in net mobilisation of resources by mutual funds was partly due to 'tax arbitrage'. While interest from bank deposits is taxable at the hand of the depositors at the eligible marginal rate of taxation, barring long-term deposits of 5 years and above which enjoy Section 80-C benefits, investments in equity oriented mutual fund schemes are exempt from long-term capital gains, while short-term capital gains are taxed at 15 per cent[9].

7.32 In line with the recent trend, bulk of the net resources mobilised by mutual funds during 2007-08 (67.5 per cent) were constituted by income/debt-oriented schemes, while growth/equity-oriented schemes accounted for 30.5 per cent (Table VII.3). The net assets under income/debt-oriented schemes increased sharply by 61.7 per cent during 2007-08 over the previous year, while net assets under growth/equity-

[9] Equity-oriented funds (with more than 60 per cent of the funds in equity shares of domestic companies) of mutual funds are exempt from tax on income and dividend distribution and long-term capital gains. The tax treatment in respect of other than equity-oriented funds of the mutual funds is as follows: (i) dividend distribution from the money market and liquid funds is subject to 25 per cent tax plus surcharge. (ii) For schemes other than money market and liquid schemes, dividend distribution tax is 12.5 per cent plus surcharge for distribution made to individuals or HUF and for any other person at 20 per cent plus surcharge. (iii) Long-term capital gains to resident holders in chargeable to 20 per cent after factoring the cost of inflation index or tax at the rate of 10 per cent without indexation, whichever is lower.

Table VII.2: Resource Mobilisation by Mutual Funds

(Rs. crore)

Category	2006-07			2007-08		
	Gross Mobilisation	Net Mobilisation@	Net Assets*	Gross Mobilisation	Net Mobilisation@	Net Assets*
1	2	3	4	5	6	7
Private Sector	15,99,873	79,038	2,62,079	37,80,753	1,33,304	4,15,621
Public Sector	1,96,340	7,621	28,725	3,37,498	9,820	41,123
UTI Mutual Fund	1,42,280	7,326	35,488	3,46,126	10,677	48,408
Total	**19,38,493**	**93,985**	**3,26,292**	**44,64,377**	**1,53,801**	**5,05,152**

@ : Net of redemptions. * : As at the end of March.
Source: Securities and Exchange Board of India.

oriented schemes increased by 38.8 per cent during the same period. While higher interest rates seemed to have made the debt schemes more attractive to the investors, resource mobilisation through growth/equity-oriented schemes during the year was supported by the robust performance of the domestic stock markets.

7.33 During April-October 2008, mutual funds witnessed net outflow of funds of the order of Rs.44,319 crore. Consequently, investments of mutual funds in the equity market and money market declined significantly during the current financial year so far. In the wake of the tight liquidity conditions since June 2008, mutual funds have faced redemption pressures. Despite the liquidity measures taken by the Reserve Bank during September-November 2008, most fund managers adopted a cautious approach and preferred to invest only in non-convertible debentures having daily put/call options in anticipation of impending third instalment of advance corporate tax by mid-December 2008. Typically, mutual fund schemes witness large outflows during advance tax payments.

Table VII.3: Funds Mobilised by Mutual Funds - Type of Schemes

(Amount in Rs. crore)

Scheme	2006-07				2007-08			
	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	**450**	**18,39,669**	**64,067**	**1,93,584**	**593**	**43,17,263**	**1,03,867**	**3,12,997**
(i) Liquid/Money Market	55	16,26,790	4,985	72,006	58	34,32,737	14,976	89,402
(ii) Gilt	28	1,853	-964	2,257	30	3,180	434	2,833
(iii) Debt (other than assured return)	367	2,11,026	60,046	1,19,321	505	8,81,346	88,457	2,20,762
B. Growth/Equity Oriented Schemes	**267**	**94,352**	**28,206**	**1,23,598**	**313**	**1,26,287**	**46,933**	**1,72,742**
(i) ELSS	40	4,669	4,453	10,212	43	6,448	6,151	16,020
(ii) Others	227	89,683	23,753	1,13,386	270	1,19,839	40,782	1,56,722
C. Balanced Schemes	**38**	**4,473**	**1,711**	**9,110**	**37**	**11,488**	**5,768**	**16,283**
D. Exchange Traded Funds	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**13**	**9,339**	**-2,767**	**3,130**
E. Fund of Funds Scheme	**33**	**2,854**	**1,164**	**2,215**	**37**	**3,567**	**1,162**	**3,742**
Total (A+B+C+D)	**755**	**19,38,494**	**93,984**	**3,26,293**	**943**	**44,64,377**	**1,53,801**	**5,05,152**

@ : Net of redemptions. * : As at the end of March.
Source: Securities and Exchange Board of India.

Developments in the Financial Markets

7.34 The critical role of developed and well-integrated financial markets can hardly be overemphasised for sustaining high growth, for the effective conduct of monetary policy, for developing a diversified financial system, for financial integration and for ensuring financial stability. Financial markets are becoming increasingly integrated, which has brought with it considerable benefits by way of increased access to finance, more efficient allocation of capital, and greater diversification of risk. On the downside, however, the increasing complexity and integration of financial markets have brought with it new and constantly evolving challenges for authorities in mitigating financial stability risks as developments in one market are quickly transmitted to other markets as has been amply demonstrated during the recent financial market turmoil. Financial markets today deal with complex and sophisticated products which require clear regulatory frameworks, and appropriate institutions and human resource skills. Financial markets are often governed by herd behaviour and contagion that could lead to a race to the bottom. Excessive fluctuations and volatility in financial markets can mask the underlying value and give rise to confusing signals, thereby hindering efficient price discovery.

7.35 Prompted by the crisis in the US sub-prime mortgage market since August 2007, global financial markets remained turbulent during the most part of 2007-08 and 2008-09 so far. Equity markets in advanced economies declined during most part of the year 2007-08, while those in emerging market economies (EMEs) declined sharply from January 2008. Long-term Government bond yields in advanced economies softened, reflecting flight to safety by investors and easing of monetary policy in the US. In the currency markets, the US dollar depreciated against major currencies.

7.36 Notably, India could pursue its process of financial deregulation and opening of the economy, while substantially protecting itself from the turbulence in world financial markets. There has been a great deal of progress in developing the money market, Government securities market and the foreign exchange market. As greater market concentration has implications for stability, the endeavour of the reform process has been to enhance the depth and efficiency of the market by including more participants and more instruments so that risks are well diversified (Box VII.2). With a view to deepening the money market and imparting greater liquidity to the market for facilitating efficient price discovery, new instruments such as collateralised lending and borrowing obligation (CBLO) were introduced. Issuance norms and maturity profiles of other money market instruments such as commercial paper (CP) and certificates of deposit (CDs) were also modified over time to encourage wider participation. It is, however, important that while using new financial instruments, the market players have a proper understanding of the embedded risks in these complex products.

7.37 Domestic financial markets conditions in general remained orderly during 2007-08, barring a brief spell of volatility in the call money market and occasional bouts of volatility in the equity market during the second-half of August 2007, second-half of December 2007 and beginning of the second week of January 2008. Liquidity conditions in the financial markets were driven mainly by Government cash balances and capital flows in the economy. Brief spells of volatility were observed in the money market on account of changes in capital flows and cash balances of the Central Government with the Reserve Bank. After the withdrawal of the ceiling on reverse repo acceptances under the LAF in

Box VII.2: Financial Market Concentration: Implications for Market Stability

The issue of whether concentrated financial markets - in which a relatively small number of firms hold large market shares - are more likely to be disrupted than less concentrated ones is important to policymakers as well as other market participants concerned about potential threats to market stability. Markets can experience shock to supply and demand from several sources such as changes in regulation and technological innovations, but one particular type of supply shock, *viz.*, the failure or exit of one or more large suppliers could be a cause for market instability.

In a recent study by the Federal Reserve Bank of New York, it was found that there is no pervasive pattern in the past decade of high or increasing concentration in financial markets (Cetorelli *et al.*, 2007). Consistent with past academic studies, the authors find an ambiguous relationship between market concentration and market instability. They argue that the risk of instability should a large player exit the market, depends not just on market concentration, but also on the speed at which other firms can substitute for the exiting firm. An analysis of how the US financial market structure has changed over the last decade finds no pervasive pattern of high and increasing concentration. Most wholesale credit and capital markets in the United States are only moderately concentrated, and concentration trends are mixed - rising in some markets, falling in others. Cetorelli *et al.*, drawing on academic research as well as introducing new analysis, consider the link between market concentration and the risk or severity of instability.

A complementary line of inquiry into the link between concentration and the risk or severity of market instability focuses on substitution by firms; substitution can stabilise markets by dampening the upward pressure on prices attributable to a large exiting supplier. The departure of a major supplier would cause less market disruption, the more promptly other firms can substitute for it. Thus, prompt substitution by other firms is a critical factor supporting market resiliency. Substitution is a stabilising force because it can dampen the upward pressure on prices attributable to the failure of a large firm. The authors' findings can offer some reassurance to policymakers and others concerned about whether high or rising financial market concentration could suggest greater market instability.

Monitoring market concentration and turnover trends and introducing public policies that enhance firm substitution within a given market is highly recommended to enhance the stability of the markets. Such policies could include promoting standardisation of products, ensuring rapid clearing of payments, and monitoring competition to ensure that key players do not become entrenched, and hence irreplaceable, because of privileged access to trading platforms or technologies.

Reference:

Cetorelli, Nicola, Beverly Hirtle, Donald Morgan Stavros Peristiani and Joao Santos. 2007. "Trend in Financial Market Concentrations and their Implications for Market Stability." *FRBNY Economic Policy Review*. March.

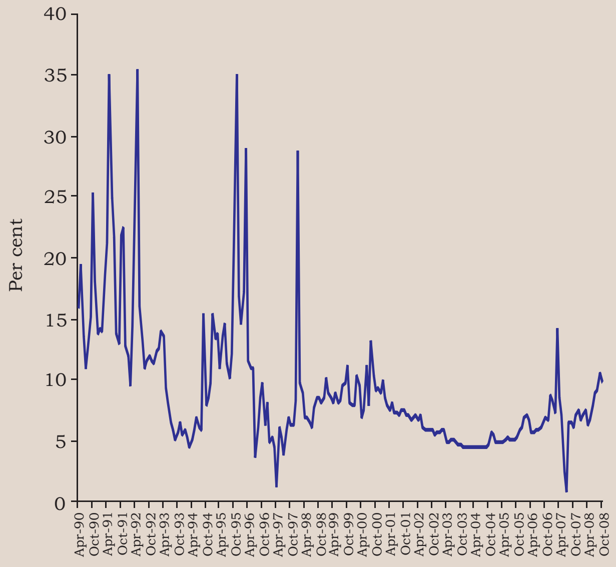
August 2007, interest rates in money markets moved broadly within the reverse repo and repo rates corridor for the most part of the year. Interest rates in the collateralised segments of the money market moved in tandem with, but remained below, the call money rate. The primary market segment of the capital market, which had witnessed increased activity till early January 2008, turned subdued thereafter due to volatility in the secondary market. Yields in the Government securities market softened during the large part of the year.

Money Market

7.38 Responding to the reform measures initiated as a part of the financial sector reforms initiated in the 1990s, the call money market has generally witnessed orderly conditions and provided the necessary platform for the Reserve Bank to conduct its monetary policy. After the adoption of the LAF in June 2000 and consequent improvement in liquidity management by the Reserve Bank, volatility in call rates has declined significantly, compared with the earlier periods (Chart VII.1). Thus, while statutory pre-emptions such as cash reserve ratio (CRR) and SLR, and reserve maintenance period were the main factors that influenced call rates in the pre-reform period, it is capital flows, Government's cash balance with the Reserve Bank along with the Reserve Bank's liquidity management operations that have been the main drivers of call rates in the post-reform period.

7.39 During 2007-08, money market rates generally remained within the informal corridor set by reverse repo and repo rates of Liquidity Adjustment Facility (LAF) (Chart VII.2). The average call rate during 2007-08 was at 6.07 per cent, 115 basis points lower

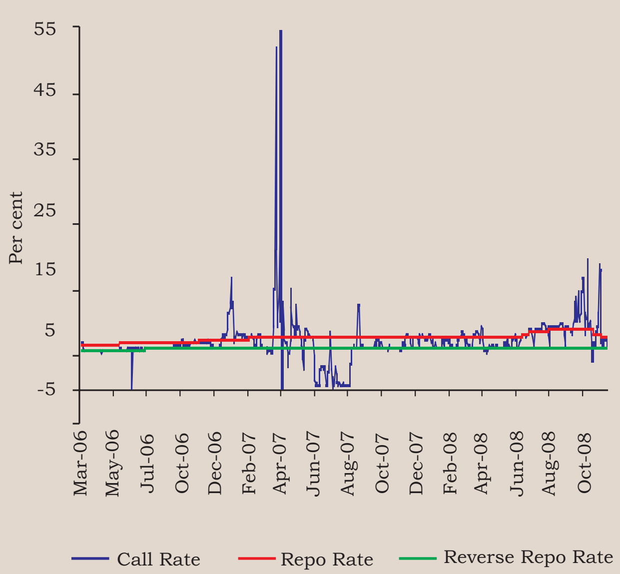
Chart VII.1 Behaviour of Call Rates (Monthly Average)



than that of the previous year. Interest rates in the collateralised segments of the money market moved in tandem with, but remained generally below the call money rate during the year.

7.40 The money market generally remained stable in 2007-08, barring brief spells of volatility during April-June 2007, and October

Chart VII.2: Call Money, Repo and Reverse Repo Rates

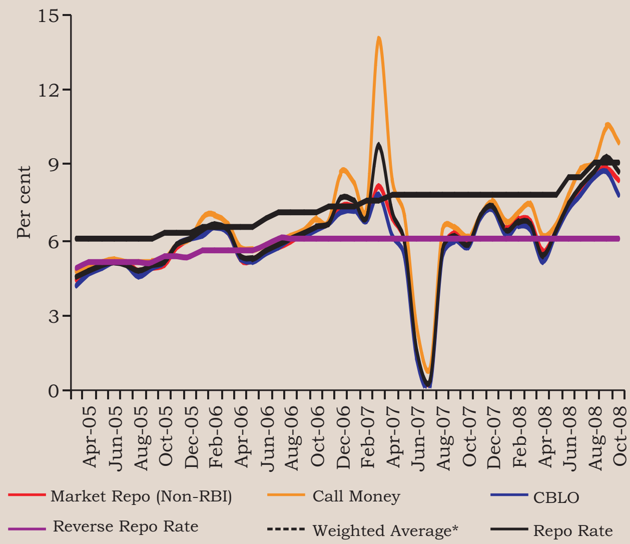


2007. In the call/notice money market, the weighted average call/notice rates declined in April 2007 from the elevated levels in the second-half of March 2007, as the liquidity conditions eased on account of reduction in the cash balances of the Central Government. Liquidity conditions tightened from the second-half of April 2007 and thereafter, partly on account of a two-stage hike in the CRR by 25 basis points each, announced on March 30, 2007. The CRR was raised to 6.25 per cent and 6.50 per cent effective from the fortnight beginning April 14, 2007 and April 28, 2007, respectively. Consequently, the call/ notice money market rates edged higher and exceeded the repo rate during the second-half of April 2007 and some part of May 2007. From May 28, 2007 onwards, the liquidity conditions eased significantly, reflecting the reduction in cash balances of the Central Government and the Reserve Bank's foreign exchange operations. Against the background of excess liquidity and the cap of Rs.3,000 crore on the reverse repo window of LAF imposed with effect from March 5, 2007, the call rate remained below the reverse repo rate in June and July 2007. In fact, the call rate ruled below one per cent on a number of occasions in June and July 2007 and it reached as low as 0.13 per cent on August 2, 2007. The volatility in the call money market declined significantly after August 2007, with the removal of the cap of Rs.3,000 crore on the absorption under the reverse repo window of LAF. Subsequently, the call money rate generally remained within the corridor for the rest of 2007-08 (Chart VII.3).

7.41 During April-August 2007, the average call rate remained outside the informal corridor, set by the repo and reverse repo rates of LAF. Except for the above period, the call money market remained more or less stable during 2007-08. In 2007-08, it remained below the reverse repo rate on 85 days, while it remained above the corridor on 70 days[10]. During 2008-09 (till November 15, 2008), the

[10] As a general practice, all rates for previous days were repeated for the bank holidays and Sundays.

Chart VII.3: Interest Rates in Money Market



* : Weighted average of interest rate in the call money, CBLO and market repo segments.

call rate remained generally above the repo rate on most of the days. While it remained within the corridor on 91 days, it remained below the reverse repo rate on 17 days. The elevated levels of the call rates reflected the deficient liquidity conditions in the inter-bank markets. The call rate in 2007-08 generally remained below the corridor during June and July 2007, when the Rs.3,000 crore cap was operative on reverse repo window (Chart VII.4). Excluding these two months, call money rates marginally declined below the reverse repo rate during few discrete spells in the rest of 2007-08 and during the current financial year so far. On the other hand, a seasonal pattern in money market rates was observed with respect to the movements above the upper corridor (Chart VII.5). These upward movements were generally during the end of the quarter coinciding with the temporary liquidity shortage due to advance tax outflows. The call rate marginally breached the upper corridor for most of the days in April-May 2007 and October 2008. During the current financial year so far, there have been spells, when rates in the money market remained above the repo rate. reflecting temporary lightness in liquidity conditions and global financial turmoil

7.42 Interest rates in the collateralised segments of the money market - the market repo (outside the LAF) and the CBLO - moved in tandem with, but remained below the call rate. The collateralised market is now the predominant segment of the money market, accounting for nearly 80 per cent of the total volume during 2007-08 (Chart VII.6). During

Chart VII.4: Spells with Call Rate Below Reverse Repo Rate

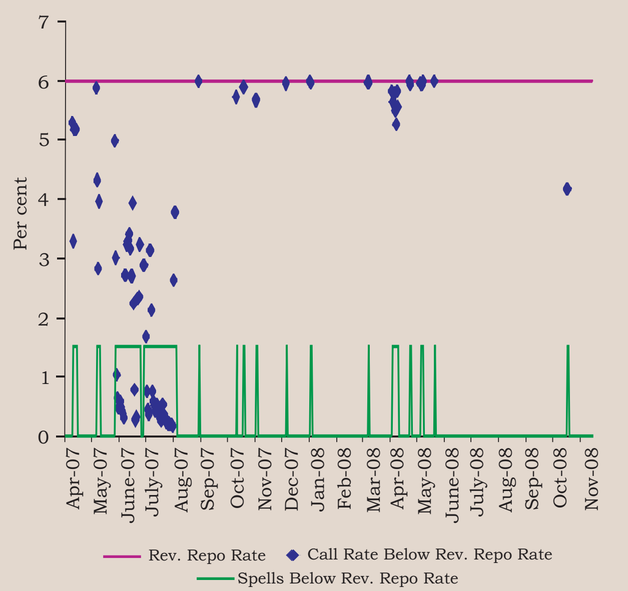


Chart VII.5: Spells with Call Rate Above Repo Rate

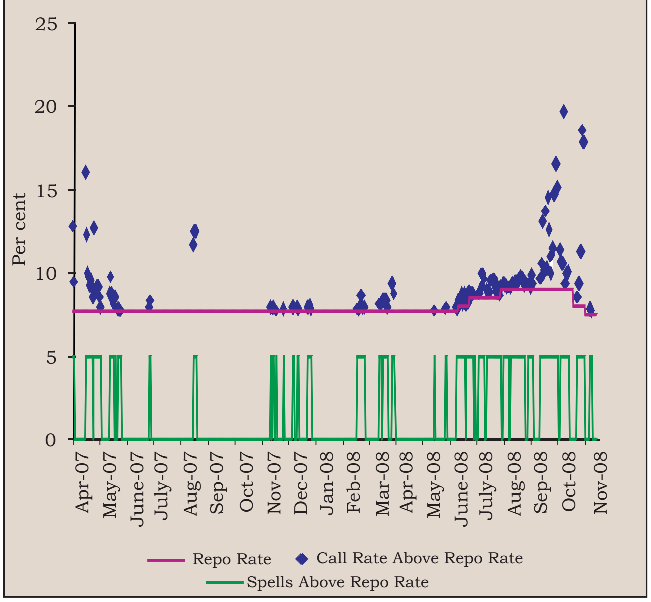
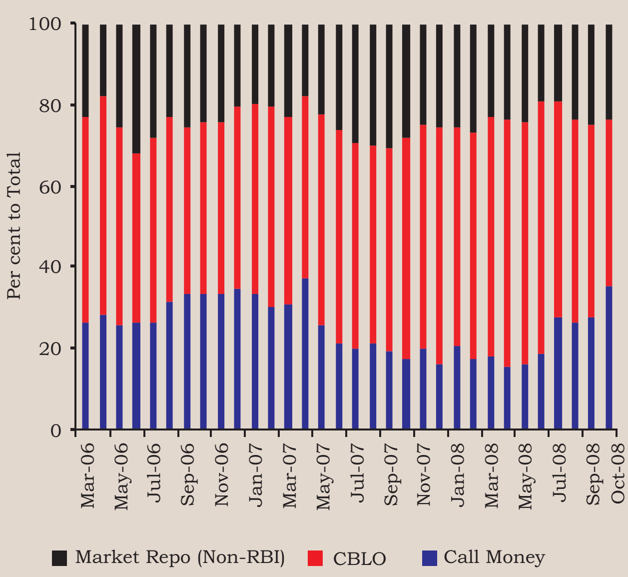


Chart VII.6: Money Market - Volume (One Leg)



2007-08, interest rates averaged 5.20 per cent, 5.50 per cent and 6.07 per cent, respectively, in the CBLO, market repo and call/notice money market segments (6.24 per cent, 6.34 per cent and 7.22 per cent, respectively, a year ago). The weighted average rate for all the three money market segments combined together was 5.48 per cent during 2007-08 as compared with 6.57 per cent a year ago. In both the CBLO and market repo segments, mutual funds remained the major lenders, while commercial banks and primary dealers were the major borrowers.

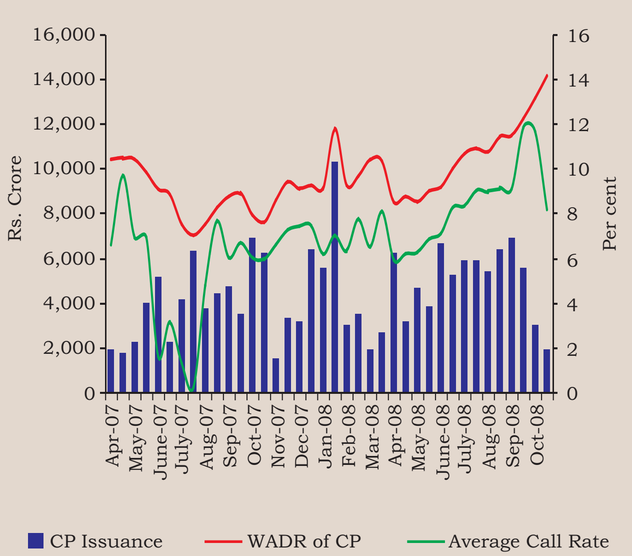
7.43 A screen-based negotiated quote-driven system for all dealings in the call/notice and term money markets (NDS-CALL) was launched on September 18, 2006. Though the dealing on the platform is optional, 86 banks and 8 primary dealers have taken membership of NDS-CALL so far. NDS-CALL now accounts for more than 75 per cent of total call/notice transactions.

7.44 The outstanding amount of commercial paper issued by companies increased from Rs.17,863 crore at end-March 2007 to Rs.32,592 crore by end-March 2008 and further to Rs.48,442 crore by end-October 2008. Even factoring in the seasonality, the increase in CP issuances reflects the secular rise in credit demands of a growing economy. The weighted average discount rate (WADR) generally kept pace with the other money market rates. However, since September 2008, the incremental issuance of CP seems to have slowed down with the hardening of the WADR as well as increase in tenor of the issuances (Chart VII.7).

7.45 While non-banking finance companies are the major CP issuers, mutual funds (MFs) are major investors in CP. The redemption pressure faced by MFs since September 2008 adversely affected liquidity conditions in the money market, which had a spill-over impact on the CP market.

7.46 The outstanding amount of certificates of deposit issued by SCBs increased from Rs.93,272 crore at end-March 2007 to Rs.1,47,792 crore at end-March 2008 and thereafter to Rs.1,58,562 crore at end-October 2008. The SCBs resorted to higher issuance of CDs to augment their resources till September 2008. However, the CDs issuances have slowed down since mid-September 2008 following the knock-on effect of the global

Chart VII.7: CP Outstanding, WADR and Average Call Rate



financial crises on the Indian financial sector (Chart VII.8). The maturity period of the most CDs roughly ranges between 181 and 365 days. Major portion of the CDs would mature in the second half of the financial year.

7.47 As mutual funds are the major investors in the CDs, the recent developments seem to have had a direct impact on the CD market. In view of this, the Reserve Bank has relaxed some restrictions on lending and buy-back of CDs for 15-day period in October 2008. Further, a term repo facility for an amount of Rs.60,000 crore has been instituted under the LAF to enable banks to ease the liquidity stress faced by MFs and non-banking financial companies with associated SLR exemption of 1.5 per cent of NDTL.

Foreign Exchange Market

7.48 Following the reform measures taken since 1992, the foreign exchange market has acquired depth and liquidity. The continuous improvement in market infrastructure has had its impact in terms of enhanced depth, liquidity and efficiency of the foreign exchange market. The bid-offer spreads have declined, reflecting the liquidity and efficiency of the market. There is a wide menu of products available in the OTC market, which serves a distinct economic purpose. Several initiatives were undertaken during 2007-08 to simplify foreign exchange transactions and also to provide greater flexibility to individuals and corporates in undertaking foreign exchange transactions. Over the years, capital flows have assumed increased importance in determining exchange rate dynamics.

7.49 The Indian rupee exhibited two-way movement and moved in a broad range of Rs.39.26-43.15 per US dollar during the financial year 2007-08 (Chart VII.9). Large capital inflows resulted in an appreciation of rupee during most part of the year. However, large FII outflows and heavy dollar demand by oil companies led the rupee to depreciate during the last quarter of 2007-08. Amongst major international currencies, between end-March 2007 and end-March 2008, while the rupee experienced an appreciation of 9.0 per cent against the US dollar and 7.6 per cent against the pound sterling, the rupee depreciated by 7.8 per cent against the Euro and 7.6 per cent against the Japanese Yen during the same period. Reflecting the

Chart VII.8: Movement of WADR of CDs and Average Call Money Rate

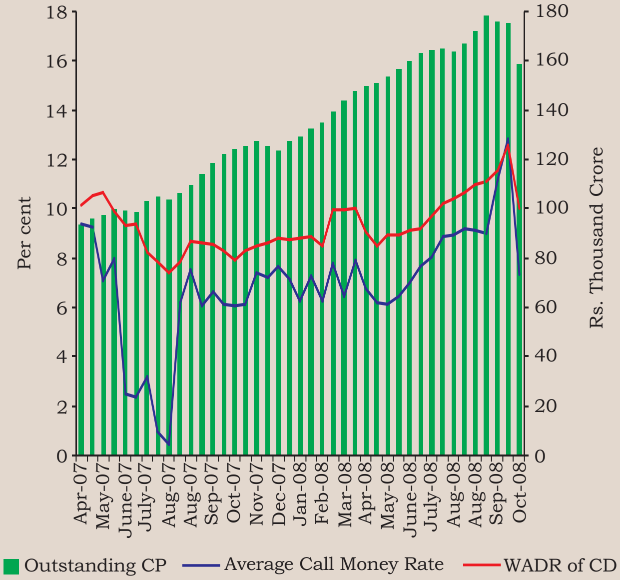


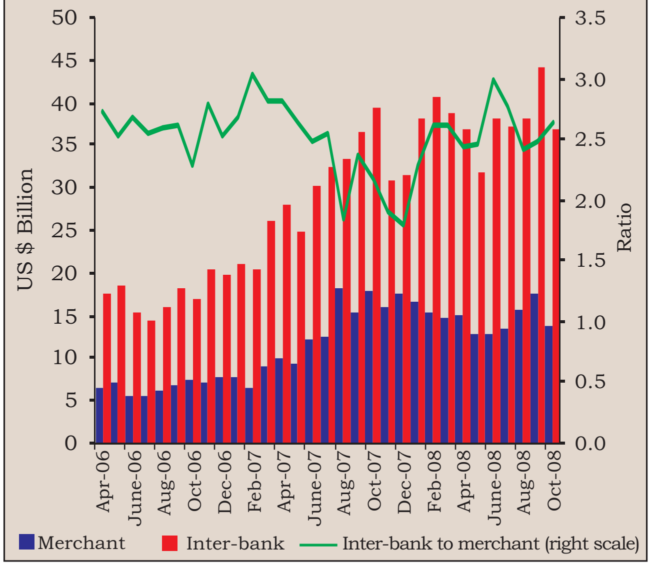
Chart VII.9: Exchange Rate - Rupee *vis-a-vis* US Dollar

somewhat increased volatility, the standard deviation (percentage change) of rupee-dollar exchange rate increased marginally from 0.27 during 2006-07 to 0.38 during 2007-08.

7.50 During 2008-09, the rupee continued the depreciating trend till July 2008, reflecting FII outflows, bearish stock market conditions, higher demand for dollars in the backdrop of rise in crude oil prices and elevated inflation. Notwithstanding easing of international crude oil prices from the peak of about US $ 147 per barrel in early July 2008 to around US $ 65 per barrel by third week of October 2008 and moderation in domestic WPI inflation from a peak of 12.9 per cent on August 2, 2008 to 11.1 per cent by October 11, 2008, the rupee continued to depreciate. The exchange rate of the rupee fell from Rs.39.99 per dollar at end-March 2008 to Rs.49.95 dollar on October 24, 2008.

7.51 As per the BIS Triennial Survey on the global foreign exchange and derivatives market activity (2007), the foreign exchange market in India with a total daily turnover of US $ 34 billion during 2006-07 was the 16th largest market in the world. The daily average turnover in the OTC derivatives segment of the foreign exchange market was US $ 24 billion, which was 17th largest among all countries. Foreign exchange market exhibited a significant growth during the financial year 2007-08 as reflected in the turnover in both the inter-bank and merchant segments highlighting enhanced liquidity and growing importance of foreign exchange as an asset class. The high turnover was contributed by large cross-border trade and capital flows. The average daily inter-bank turnover increased to US $ 34.0 billion during 2007-08 from US $ 18.7 billion during 2006-07 and the average daily merchant turnover increased to US $ 13.9 billion from US $ 7.0 billion over the same period. The total turnover in the foreign exchange market registered a growth of 86.0 per cent during 2007-08. During 2007-08, the inter-bank to merchant turnover ratio was in the range of 1.8-2.8 (Chart VII.10).

Chart VII.10: Turnover in Foreign Exchange Market (daily average)



Government Securities Market

7.52 In order to facilitate efficient price discovery, the Reserve Bank initiated a series of measures from the early 1990s to develop the Government securities market. Consequently, the Government securities market witnessed significant transformation in various dimensions, *viz.*, market-based price discovery, widening of investor base, introduction of new instruments, establishment of primary dealers, and electronic trading and settlement infrastructure. This, in turn, has enabled the Reserve Bank to perform its functions in tandem with the evolving economic and financial conditions.

7.53 The Government securities markets reasonably remained stable during 2007-08 and April-October 2008 (Chart VII.11). The movements in the yields tracked the monetary policy measures. The other factors which influenced the modulations in the yield include the significant increase in issuances of

Chart VII.11: 10-year Government Security Yield

MSS securities between July 2007 and October 2007 to sterilise the liquidity on account of intervention, increased demand for SLR securities on the back of large deposit growth and demand from the insurance sector. Incidentally, the Government securities market exhibits liquidity only in a few benchmark securities. The Government securities market remains predominantly a domestic market. Although the FIIs were allowed to increase exposure to Government securities market from US $ 2.6 billion to US $ 3.2 billion in January 2008 and further to US $ 5 billion in May 2008, the response has been moderate so far. To some extent, the system of allocating the limits amongst the FIIs acts as a dampener. On the other hand, unlike in case of equity market which has seen significant sell off by FIIs in recent months, FII exposure to Government securities market has remained relatively unaffected.

7.54 During 2008-09 so far (up to September 1, 2008), the 10-year yield moved in the range of 7.79-9.51 per cent. The yields in the Government securities market started the current financial year with a hardening bias in response to increase in the inflation. The 10-year yield rose to 8.69 per cent by end-June 2008 and further to 9.32 per cent by end-July 2008. The G-Sec yields eased during August 2008 and September 2008 tracking the consistent fall in global crude prices and SLR related buying arising from increase in net demand and time liabilities. The 10-year yields declined from 8.45 per cent by end-September 2008 to 7.45 per cent by end-October 2008 reacting also to the monetary policy action of reducing the repo rate from 9.00 per cent to 7.50 per cent and the cash reserve ratio from 9.00 per cent to 5.50 per cent (Chart VII.12). The 10-year yields continued to decline during the month of November 2008 on expectations of further easing of inflation and policy rates and stood at 7.11 per cent by November 25, 2008. Over the years, the turnover in the Government securities market and yield have generally witnessed an inverse relationship.

7.55 The spread between one and 10-year yields widened marginally to 45 basis points at end-March 2008 from 42 basis points at end-March 2007. At the longer end, the spread between 10 and 30-year yields increased to 47 basis points at end-March 2008 from 37 basis

Chart VII.12: Yield Curves for Government Securities

points at end-March 2007. The spread further increased to 61 basis points at end-October 2008. The yield spread of 5-year AAA-rated bonds over 5-year Government securities widened to 390 basis points at end-October 2008 from 156 basis points at end-March 2008 (Table VII.4).

Capital Markets

7.56 From a financial stability perspective, it is necessary to have an efficient and diversified financial system wherein both the capital market and financial institutions play an important role in facilitating raising of resources and allocation of capital, with the ultimate objective of raising the productivity and growth of the economy. Furthermore, the existence of a well-functioning capital market apart from contributing to the financial deepening of the economy also imposes discipline on firms to perform (Beck *et al.*, 2000; Bandiera *et al.*, 2000). Equity and debt markets can also diffuse stress on the banking sector by diversifying credit risk across the economy. In response to a series of reforms introduced since the early 1990s, the capital market has become safe, modern and transparent.

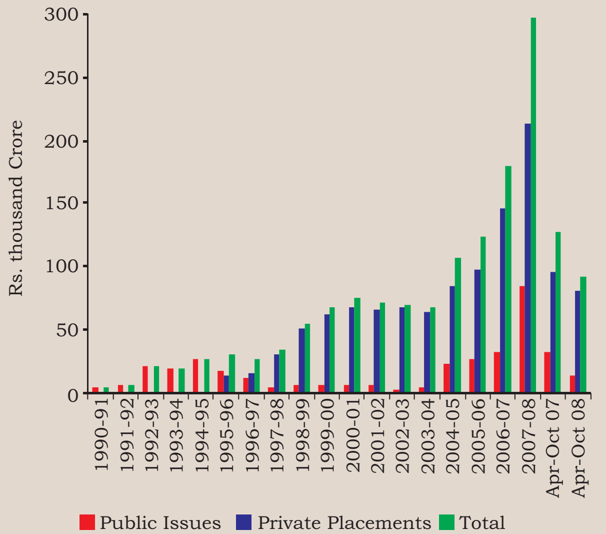
7.57 The resources raised by the corporates through public issues in the capital market rose sharply to touch a record high of Rs.83,707 crore, an increase of 158.5 per cent over that in 2006-07. Most of the issues were equity issues, which accounted for 98.4 per cent of total resource mobilisation through public issues during 2007-08 as compared with 97.4 per cent in the previous year (Chart VII.13). The resource mobilisation through public issues, however, declined sharply to Rs.12,502.64 crore during April-October 2008 from Rs.32,116.78 crore during the corresponding period of the previous year.

Table VII.4: Yield Spreads

(Basis points)

Year/Month	10 Year-reverse repo rate	10 Year-1 Year	20 Year-10 Year	30 Year-10 Year	5 Year AAA Bond-5 Year G-sec
1	2	3	4	5	6
2006-07	**189**	**77**	**32**	**43**	**106**
2007-08	**192**	**37**	**30**	**38**	**151**
Jan 2007	176	36	32	35	130
Feb 2007	198	37	16	21	137
Mar 2007	197	42	26	37	177
Apr 2007	217	27	19	33	166
May 2007	212	41	25	36	190
Jun 2007	220	65	23	31	190
Jul 2007	190	77	30	47	152
Aug 2007	194	51	31	39	184
Sep 2007	193	52	40	49	163
Oct 2007	189	21	37	43	128
Nov 2007	196	20	31	39	132
Dec 2007	182	19	25	31	127
Jan 2008	157	11	24	28	144
Feb 2008	160	11	32	36	163
Mar 2008	193	45	38	47	156
Apr 2008	201	27	38	42	144
May 2008	217	29	24	29	144
Jun 2008	269	-49	58	50	158
Jul 2008	332	-4	50	53	124
Aug 2008	278	-34	93	98	196
Sep 2008	263	11	67	74	224
Oct 2008	145	17	53	61	390

Chart VII.13: Resource Mobilisation from the Primary Capital Market



During April-October 2008, there were no public issues by scheduled commercial banks as against three issues (by scheduled commercial banks) of Rs.11,379 crore during the corresponding period of the previous year.

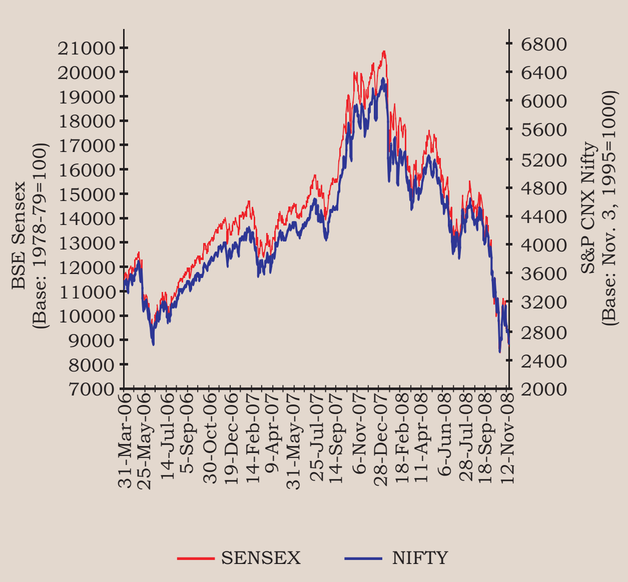
7.58 In recent years, large resources have been raised by way of debt from the private placement market. During 2007-08, resources raised from the private placement market increased sharply by 45.7 per cent to Rs.2,12,568 crore. However, during the first half of the current financial year (April-September 2008), mobilisation of resources through private placements declined by 15.7 per cent to Rs.79,594 crore.

7.59 During the financial year 2007-08, the domestic stock markets continued to surge from the beginning of the year till January 8, 2008 on the back of robust macroeconomic fundamentals, healthy corporate earnings, strong FII inflows, rise in global metal prices, cut in US Fed rate and easing of domestic annual inflation rate. The upward trend, although punctuated by mild corrections during mid-August 2007, mid-October 2007 and mid-December 2007 on account of worries over sub-prime losses and credit crunch in US and Europe, concerns over slowdown in US economy, it recovered again to attain new highs. The BSE Sensex closed at an all-time high of 20873.33 on January 8, 2008, recording gains of 59.7 per cent over end-March 2007.

7.60 Beginning, January 9, 2008, the domestic stock markets have witnessed a generally downtrend due to heightened concerns over recession in the US economy. Downward revision of GDP growth rate by CSO, hike in short-term capital gains tax in the Union Budget 2008-09, rise in domestic annual inflation rate, rise in global crude oil prices to record high levels, heavy net sales by FIIs and liquidity squeeze from the secondary market in the wake of biggest IPO by Reliance Power were other factors which dampened the market sentiment. As a result of these developments, the BSE Sensex at 15644.44 at end-March 2008, declined by 25.1 per cent from its all-time high level of 20873.33 on January 8, 2008. S&P CNX Nifty closed at 4734.50 at end-March 2008, recording gains of 23.9 per cent over end-March 2007. The co-efficient of variation, a measure of volatility, of the BSE Sensex rose to 13.7 per cent during 2007-08, from 11.1 per cent during 2006-07.

7.61 The performance of domestic stock markets in 2008-09 (up to December 8, 2008) has witnessed two distinct phases. The markets witnessed an upward trend till May 21, 2008 on account of strong Q4 2007-08 results by some IT and telecom companies, permission for short selling and securities lending and borrowing by both institutional and retail investors with effect from April 21, 2008, increase in global metal prices and other sector and stock specific news. On May 21, 2008, the BSE Sensex registered gains of 10.2 per cent over end-March 2008. A downward trend followed thereafter, mainly due to downswing in major international equity markets due to concerns over recession in the US. The BSE Sensex on December 8, 2008 at 9162.62, was 41.4 per cent lower than end-

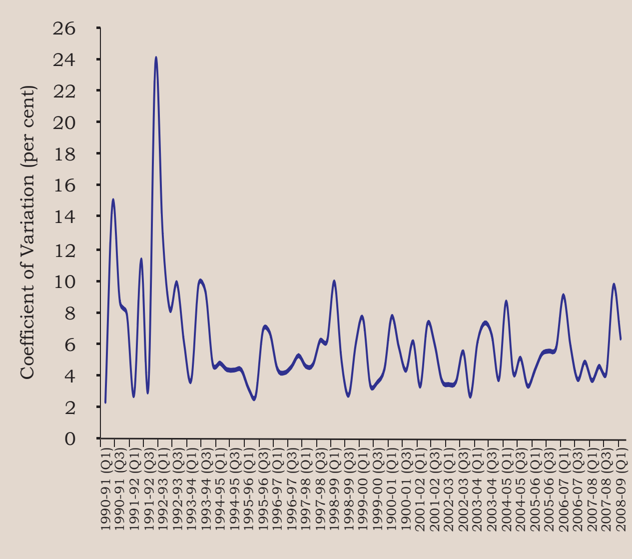
Chart VII.14: Movements in Stock Market Indices



March 2008, while S&P CNX Nifty at 2784.00 was 41.2 per cent lower than end-March 2008 (Chart VII.14).

7.62 The volatility in the stock markets, as measured by the coefficient of variation in the BSE Sensex and Nifty, increased beginning January 2008, reflecting episodes of erratic movements (Chart VII.15). To contain volatility, emphasis has been laid on risk

Chart VI.15: Quarterly Co-efficient of Variation of BSE Sensex



management practices at the stock exchange level and strengthening of the market design in recent times.

Payment and Settlement System

7.63 The payment and settlement systems, by providing a fast, efficient and secure basis for financial transactions, form the bedrock of the financial system. Current payment systems operate based on the technological development. The efficiency and velocity of the payment systems, based on the technological developments of the last 20 years, may diffuse a crisis arising in one country to the rest of the world, given the interconnection of the systems and the fact that their regulation and legislation have not advanced as fast as technological innovations (Box VII.3). Payment systems assume special significance, given the uncertain consequences that a disequilibrium in the payment systems could have on the implementation of monetary policy and the repurcussions the propagation of a systemic crisis has for financial stability. With a view to preventing systemic crises that could arise due to the failure of one or more payment system participants, the Committee for Payment and Settlement System (CPSS) at the BIS formulated the Core Principles for systemically important payment systems. Moreover, remarkable advances on the creation of the Core Principles for Securities Settlement Systems have been achieved. The principles are intended to be accurate and precise, and at the same time universal, capable of being followed and applied depending on the development, resources and necessities of each country.

7.64 A sound legal base for the payments system constitutes one of the core principles for systemically important payment systems. The notification of the Payment and Settlement Systems Act, 2007 along with its regulations, *viz.*, Board for Regulation and Supervision of Payment and Settlement

Box VII.3: Inter-dependencies of the Payment and Settlement Systems

The network of domestic and cross-border systems that comprise the global payment and settlement infrastructure has evolved significantly in recent years. These systems, like the financial markets and economies they support, are increasingly connected through a wide array of complex inter-relationships. Through these relationships, the smooth functioning of a single system often becomes contingent on the performance of one or more other systems. It is because of the implications that disturbances in payment systems may create for financial and economic stability that central banks have, as a priority task, the purpose of facing the challenges stated by the inter-dependence of payment systems.

This increasing inter-dependence is driven by several inter-related factors, including technological innovations, globalisation and financial sector consolidation. In addition, a number of initiatives by the financial industry and by public authorities to reduce the costs and risks of settlement have purposely promoted greater integration among the numerous components of the global payment and settlement infrastructure. For instance, the 1989 G-30 recommendations for T+3 securities settlement, central bank policies encouraging the development and reliance on systems with intra-day finality, and the CPSS focus on reducing foreign exchange settlement risk have provided incentives for more straight through processing (STP) and tighter relationships among individual systems.

While these explicit initiatives explain one aspect of tightening inter-dependencies, institutions' profit-seeking and cost management incentives also foster inter-dependencies. Inter-dependencies have important implications for the safety and efficiency of the global payment and settlement infrastructure. Some forms of inter-dependencies have facilitated significant improvements in the safety and efficiency of payment and settlement processes. On the positive side, inter-dependencies improve the safety of the global payment and settlement infrastructure by facilitating delivery *versus* payment (D*v*P) and payment *versus* payment (P*v*P) processes, thereby eliminating a key source of principal credit risk. In addition, inter-dependencies can reduce credit and liquidity risk by facilitating the use of central bank money as a settlement medium. Inter-dependencies can also help reduce operational risk through better integration of the different steps across systems.

At the same time, inter-dependencies increase the potential for a given disruption to spread quickly to many different systems. This potential was noted in the G-10 report on Financial sector consolidation (the Ferguson Report, 2000), which suggested that inter-dependencies might accentuate the role of payment and settlement systems in the transmission of disruptions across the financial system. In some circumstances, disruptions may amplify as they spread across systems. In other situations, inter-dependencies may help dampen the effect of disruptions, in particular by allowing liquidity to flow more rapidly across different elements of the global payment and settlement infrastructure. Moreover, the actual path that a disruption would follow could be influenced by many other factors, including the reactions of systems and institutions. In addition, risks have become increasingly concentrated in a limited number of critical systems, institutions and service providers. In some cases, such as that of CLS, this trade-off has been anticipated and accepted, especially in the light of reduction of principal credit risk.

While some risk management practices and standards consider inter-dependencies to an extent, there is still a considerable room for improvement. Additional exercises to test the compatibility of different entities' business continuity plans, for instance, could improve the degree of co-ordination among inter-dependent stakeholders, helping to prevent and manage potential disruptions. Moreover, the increasing inter-dependence of the global payment and settlement infrastructure is a dynamic phenomenon, and generally poses risks to be managed rather than eliminated. To maintain their effectiveness, risk management policies need to keep pace with the changing sources of risk arising from inter-dependencies.

Strengthening systems to prevent and contain systemic risks has been a long-standing focus of the CPSS and its member central banks. As a result, many elements of the CPSS Core Principles for systemically important payment systems (Core Principles), CPSS/IOSCO recommendations for securities settlement systems (RSSS), and CPSS/IOSCO recommendations for central counterparties (RCCP) address some of the challenges posed by inter-dependencies, including the potential for disruptions to spread across systems. The RSSS and RCCP standards, for example, contain explicit recommendations on links between two central securities depositories (CSDs) and two central counterparties (CCPs), respectively. Moreover, all three sets of standards address the management of settlement risk, including settlement asset risk, and the related potential for disruptions to affect other systems.

To address the problem of the potential for a disruption to spread quickly to many systems, the system operators, financial institutions, and service providers are required to take several actions in order to adapt their existing risk management practices to the more complex, integrated environment resulting from tighter inter-dependencies. Towards that end, the importance of broad risk management perspectives, risk management controls commensurate with the role played in the global payment and settlement infrastructure, and greater coordination among inter-dependent stakeholders cannot be overlooked. Central banks and other authorities also need to review, and where necessary, adjust their policies in the light of the challenges posed by inter-dependencies.

References:

BIS. 2005. Central Bank Oversight of Payment and Settlement Systems. CPSS Paper No.68. May.

BIS. 2008. The Interdependencies of Payment and Settlement Systems. CPSS Paper No.84. June.

BIS. 2001. Core Principles for Systemically Important Payment Systems. CPSS Paper No.43. January.

Systems Regulations, 2008 and Payment and Settlement Systems Regulations, 2008 on the same date (August 12, 2008), was a leap forward towards providing a well founded legal basis for payment systems in India. Accordingly, the Reserve Bank has been vested with the powers to regulate and oversee the payment and settlement systems in the country, including those operated by entities not regulated by the Reserve Bank. The Bank has framed the minimum standards for magnetic ink character recognition (MICR) and non-MICR clearing houses. Similarly minimum standards for operations of ECS and NEFT have also been prepared and circulated to clearing houses for adoption.

7.65 The Reserve Bank continued to exercise its oversight over payment and settlement systems with a view to ensuring its security, efficiency and soundness. Significant measures were taken by the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) towards risk mitigation, improving customer service, as well as modernising, and increasing technological intensity of the system. Some of the important measures initiated included, *inter alia*, preparation of a framework for payments through mobile phones; extension of jurisdiction of the MICR clearing houses; computerisation of non-MICR clearing houses; expanding national electronic funds transfer (NEFT) system to make all real time gross settlement RTGS branches NEFT enabled; upgrading the NEFT system into a 24x7 type remittance system; making mandatory use of electronic mode of payment for large value transactions (initially Rs.1 crore and above, later Rs.10 lakh and above) between the Reserve Bank regulated entities and markets. The Report on Oversight of Payment Systems in India released on November 28, 2007 laid down the major international initiatives towards oversight of the payment and settlement systems, and status of implementation in the Indian case.

7.66 The major highlight of the Reserve Bank's initiatives in the area of information technology (IT) during 2007-08 was setting up of new data centres, and consolidation of systems for centralised data processing, business continuity and disaster recovery. In order to delineate the broad approaches being followed by the Reserve Bank so as to enable banks to plan their IT initiatives suitably, the latest version of the Financial Sector Technology (FST) Vision document for the period 2008-10 was also released.

7.67 The Reserve Bank continued to play a major role in developing the payment and settlement systems in India. This was reflected in an increase in the use of various electronic and paper based transactions. Various indicators of the payment system point towards a sharp increase in both volumes and values put through systemically important payment system (SIPS) and retail payment system, especially through the electronic clearing instruments, *viz.*, RTGS, forex and Government securities clearing and retail electronic fund transfer and card based payments within retail payment system. The systemically important payment systems (SIPS) transactions and the settlement of financial market clearing constituted 85.1 per cent of total transactions during 2007-08.

7.68 The ratio of annual turnover through various channels of the payment and settlement systems to GDP increased to 12.7 in 2007-08 from 8.6 in 2005-06, reflecting the robust increase in the value of annual turnover by 41.8 per cent during 2007-08 over and above the increase of 37.5 per cent in the previous year. The turnover of the various retail payment systems, including cheque clearing, electronic clearing services and card payments, increased by 23.4 per cent during 2007-08 from 11.6 per cent in 2006-07 mainly on account of sharp growth in retail electronic funds transfer. Cheques continued to be the predominant mode of retail payment, though the share of retail electronic mode of payment increased during 2007-08. MICR cheque clearing constituted 83.7 per cent and 86.1 per cent of the volume and value, respectively, of the paper based clearing during 2007-08. More than 800 clearing houses have been computerised where the settlement is done electronically, while the instruments still continue to be sorted manually.

7.69 The electronic funds transfer increased by more than five times during 2007-08 over the previous year, reflecting a significant increase across all modes of retail electronic funds transfer systems, *viz*., electronic clearing services (ECS), EFT and NEFT systems (Table VII.5). The sharp growth in value of retail transactions *vis-a-vis* their volume reflected, *inter alia*, the use of electronic mode, as mandated by the stock exchanges, for refunding the oversubscription amount of IPOs floated by companies. Accordingly, the share of retail electronic funds transfer, which remained fairly low in the retail payment system (2.6 per cent during 2006-07), increased sharply to 10.9 per cent during 2007-08.

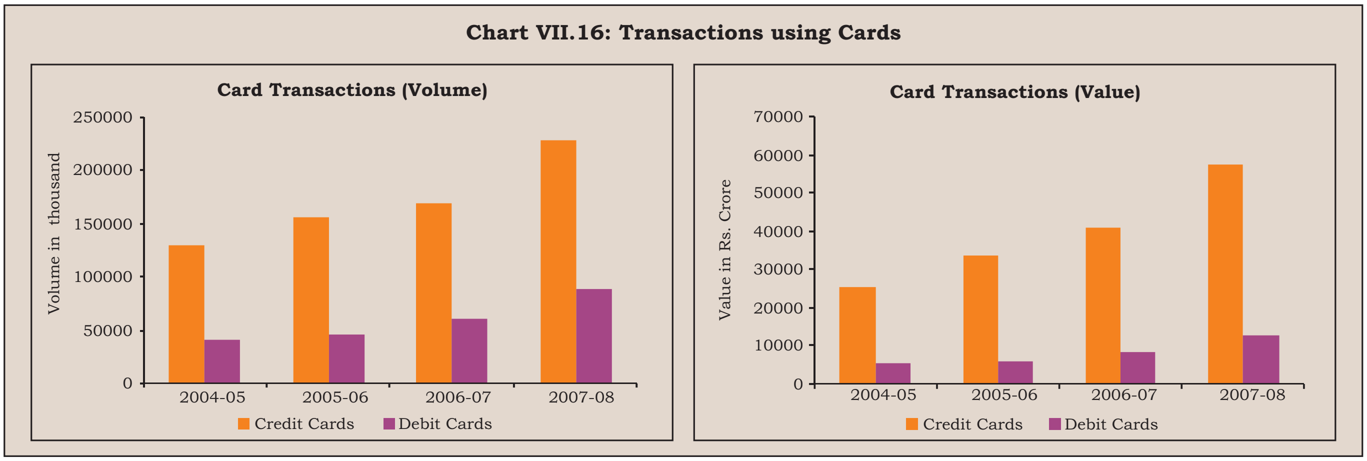
7.70 To encourage the use of electronic mode of payments, the Reserve Bank waived the processing charges for all electronic payment systems operated by it for another year, *i.e.*, till March 2009. The availability of ECS at 70 centres as against 67 centres in the previous year and the proposed National ECS (NECS) as announced in the Mid-Term review of the Annual Policy for 2007-08 would facilitate prompt services to the customers. The ECS as also NEFT are being preferred for making refunds of subscription to IPOs. The EFT, which was operationalised in 1995, is now permitted only for Government payments. All other electronic retail funds transfer are encouraged through NEFT, which is a much more secure payment system. These developments have contributed to the speed, efficiency and safety of the payment system.

7.71 The use of cards for making retail payments is also one of the preferred modes. The convenience and the acceptability of this mode of payment are reflected in the increased volume of transactions through cards - both debit as well as credit. Credit card transaction volumes increased by 34.6 per cent in 2007-08 and 8.6 per cent in 2006-07, while the increase in value was 40.2 per cent and 22.1 per cent, respectively, during the same period. Debit card transaction volumes increased by 46.7 per cent in 2007-08 and 31.7 per cent in 2006-07, while the increase in value was 53.2 per cent and 38.6 per cent, respectively, during the same period (Chart VII.16). Banks had issued a total of 26.7 million credit cards and 122.0 million debit cards, and the number

Table VII.5: Paper-based *versus* Electronic Transactions

(Volume in thousand and Value in Rs. crore)

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
2002-03	1,013,900	173,000	1,186,900	14.6	1,34,24,313	37,536	1,34,61,849	0.3
2003-04	1,022,800	167,551	1,190,351	14.1	1,15,95,960	49,67,813	1,65,63,773	30.0
2004-05	1,166,848	230,044	1,396,892	16.5	1,04,58,895	1,18,86,255	2,23,45,150	53.2
2005-06	1,286,758	287,489	1,574,247	18.3	1,13,29,134	2,24,39,286	3,37,68,420	66.5
2006-07	1,367,280	383,445	1,754,007	21.9	1,20,42,426	3,50,50,234	4,71,06,333	74.4
2007-08	1,460,564	541,150	2,001,714	27.0	1,33,96,066	2,83,60,321	4,17,56,387	67.9



of merchant establishments reached 428,479 at end-October 2008. The average value of transaction at point of sale (POS) using debit card and credit card was Rs.161 and Rs.2,415, respectively. With the increased usage of cards and to mitigate risk the Reserve Bank issued guidelines for credit card operations (refer Chapter II, paras 2.179-2.180).

7.72 The use of automated teller machines (ATMs) has also increased in view of the customer convenience. The number of ATMs increased to 36,314 at end-June 2008 from 28,704 at end-June 2007. The Reserve Bank examined the various issues through the Approach Paper on 'ATMs of Banks: Fair Pricing and Enhanced Access,' and issued regulatory guidelines on customer charges for use of ATMs for cash withdrawal and balance enquiry (refer Chapter II, para 2.197).

7.73 The RTGS system, which was operationalised in March 2004 for facilitating faster settlement of high value transactions, has stabilised with increased branch network and wider geographical coverage. The RTGS connectivity was extended to 47,608 branches at end-June 2008 facilitating sharp increase in volumes settled through this system. The volume and value of transactions through the RTGS system, both in the inter-bank and customer segment, increased sharply, particularly during the last quarter of 2007-08. The integration of the RTGS system with the Reserve Banks' internal accounting system (IAS) has enabled straight through processing (STP). Also, with the integration of the RTGS-IAS and the securities settlement system (SSS), automatic intra-day liquidity (IDL) is available. The clearing and settlement operations at NCC, Mumbai and CCIL operated systems are settled in the RTGS as multilateral net settlement batch (MNSB) mode. These measures have contributed to financial stability.

7.74 The Clearing Corporation of India Limited (CCIL) set up by banks and financial institutions at the initiative of the Reserve Bank clears and settles inter-bank trades in Government securities and foreign exchange as well as a money market product, *viz.*, the CBLO. The settlement of all secondary market outright sales and repo transactions in Government securities is carried out through 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 CCIL for settlement. These trades are settled on a delivery *versus* payment (DvP) III basis, *i.e.*, the funds leg as well as the securities leg is settled on a net basis. CCIL also provides guaranteed settlement facility for all US dollar - Indian rupee, inter-bank cash, spot and forward transactions by becoming the central counter party to every trade accepted for settlement, through the process of novation[11]. The rupee legs of the transactions are settled through the member's current accounts with the Reserve Bank and the US $ leg through CCIL's account with the settlement bank at New York. CCIL also provides continuous linked settlement (CLS) services for banks in India by availing of third party services of a settlement bank. Currently, 13 banks are availing this facility to settle cross currency trades. The total volume and value transacted through the two systems - Government Securities Clearing and Forex Clearing has witnessed a significant increase (Table VII.6). These systems have significantly promoted safety and efficiency in the settlement of inter-bank payments.

7.75 The centralised funds management system (CFMS) enables banks holding current account with the Reserve Bank to view their balances at all the Reserve Bank offices [through centralised funds enquiry system (CFES)] and transfer funds between the Reserve Bank offices [through centralised funds transfer system (CFTS)]. This facility is now available at all the Reserve Bank centres. At present, 71 member banks are making use of this facility extensively.

7.76 It is thus evident that in the conduct of its oversight of the payment and settlement system, the Reserve Bank's responses to the emerging challenges were based on credible communication, adequate and timely availability of information and a broad-based, participative and consultative approach in its developmental and regulatory policies with involvement of all stakeholders. Any shortcoming in this vital infrastructure could lead to broader financial and economic instability as large-values are transacted by the SIPS and failures in the retail payments segment could lead to the erosion of public confidence. In an event of financial stress, market participants or central banks may wish to supply emergency liquidity to certain participants in a payment and settlement system in an attempt to encourage the orderly settlement of transactions in the interests of overall financial system. Additionally, central bank's role in payment systems frequently calls for co-operation and co-ordination of activities with other authorities such as banking supervisors and securities regulators to ensure smooth discharge of legal or other responsibilities essential for the payment system. Accordingly, the role of the central bank in discharging its oversight function is to assess the risks involved and to seek cooperation with relevant stakeholders to put in place risk mitigation measures, and also ensure that the risks are not transmitted to other systems/participants.

Table VII.6: Government Securities and Forex Clearing by CCIL

(No. of trades in 000's; value in Rs. crore)

Period	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
2007-08	189	16,53,851	27	39,48,751	757	127,26,832

11 Novation is the process by which Government securities transactions are settled through CCIL. This means that CCIL will act as a buyer to the seller of security and simultaneously will act as a seller to the buyer of the security. This will in effect remove the credit risk faced by members vis-à-vis their counterparties. Besides, CCIL provides the additional comfort of improved risk management practices through daily marking to market of collateral, maintenance of daily margins by members and through a Guarantee Fund.

3. Key Sources of Vulnerability to the Indian Financial System

7.77 The multi-pronged approach followed for strengthening and developing financial institutions, markets, payment systems and infrastructure have had a positive impact on the Indian financial system. The assessment of developments during 2007-08 and 2008-09 so far suggests that financial institutions, especially scheduled commercial banks, are on a sound footing. Domestic financial markets have been constantly developing, and functioning normally, despite some indirect knock on effects of global developments. Financial infrastructure now is much more robust than it was a few years ago. While the financial system on the whole is quite robust, which augurs well for financial stability, there is also a need to be aware of some downside risks in certain areas that could have a bearing on the stability of the financial sector in the near future.

7.78 In the backdrop of the financial market turmoil in the developed economies, threats to financial stability remain at elevated levels with possible feedback into the prospects for macroeconomic performance. Since the collapse of the leading US investment banks in August-September 2008, there has been a breakdown of trust in inter-bank and inter-institutional lending. Given that this kind of extreme risk perception would be reversed only slowly, the full resolution of the crisis would inevitably take time. While emerging markets had initially remained fairly resilient to global financial market turmoil, they have recently come under increasing pressure. Financing conditions have deteriorated since beginning of 2008 and equity markets have declined sharply, *albeit* from elevated levels. Capital outflows have intensified leading to tighter international and, in some cases, domestic liquidity conditions. Borrowers and financial institutions in emerging markets are likely to be confronted with a more trying macroeconomic environment. The developments in these areas need to be watched carefully with a view to putting in place corrective macroeconomic policy responses with the ultimate objective of maintaining stability in different segments of the financial system and to fortify the economy from the possible spillover effects.

Adverse International Developments

7.79 Developments in the global financial system have heightened the uncertainty in the global economy. The credit markets in the western world, especially in the US, have, in the recent past, witnessed considerable turmoil and significant loss of market liquidity leading to financial distress in a few institutions and considerable financial damage to several others, prompting some of the major central banks to inject liquidity into the markets. There was a collective failure to appreciate the extent of leverage taken on by a wide range of institutions - banks, monoline insurers, government-sponsored entities, hedge funds - and the associated risks of a disorderly unwinding. Private sector risk management, disclosure, financial sector supervision, and regulation all lagged behind the rapid innovation and shifts in business models, leaving scope for excessive risk-taking, weak underwriting, maturity mismatches, and asset price inflation. The transfer of risks off bank balance sheets was underestimated. As risks have materialised, this has placed enormous pressures back on the balance sheets of banks. Notwithstanding unprecedented intervention by major central banks, financial markets remain under considerable strain, now compounded by a more worrisome macroeconomic environment, weakly capitalised institutions, and broad-based deleveraging.

7.80 The exact extent of losses and exposures is not known as yet and perceptions of a pronounced increase in default risk continues to prevail as was evident in high credit default swap (CDS) spreads. Money markets remain dislocated and, despite central bank liquidity injections alleviating pressures, uncertainty about future liquidity supply and counterparty risk persists. Global equity markets have fallen considerably in 2008 with an increase in volatility, decline in investors' risk tolerance, the worsening of the macroeconomic outlook and renewed credit related concerns. Bond yields, which stabilised since mid-March, 2008 have started to recover in developed economies and a flight to safety is leading up to a shortage of paper. Longer term real yields have declined sharply on recession fears. In the foreign exchange market, the US dollar and the pound sterling depreciated in effective terms whereas the euro, the yen and the Swiss franc appreciated along with several Asian currencies. Concerns about a more widespread slowdown, and perceptions of overvaluation have been weighing on emerging market asset classes in 2008 with spreads on sovereign debt widening. The outlook is highly unclear and the prospects of resolution of the multiple disequilibria embedded in global developments are fraught with uncertainty.

7.81 The financial market crisis with US at its epicentre has started to spread across markets, and across nations. The US slowdown is spreading *via* the trade and financial channels. The significant slowdown in the projected global growth from 5.0 per cent in 2007 to 3.7 per cent in 2008, and to just over 2.0 per cent in 2009, is likely to have implications for every economy (WEO Update, November 2008). In view of strong international linkages among economies, macroeconomic prospects for the EMEs, which till very recently remained relatively insulated, face the downside risks from lagged effects of the downturn. As the notion of 'decoupling' of emerging market countries from mature markets has turned out to be incorrect, emerging market policymakers would have to cope with a global growth slowdown, and reversal of capital flows (Box VII.4). As per the WEO update of November 2008, growth in emerging economies would decelerate from 8.0 per cent in 2007 to 6.6 per cent in 2008 and further to 5.1 per cent in 2009. There is a risk that the confluence of circumstances emerging out of the financial turmoil could accelerate a downturn in the credit cycle in some emerging market economies.

7.82 The banking sector in India does not have any direct exposure to the US sub-prime market. Some banks in India, however, have indirect exposure through their overseas branches and subsidiaries to the US sub-prime markets in the form of structured products, such as collateralised debt obligations (CDOs) and other investments. However, such exposure is not very significant, and banks have made adequate provisions to meet mark-to-market losses on such investments. Besides, banks also maintain high level of capital adequacy ratio. Thus, the risks in the banking sector appear limited and manageable.

7.83 There is, however, apprehension that current market conditions, may lead to recession in the US having significant impact on other economies. In this context, it may be noted that India is largely a domestic demand driven economy and exports constitute a relatively smaller portion of India's GDP, as compared to many other economies. In recent years, India's export basket has also become more diversified, although the US continues to be one of the major trading partners. While strong regional sources of growth within EMEs may be a mitigating factor, weakening of economic activity in the US would impact

Box VII.4: Economic Integration and Decoupling of the Emerging Economies

In recent years with rapid increase in trade and financial linkages across countries, emerging market economies have emerged as major players in the global economy. Decoupling holds that emerging European and Asian economies have broadened and deepened to the point that they no longer depend on the US for growth This has generated a debate about possible changes in the generally observed patterns of international business cycle co-movement.

The major channels of coupling include: (i) integration between economies and rise in internationally integrated production; (ii) the international movement of workers leading to remittances; (iii) growth in international linkages in financial services through increased cross-listings of stocks and more cross-border ownership and control of exchanges, banks, and securities settlement systems; (iv) spillover through commodity prices and through financial variables such as short- and long-term interest rates and equity prices.

Empirical research shows convergence of business cycles among a larger group of industrial economies and among emerging market economies over time, but there has also been a simultaneous decoupling of business cycles between these two sets of countries (Kose, Ortok and Prasad, 2008). The authors cautioned that although the results suggested emerging markets as a group are becoming an independent driver of global growth, their decoupling potential would still depend on the duration and severity of a US downturn. However, their analysis includes linkages through real macroeconomic aggregates but does not account for financial ones.

So long as the US slowdown was attributed to US specific developments - primarily in housing and manufacturing, the spillover effects to other economies was Considered modest. However, as the transmission began to involve asset price spillovers or confidence channels, the impact became much larger. The influence of the U.S. economy on other economies does not appear to have diminished. On the contrary, indications are that the magnitude of spillovers has increased over time, particularly in neighboring countries and regions, which is consistent with the notion that greater trade and financial integration tends to magnify the cross-border effects of disturbances (WEO, 2007).Stock prices in the emerging market economies moved downward during acute periods of US financial stress over the past year. The IMF in a recent study confirms that global factors are as important in explaining the movement in emerging markets equity prices as their domestic fundamentals. Using various measures of correlation, it is also found that the scope for spillovers to emerging equity markets has risen, suggesting a growing transmission channel for equity price movements. This could, in turn, affect consumption and investment in emerging markets, although such macrofinancial linkages are found to be small and they tend to play out gradually (GFSR, 2008).

In the context of effect of financial crisis on developed countries, it is argued that financial innovations like growth of non-bank intermediaries such as private equity firms and hedge funds, deepening of resale markets for capital, and sophisticated products and contracts, among others, might have made these economies less vulnerable to crises by widening the access to liquidity and allowing assets to be traded more easily during periods of stress (Gai *et al.*, 2008). Though the developed economies are able to tide over mild and less severe shocks, in case of extremely severe shocks, a crisis is inevitable, regardless of the ex ante beliefs. In the crisis situation, such financial innovations could impact more severely by way of relaxing the financial constraints facing borrowers with the result that asset prices are driven down to such an extent that all intermediaries and firms are forced to liquidate all of their assets, intermediaries shut down, and the closure of firms means that there are no investment opportunities in the more-productive sectors of the economy. It is also argued that crises in emerging market economies are more frequent but less severe than in developed countries [Caprio and Klingebiel (1996), and Demirguc-Kunt and Detragiache (2005)].

References:

Bayoumi, Tamim and Andrew Swiston. 2007. "Foreign Entanglements: Estimating the Source and Size of Spillovers Across Industrial Countries." IMF Working Paper 07/182. Washington: International Monetary Fund. July.

World Economic Outlook. 2007. "Decoupling the Train? Spillovers and Cycles in the Global Economy." International Monetary Fund. April.

Kose. M. Ayhan, Christopher Otrok, and Eswar Prasad. 2008. "Global Business Cycles: Convergence or Decoupling?" IZA Discussion Paper No. 3442. April.

Gai, Prasanna, Sujit Kapadia, Stephen Millard and Ander Perez. 2008. "Financial Innovation, Macroeconomic Stability and Systemic Crises." Bank of England Working Paper No. 340. February.

Kohn, Donald L. 2008. "Global Economic Integration and Decoupling" at the International Research Forum on Monetary Policy. Frankfurt. Germany. June 26.

India's economy through the trade channel. There are indications that the current crisis has implications in terms of higher funding costs and difficulties in raising external finance, particularly, for lower rated firms.

7.84 The main impact of the global financial turmoil in India has emanated from the significant change experienced in the capital account in 2008-09 so far, relative to the previous year. Total net capital flows declined from US $17.3 billion in April-June 2007 to US $13.2 billion in April-June 2008. Capital flows are expected to be lower in the current fiscal year 2008-09 as compared with the previous year. While foreign direct investment (FDI) inflows have continued to exhibit accelerated growth (US $ 19.3 billion during April-September 2008 as compared with US $ 9.2 billion in the corresponding period of 2007), portfolio investments by foreign institutional investors (FIIs) witnessed a net outflow of about US $ 11.9 billion in April-October 2008 as compared with a net inflow of US $ 22.3 billion in the corresponding period of the previous year.

7.85 The slowdown/reversal of capital flows could affect an economy through several ways such as (i) decline in equity markets and the resultant difficulty in raising capital from the market; (ii) sharp realignment of exchange rates; (iii) tightening of liquidity conditions and rise in interest rates; and (iv) hard lending of credit cycle. Capital flows have also become an important determinant of exchange rate movements on a day-to-day basis. Such exchange rate movements have implications for the financial and real sectors of the economy. With the existence of a merchandise trade deficit of 7.7 per cent of GDP in 2007-08, and a current account deficit of 1.5 per cent, and change in perceptions with respect to capital flows, there has been significant pressure on the Indian exchange rate in recent months. The exchange rate has depreciated from Rs.39.99 per dollar as at end-March 2008 to Rs.49.11 as on December 10, 2008. In real effective terms whereas the 6-currency real exchange rate appreciated from an index of 104.9 (base 1993-94=100) in September 2006 to 115.0 in September 2007, it has now depreciated to a level of 100.1 as on December 10, 2008.

7.86 The net sales by FIIs have adversely affected the equity market in India. This combined with some other factors resulted in a decline in the BSE Sensex by 56.1 per cent (as on December 8, 2008), since January 8, 2008. According to the IMF's Global Financial Stability Report of October 2008, correlation of equity markets in EMEs with those in the advanced economies has risen, suggesting a growing transmission channel for equity price movements.

7.87 In India, inflation based on year-on-year variations in the wholesale price index (WPI) increased to 7.7 per cent in 2007-08 compared with 5.9 per cent in 2006-07. Consistent with the stance of monetary policy, the evolving liquidity situations and on the basis of incoming information on domestic and global macroeconomic and financial developments, it was decided to increase the CRR by 25 basis points each on May 10, 2008 and May 24, 2008 to 8.25 per cent. Furthermore, the repo rate under the LAF was increased from 7.75 per cent to 8.00 per cent on June 12, 2008 and further to 8.50 per cent with effect from June 25, 2008. The CRR was again increased by 50 basis points to 8.75 per cent in two stages from July 5, 2008 and July 19, 2008 by 25 basis points each.

7.88 Inflation, in terms of the WPI, softened steadily from the level of 12.9 per cent on August 9, 2008 and has declined to 8.4 per cent for the week-ended November 22, 2008, reflecting decline in prices of freely priced petroleum products (in the range of 15-22 per cent) in line with decline in international crude oil prices (by 45 per cent since July 2008) as well as easing in other commodity prices such as oilseeds/edible oils/oil cakes, raw cotton and cotton textiles following global trends. Globally, pressures from commodity prices, including crude, appear to be abating. The international crude prices which hardened from an average level of US $ 57 per barrel at end-2005 to an average level of US $ 73 per barrel by July 2006, and thereafter rose sharply to reach a historic high of US $ 145.3

per barrel by early July 2008, eased significantly to around US $ 44 per barrel by December 10, 2008 reflecting decline in demand in OECD countries and improved near-term supply prospects in non-OPEC countries. The moderation in key global commodity prices, if sustained, would further reduce inflationary pressures.

7.89 The adverse global developments have led to moderation of growth in the industrial and services sectors in the first-half of 2008-09. In recent weeks, the impact on liquidity and credit has also been felt. On the growth front, it is important to ensure that credit requirements for productive purposes are adequately met so as to support the growth momentum of the economy. The Reserve Bank has kept a close vigil on the entire financial system to prevent pressures from building up in the financial markets. This includes liquidity enhancing measures to ease liquidity pressures.

7.90 The global financial situation, described as the worst since the Great Depression, continues to be uncertain and unsettled. Currently, it is difficult to speculate about the trajectory of global downturn, and its consequent fallout for the Indian economy. This remains uncharted territory and experience suggests that there is at times the need to go beyond standard or conventional solutions. The Reserve Bank has endeavoured to be proactive, and has taken measures to manage the rapid developments and ease pressures stemming from the global crisis. The stance of monetary policy has been eased with the reduction in CRR by 350 basis points, repo rate by 250 basis points and reverse repo rate by 100 basis points between October and December 6, 2008 (refer Chapter II, Box II.2).

Asset Prices

7.91 The role of real estate exposure's (REE) in financial crises has been recognised since long. In the late 1990s, the 'Asian crisis' amply demonstrated the interlocking of credit booms and real estate bubbles in the economic upswing, followed by the damaging impacts of prolonged real estate slumps on the solvency of banks, the availability of credit and general economic growth.

7.92 The recent global financial turmoil caused by the crisis in the mortgage market in the US has once again brought into focus the dangerous inter-dependence between real estate cycles, bank crisis and the ultimate threat to financial stability. The major portion of real estate exposure consists of mortgage related assets which are long-term in nature having dynamic cash flow characteristics which render them as risky ventures. It, therefore, becomes imperative on the part of the banks to manage the balance sheet risks associated with real estate exposure, particularly in the current scenario of slowdown in the economy with its expected ramifications on real estate prices, given the historically positive correlation between economic downturn and its adverse impact on real estate prices (Box VII.5).

7.93 Asset prices (real estate and equity prices) in India rose sharply beginning 2005. The BSE Sensex rose by 240.2 per cent between April 19, 2005 and January 8, 2008, when the market was at its peak. Real estate prices also rose sharply. Although no firm information is available on the extent of the rise in real estate prices, anecdotal evidence suggests that real estate price rose between two to four times during the last three to four years in different parts of the country. A pilot survey on *Real Estate Prices and Rent in Greater Mumbai* conducted by the Reserve Bank also showed that the rent and sale/ resale prices of residential properties in Mumbai increased significantly over the last four years.

7.94 The phenomenon of sharply rising asset prices is not confined to India alone but has also occurred around the world. For instance, the US, Australia, Denmark, France, Sweden, Spain, New Zealand, and the United

Box VII.5: Banks' Exposure to the Real Estate Sector - Various Risks

Real estate lending involves a variety of inherent and inter-related risks. There are various channels through which risks may be transmitted to a bank's balance sheet in respect of its REE:

(i) Credit Risk: A downturn in the economic cycle could result in a depletion in the households' surplus which in turn would increase the default risk and reduction in collateral values. Also the probability of adverse selection during credit boom raises the delinquencies during economic downturn. Further, rise in interest rates leads to increase in EMIs for floating rate exposure, especially in retail housing loans, which borrowers may find difficult to pay.

(ii) Interest Rate Risk: As interest rate goes up, fixed rate real estate advances could have a negative effect on banks' profitability due to increase in funding costs. Management of assets and liabilities becomes essential with enhanced efforts to garner long-term deposits as a risk mitigating measure.

(iii) Liquidity Risk: Real estate exposures are essentially illiquid and are difficult to liquidate at short notice without incurring loss. Thus, banks need to have a thorough understanding of variability of mortgage cash flows and corresponding impact on balance sheet which is inversely related to the movements in interest rates.

(iv) Prepayment Risk: This risk is related to interest rate cycle. It increases in a falling interest rate scenario. There is also the inherent asset-liability mismatch arising from very long maturity real estate loans such as retail housing loans.

(v) Transfer of Risks from Subsidiaries: The risk that difficulties faced by specialised non-bank subsidiaries or connected entities involved in the real estate sector may get transferred to the parent bank.

(vi) Operational Risk (frauds): The incidence of frauds in the area of housing loans has witnessed a sharp increase in the recent years. Submission of forged documents, laxity in conduct of due diligence of borrowers / builders, non-observance of appraisal procedures and laxity in post-disbursement supervision mainly contributed to frauds in this area.

Apart from these, there could be 'second round' effects in that the risks related to adverse changes in the macroeconomic and financial environment could get linked to a period of declining real estate prices. Internationally, loan-to-value ratio (LTV) is regarded as a dominant indicator of default probability of residential mortgage loans, loans with high LTV (say, above 80 per cent) could be assigned higher risk weight. The suggestion is based on empirical evidence from some countries. While acknowledging the obvious shortcomings of LTV being positively correlated with probability of default, it needs to be pointed out that in India there is no reliable real estate price index as yet and any estimation of LTV is thus only a conjecture.

Kingdom have all had rapid appreciation of real estate prices in recent years.

7.95 While equity prices have since corrected by 56.8 per cent (as on November 26, 2008) from the peak level, real estate prices continue at their elevated levels, although some reports do suggest some softening of prices in some parts of the country in recent months.

7.96 Sharp rise in asset prices raises some concerns for financial stability (Box VII.6). Real estate prices, like other asset prices, have important effects on output and inflation. There are primarily two ways through which real estate prices affect the economy. First, in a rising prices scenario, the expectation of further appreciation is factored into the prices. That expectation stimulates demand for homes, which, in turn, stimulates new construction activity and aggregate demand. Second, higher real estate prices increase household wealth, which stimulates consumer spending. If real estate prices rise above the level than what is justified by the fundamentals, too many houses will be built. At some point, the correction would set in and asset prices then return to their fundamental values. When this happens, the sharp downward revision of asset prices can lead to a sharp contraction in the economy, both directly, through effects on investment, and indirectly, through the effects of reduced household wealth on consumer spending. There is, thus, concern that rapid rise in real estate prices at some stage might have adverse effects on the economy.

7.97 Over the years, banks in India enlarged their exposure to the real estate market. Such exposure at end-March 2008 constituted 19.3 per cent of total bank credit as against 1.6 per cent at end-March 2004. The Reserve Bank alerted banks about 'early signs of overheating of the Indian economy' during 2006-07 on the back of some evidence of firming up of demand

Box VII.6: Real Estate Price and Financial Stability

Asset prices such as real estate prices and stock prices, are conceptually different from the prices of current consumption goods and services. Real estate prices are somewhat special in that they are forward looking and reflect the market expectations on valuations of future stream of services associated with the asset. That is, they convey information about future demand and supply conditions. In addition, changes in real estate prices influence household wealth and, therefore, impact consumer spending and aggregate demand. Accordingly, asset prices contain important information about the current and future state of the economy and can play an important role in monetary policy setting with the overall objectives of price stability and sustainable output growth.

Standard economic principles suggest that prices are determined by the fundamentals of supply and demand. So rising prices typically reflect growth in demand relative to supply. In the case of real estate price movements, however, many of these fundamental factors that shape the market's expectations of future supply and demand are not directly observable. As a result, it is difficult to ascertain whether rapid shifts in real estate prices are reflecting changes in the underlying fundamentals or not. When the expectations turn out to be wrong or get revised as new information becomes available, the real estate market may witness dramatic adjustments in prices and raises concern that prices have lost touch with the underlying fundamentals. In such a circumstance, there is the fear that a 'bubble' may be developing that may eventually burst.

Price bubbles in the real estate market have distinct features - a price bubble implies that the market is sending misleading price signals and, therefore, distorting resource allocations. For example, overinvestment in some assets and under-investment in others is a likely outcome. The bubble may also be accompanied by excessive accumulation of debt. Second, given the distortions and imbalances created during the run-up in prices, the bursting of the bubble and associated rapid decline in prices can wreak havoc with the balance sheets of individuals and financial institutions. This can impart ripple effects through the rest of the economy. For example, rapid declines in asset prices have at times been associated with sharp contractions of economic activity and severe financial problems as the imbalances and distortions are reversed. Finally, the biggest hurdle is to determine if there is a bubble or not.

There is general agreement among policymakers that, regardless of the cause of a rapid rise in housing or other asset prices, the rapid unwinding of such price booms should be monitored carefully by policymakers. Otherwise, the risk of misallocating resources and risk-bearing, as well as increased moral hazard problems could ultimately make the financial system more fragile. Therefore, a key ingredient for ensuring asset price bursts triggering widespread adverse effects on the financial system is to develop a healthy banking system providing real estate loans and monitor real estate price movement across regions on a regular basis.

References :

Bernanke, B. and M. Gertler. 2001. "Should Central Banks Respond to Movements in Asset Prices?" American Economic Review. 912. 253-257.

Hunter, W.C., G. G. Kaufman and M. Pomerleano.(eds). 2003. "Asset Price Bubbles: The Implications for Monetary, Regulatory and International Policies." MIT Press.

Plosser, C.I. 2007. House Prices and Monetary Policy. Speech by the President, Federal Reserve Bank of Philadelphia. European Economics and Financial Centre. Distinguished Speakers Series.

pressures, in particular, the combination of high growth and consumer inflation coupled with escalating asset prices and tightening infrastructural bottlenecks. In this context, to supplement monetary measures and to protect the banking system from a possible enduring asset bubble without undermining growth impulses, prudential measures were also initiated in the form of enhanced provisioning requirements and risk weights in specific sectors in addition to select supervisory reviews.

7.98 In view of the risks posed by accelerated exposures to the real estate sector, the Reserve Bank initiated several regulatory measures including advising banks to frame Board approved policy, prescribing higher risk weights, disclosure and reporting of the REE, and even revising the definition of REE. In June 2005, the Reserve Bank advised banks to have a Board mandated policy in respect of their real estate exposure, robust risk management framework covering single/group exposure limits, margins, collaterals/security, repayment schedule and availability of supplementary finance. In view of the rapid increase in loans to the real estate sector raising concerns about asset quality and the potential systemic risks posed by such exposure, the risk weight on banks' exposure to commercial real estate was increased from 100 per cent to 125 per cent in July 2005 and further to 150 per cent in April 2006. However, as a counter cyclical measure, it was decided on November 15, 2008 to reduce the risk weights on claims secured by commercial real estate to 100 per cent and to reduce the provisioning requirements for all types of standard assets to a uniform level of 0.40 per cent except in the case of direct advances to the agricultural and SME sectors, which would continue to attract a provisioning of 0.25 per cent, as hitherto.

7.99 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 from 50 per cent to 75 per cent in December 2004. However, on a review, banks were advised to reduce the risk weight in respect of exposures arising out of housing loans up to Rs.30 lakh to individuals against the mortgage of residential housing properties from 75 per cent to 50 per cent, in view of the lower perception of risks in these exposures.

7.100 Banks are required to disclose their gross exposure to the real estate sector in their published balance sheets to act as market discipline. As part of the regular off-site reporting mechanism, banks are required to report on a monthly basis their gross exposures to various real estate sectors. Real estate exposures both at macro and micro levels are closely monitored and any unusual spurt in exposures are taken up with respective banks for further discussion.

7.101 Apart from the above-mentioned regulatory measures, several measures were taken to prevent/contain the frauds in the area of housing loans such as: (i) caution advices against borrowers/developers/builders, *etc.*, in all cases of frauds in housing loans in which amount involved was Rs.5 lakh and above against each individual borrower; (ii) *modus operandi* circulars/making the banks aware of the various practices being adopted by fraudsters; (iii) dialogues with the State Governments impressing upon them the need for rationalising stamp duty/registration fees in order to tackle the problem of availing multiple finance by borrowers by mortgaging the same property with different banks; and (iv) detailed instructions to banks in May 2006 highlighting the need for adopting best risk management practices covering credit appraisal, verification of documents, pre and post sanction appraisal, ensuring due diligence, among others, in order to reduce the incidence of frauds in the residential mortgage segment.

4. Mitigating Risks through Financial Sector Policies

7.102 Owing to globalisation and integration, any disruption in the financial system has a tendency to spill over to other segments of the economy and also spread to other geographical regions, thereby causing a contagion effect. The loss of confidence, if it happens, has the potential to cause large scale damages, and ultimately adversely affect the real economy. In view of the cross border contagion and disruptive herd behavior, any imbalance or any anticipated risks in the economy, which starts materialising, needs to be mitigated immediately. The strategy to mitigate the risk depends upon various factors such as the nature of the risk, its extent of reach and the emerging macrofinancial conditions. At the same time, policy trade-offs between inflation, growth, and financial stability are becoming increasingly difficult.

7.103 The turbulence in the global financial markets during most part of 2007-08 and 2008-09 so far, has been characterised by an abrupt and widespread increase in the pricing of credit risk alongwith a significant demand for liquidity in many asset markets, most notably in the inter-bank market. Contingency consultations among central banks about coordinated reductions in policy-determined short-term interest rates leading to mutually-timed announcements of monetary policy actions helped in managing banking system liquidity and to a large extent in restoring confidence. Thus, apart from taking action at an individual level, central banks in advanced economies also initiated collective measures in a collaborative manner to ease liquidity stress in financial markets. Over the past one year or so, central banks have used both their published frameworks and innovative operations to support the implementation of monetary policy and respond to financial stability concerns.

7.104 In parallel, the scope and depth of international cooperation in financial regulation have also grown as financial markets have become more integrated globally. The European Union (EU) has introduced wide-ranging new frameworks for financial regulation, while international standard-setting bodies such as the Basel Committee on Banking Supervision (the Basel Committee) are increasingly laying the basis for regulation of financial institutions across the world. The Financial Stability Forum (FSF), along with the International Monetary Fund (IMF), has a key role in assisting these developments and in monitoring market developments. In an unprecedented move to prevent a mushrooming financial crisis from becoming a global economic meltdown, the Federal Reserve and five other major central banks, *viz.*, Bank of England, European Central Bank, Canada, Sweden, and Switzerland, cut their key rates in a co-ordinated manner on October 8, 2008.

7.105 The Reserve Bank has been closely following the developments in the international financial regulation and supervision and in the Annual Policy for 2008-09, released in April 2008 indicated its status *vis-à-vis* the action plan devised by the FSF for implementation by the countries affected by the recent financial turbulence (Annex VII.1). The Reserve Bank has already put in place regulatory guidelines covering many of the aspects highlighted in the policy recommendation by the FSF. In certain cases, actions have to be considered as work-in-progress. In the short to medium term, the approach is to keep a close watch on the unfolding macrofinancial conditions - both domestic and international, with a view to taking corrective measures as and when required.

7.106 Although the central banks are entrusted with a central role in maintaining financial stability, the current crisis has made it essential to revisit the respective roles of central banks, regulators, supervisors, and fiscal authorities, and also to bring about close co-operation among all the agencies entrusted with the task of maintaining financial stability. Apart from coordinated reduction in policy rates by major central banks, the initiatives to address financial stress in advanced economies invariably included programmes to purchase distressed assets, use of public funds to recapitalise banks and provide comprehensive guarantees. With a view to reducing the probability of future crises in a long-term perspective, the Reserve Bank and the Government would need to jointly continue with the approach to adopt the global best practices for prudential supervision and regulation of financial institutions, while tailoring them to meet country-specific requirements at the current stage of institutional developments. Consequently, the role of fiscal space in promoting financial stability has once again come into prominence (Box VII.7).

7.107 The global financial system is in a crisis of unprecedented dimensions since August-September 2008. With the collapse of major financial institutions, credit markets appear to be drying up in the developed world. Across the world, there have been severe disruptions

Box VII.7: Fiscal Space and Financial Stability

The existence of a two-way relationship between financial instability and macroeconomic instability is well recognised in literature. Macroeconomic instability is usually a major factor in financial difficulties, often because an unsustainable expansion induces unwise lending. On the other hand, when the financial system encounters difficulties, problems can quickly worsen macroeconomic performance. Empirical evidence suggests that difficulties in the financial sector have an important bearing on fiscal and macroeconomic stability. The recent bailout of Freddie Mac and Fannie Mae by the US Fed, and the subsequent issuing of debt by the United States Treasury, at the request of the Federal Reserve, to replenish the central bank's balance sheet have highlighted the issue of fiscal space and stability. The concept of 'fiscal space' which has been defined as room in a government´s budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy, has become popular (Heller, 2005). The idea is that fiscal space must exist or be created if extra resources are to be made available for worthwhile government spending. A government can create fiscal space by raising taxes, securing outside grants, cutting lower priority expenditure, borrowing resources (from citizens or foreign lenders), or borrowing from the banking system (and thereby expanding the money supply).

There is ample empirical evidence to suggest that fiscal stress could pose challenges to the macroeconomic stability, and thereby to financial stability. The Asian crisis of 1997-98 demonstrated that while a responsible fiscal policy does not guarantee macroeconomic stability, imprudent fiscal policies would increase vulnerability and become a source of economic instability. When fiscal imbalances are large, they create credibility problems for the Government regarding the repayment capacity of the public sector. In case credibility takes a hit, the Government would be compelled to undertake fiscal adjustment or inflationary finance. In the case of Latin America in the late 1990s, the most important challenge faced by them was insolvency, although debts and deficits were manageable in a favourable growth environment. Problems arise when growth decelerates, and revenues decline which lead to manageable deficits turning into unmanageable.

Bank crisis may lead to some fiscal costs because of the need to deal with the inherited bad debt. The public policy concerns, in case of difficulties in the financial institution, could arise on account of several reasons, *viz*., (i) losses to depositors and other creditors may be exacerbated because of unique vulnerability of financial institutions to 'runs'; (ii) the scope for losses to spread to other financial institutions through contagion or direct exposure is high; (iii) there may be budgetary costs from the perceived need to protect depositors or bail out troubled institutions; (iv) there may be more widespread macroeconomic consequences from instability in the financial sector; and (v) a loss of confidence in financial intermediation may lead to financial repression resulting in sub-optimal levels of savings and misallocations in investments.

Studies have indicated that while Central and Eastern European countries have incurred substantial fiscal costs to rehabilitate their banks by injecting capital into banks, in the case of East Asia, measures undertaken for financial stability in terms of fiscal policy were not clear. The bank bailouts were financed mainly through off-budget mechanisms such as the issuance of recapitalisation bonds, which later comprise a substantial portion of total public sector debt and entail significant direct on-budget costs as this debt is serviced. Blanket guarantees of depositors and financial institution creditors have created large contingent liabilities. The economic recoveries which are consumption-led rather than production-led, could result in greater fiscal stress because of lower tax revenue and unsustainable public sector expenditure levels. Fiscalisation of the 1997 East Asian financial crisis did not precipitate a fiscal crisis, but failure to complete fundamental financial sector reforms could have resulted in fiscal stress.

There is a clear unanimity on the involvement of both the Government and the central bank in macroeconomic management. The approach relates to the intertemporal debt sustainability that calls for an aggregate budget constraint between fiscal surplus and seigniorage revenue. As a matter of fact, as Sargent and Wallace pointed out way back in 1981, the fiscal surplus must be large enough to pay out public debt services. They framed it as a necessary condition for a consistent reduction in the rate of inflation over time.

In India, the management of public finances during the last four years, mandated under the FRBM Act, 2003, has been broadly on track so far. Under the rule-based fiscal consolidation programme, public sector savings witnessed a turnaround, underpinned by a steady increase in the tax-GDP ratio and steady improvement in savings of non-departmental undertakings. This enabled a narrowing of public sector saving-investment gap in recent years, thereby releasing greater resources for the private sector. Finances of the Government, however, are under some stress on account of several factors such as increased pressures from oil, fertilizers and food subsidies, the farm loan waiver scheme and the hike in wages following the implementation of the Sixth Pay Commission recommendations.

References :

Heller, Peter. 2005. "Back to Basics - Fiscal Space: What It Is and How to Get It." Finance and Development. Volume 42. Number 2. June.

Gavin, Michael and Ricardo Hausmann. 1999. "Preventing Crisis and Contagion: Fiscal and Financial Dimension." Inter-American Development Bank. March.

Mohan, Rakesh. 2006. "Economic Growth, Financial Deepening and Financial Inclusion." Reserve Bank of India Bulletin. November.

Ocampo, José Antonio and Rob Vos. 2008. "Policy Space and the Changing Paradigm in Conducting Macroeconomic Policies in Developing Countries" in BIS Papers No 36. February.

Reddy, Y.V. 2008. "Fiscal Policy and Economic Reforms." Reserve Bank of India Bulletin. July.

Redrado, Martín. 2008. "Fiscal Space for Stability, Growth and Social Inclusion." at the G-20 Workshop, Buenos Aires. June.

Tang, Helena, Edda Zoli and Irina Klychnikova. 2000. "Banking Crises in Transition Economies: Fiscal Costs and Related Issues." The World Bank Policy Research Working Paper 2484.

in money markets, sharp declines in stock markets and extreme risk aversion in financial markets. As discussed earlier, Indian financial markets also felt the tremors of the adverse developments in the international financial markets. Money markets have experienced unusual tightening of liquidity in recent weeks as a result of global developments which were amplified by transient local factors such as advance tax payments. The foreign exchange market has experienced pressure on account of portfolio outflows by FIIs and the enhanced foreign exchange requirements of oil and fertilizer companies. Constraints in access to external financing as also repricing of risks and higher spreads resulted in additional demand from corporates for domestic bank credit with attendant hardening of interest rates across the spectrum. The Reserve Bank has been monitoring developments in the financial markets closely and continuously and has indicated its resolve to respond swiftly and even pre-emptively to any adverse external developments impinging on domestic financial stability, price stability and inflation expectations. The Reserve Bank has been effectively able to manage domestic liquidity and monetary conditions consistent with its monetary policy stance (Box VII.8). Following the unfolding of events since September 2008 reflected in the form of portfolio outflows by FIIs, sharp decline in the stock markets, lack of liquidity in the market with the inter-bank rates soaring to high levels and depreciating rupee, the Reserve Bank stepped in to restore public confidence by putting in place immediate corrective measures during September to December 6, 2008 (refer Chapter II, Box II.2).

7.108 With a view to fostering a more rapid recovery of lending and demand as well as to meet the emerging financial stability

Box VII.8: Liquidity Management by the Reserve Bank

Active liquidity management is a key element of the current monetary policy stance. The Reserve Bank manages liquidity through appropriate use of the cash reserve ratio (CRR), open market operations (OMO)and market stabilisation scheme (MSS) and policy instruments at its disposal flexibly, as and when the situation warrants. In the context of the uncertain and unsettled global situation and its indirect impact on the domestic economy in general and the financial markets in particular, the Reserve Bank closely and continuously monitors the situation to respond swiftly and effectively to developments, employing both conventional and unconventional measures.

The Indian experience with liquidity management has been unique in several ways. First, unlike in several countries, the RBI Act 1934 does not permit the monetary authority to float its own securities. Second, a combination of several instruments, *viz.*, the LAF window, outright open market operations, MSS and CRR is used for liquidity management. The Reserve Bank has now assigned the task of day-to-day liquidity management to LAF, while using MSS for addressing semi-durable liquidity mismatches. Third, liquidity management is presently done on a burden sharing basis where the cost of sterilisation operations are shared by all stakeholders, *i.e.*, the Government in case of MSS, the Reserve Bank in case of LAF reverse repo and the banking system in case of CRR. Fourth, monetary measures are supplemented by regulatory and prudential measures whereby calibrated deceleration in credit to sensitive sectors were brought about through changes in risk weight and provisioning norms. Fifth, by adopting a more gradual and a phased approach towards capital account liberalisation, it has been possible to sustain capital inflows on a more stable basis even with the imposition of temporary capital controls.

While LAF and MSS have been able to bear a large part of the burden, some modulations in CRR and SLR have also been resorted to in order to meet the liquidity mismatches. For instance, on September 16, 2008, in regard to SLR, the Reserve Bank permitted banks to use up to an additional one per cent of their NDTL, for a temporary period, for drawing liquidity support under LAF from the Reserve Bank, which was made a permanent reduction by one per cent to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008. The CRR which had been gradually increased from 4.5 per cent in 2004 to 9 per cent by August 2008 was cut by 350 basis points during October 11 to Nov 9, 2008) on review of the liquidity situation in the context of global and domestic developments. Thus, as the very recent experience shows, in the prudential ratios such as CRR and SLR combined with flexible use of the MSS, could be considered as a vast pool of back-up liquidity that is available for liquidity management as the situation may warrant for relieving market pressure at any given time. The recent innovation with respect to SLR for combating temporary systemic illiquidity is particularly noteworthy.

challenges, the significance of appropriate regulatory and supervisory response as well as the need for a vibrant mechanism to deal with stress in the system cannot be over-emphasised.

Regulation and Supervision

7.109 In India, the regulatory and supervisory framework is already on the lines of international best practices in several respects. As detailed in earlier Chapters, India has a well laid down regulatory framework for all the segments of the banking sector as well as the non-banking financial companies.

Changes in the Role and Uses of Credit Ratings

7.110 Credit rating agencies (CRAs), specialising in analysing and evaluating the credit-worthiness of corporate and sovereign issuers of debt securities, play a key role in financial markets by helping to reduce the information asymmetry between lenders and investors on the one side, and issuers on the other, about the creditworthiness of companies/countries. The global financial turmoil brought into sharp focus the role of credit rating agencies in better risk assessment and measurement. The Reserve Bank has undertaken a detailed process of identifying the eligible credit rating agencies whose ratings may be used by banks for assigning risk weights for credit risk. However, this accreditation process is neither a regulatory prescription nor a supervisory requirement. It has the limited purpose of using ratings for assigning risk weights within the framework of the Basel II. So far, four rating agencies have been granted accreditation on the basis of the six parameters, *viz.*, objectivity, independence, international access, transparency/disclosure credibility and resources. Banks have been advised to use the chosen credit rating agencies and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Norms have been prescribed to ensure consistency in selection of credit rating agencies by banks and application of their rating while disallowing banks to 'cherry pick' the assessments provided by different credit rating agencies. The names of the credit rating agencies, the risk weights associated with the particular rating grades and aggregated risk weighted assets, are required to be disclosed. Further, in India, complex structures like synthetic securitisations have not been permitted so far. As and when such products are to be introduced, the Reserve Bank need put in place the necessary enabling regulatory framework, including calibrating the role of the rating agencies.

7.111 In the United States, rating agencies have to be registered with the SEC. Following the experience with ratings in the recent financial crisis, the current practice of having only a non-binding IOSCO code of conduct is generally perceived to be in need of reform. The rating agencies themselves are in the process of reviewing their internal procedures and rating methods (Box VII.9).

Corporate Governance and Corporate Social Responsibility

7.112 In order to highlight the developments that are taking place worldwide regarding sustainable development as also to raise the level of awareness, the Reserve Bank issued guidelines introducing the concepts of corporate social responsibility (CSR), sustainable development (SD) and non-financial reporting (NFR). CSR entails the integration of social and environmental concerns by companies in their business operations as also in interactions with their stakeholders. SD essentially refers to the process of maintenance of the quality of environmental and social systems in the pursuit of economic development. NFR is basically a system of reporting by

Box VII.9: Role of Credit Rating Agencies

Credit rating agencies (CRAs), specialising in analysing and evaluating the creditworthiness of corporate and sovereign issuers of debt securities, play a key role in financial markets by helping to reduce the information asymmetry between lenders and investors, on the one side, and issuers on the other, about the creditworthiness of companies or countries. The CRAs thus contribute to solving principal agent problem. The CRAs vary considerably in their size, focus and methodologies. In addition to issuing credit ratings, some CRAs also offer ancillary business services, or are themselves affiliates of larger corporations offering broader business services. These ancillary services determine how their credit rating might be affected by a proposed business activity under various hypothetical scenarios. Other services may include risk management and consulting services to help financial institutions and other firms manage credit and operational risk. Where CRAs are part of larger business enterprises, the services provided by the larger group may or may not be directly related to the credit rating business. CRAs' role has increased with financial globalisation and has received an additional boost from Basel II which incorporates the ratings of CRAs into the rules for setting weights for credit risk.

In September 2003, the Technical Committee of the International Organisation of Securities Commissions (IOSCO) published a Statement of Principles regarding the activities of CRAs. The Principles were designed to be a useful tool for securities regulators, rating agencies and others wishing to articulate the terms and conditions under which CRAs operate and the manner in which opinions of CRAs should be used by market participants. Further, in December 2004, the IOSCO released the Code of Conduct Fundamentals for CRAs that offers a set of robust and practical measures for improving investor protection, ensuring the fairness, efficiency and transparency of securities markets and reducing systemic risk.

There is a view that ratings tend to be sticky, lagging market movements, and overreact during market meltdown. This overreaction has contributed to aggravating financial crises in the recent past. The recent sub-prime crisis has illustrated inadequacies of the existing methodologies adopted by CRAs for structured products, given their multiple tranches and their susceptibility to rapid, multiple-notch downgrades. The complexity of these instruments led to an over-reliance on credit ratings by investors, supported by investor mandates and regulatory requirements. Major concerns about the role of the CRAs that have come to the fore include: barriers to entry, conflict of interests, transparency and accountability. Accordingly, there is active discussion on the need for CRAs to clearly differentiate the ratings for structured products, improve their disclosure of rating methodologies, and assess the quality of information provided by originators, arrangers, and issuers of structured products.

Following a public consultation process involving regulators, CRAs and financial market stakeholders, the IOSCO published amendments to the Code of Conduct in May 2008. The following major changes were indicated:

Quality and Integrity of the Rating Process - CRA analysts have been prohibited from making proposals or recommendations regarding the design of structured finance products that the CRA rates. They have been asked to adopt reasonable measures so that the information they use is of sufficient quality to support a credible rating. CRAs should ensure that the decision-making process for reviewing and potentially downgrading a current rating of a structured finance product is conducted in an objective manner.

CRA Independence and Avoidance of Conflicts of Interest - CRAs should discourage "ratings shopping", and should disclose whether any one issuer, originator, arranger, subscriber or other client and its affiliates make up more than 10 per cent of its annual revenue.

CRA Responsibilities to the Investing Public and Issuers - A CRA should publish verifiable and quantifiable historical information about the performance of its rating opinions in a manner that assists investors in drawing performance comparisons between different agencies.

Disclosure of the Code of Conduct and Communications with Market Participants - A CRA should publish, in a prominent position on its home webpage, links to its code of conduct, a description of the methodologies it uses and information about its historic performance data.

Notwithstanding the above, the regulatory aspect also needs to be revisited. There is scope to improve approval and licensing procedures to strengthen the integrity and diversity of the CRA industry. This could boost the transparency and disclosure of rating methodologies and processes, improve the clarity on the purposes and limitations of credit ratings, and reduce barriers to entry. However, care needs to be exercised to avoid over-regulation. Dictating rating methodologies, standards, and other technical criteria could stifle innovation and exacerbate moral hazard problems, including by conveying to market participants the impression of a public sector guarantee of the quality of ratings and underlying methodologies, and by discouraging proactive risk management by the private sector. There may be a merit in multilateral approaches to reform the role and use of credit ratings, *inter alia*, to reconsider the significant prudential role that credit ratings have been provided with.

References :

International Monetary Fund. 2008. "The Recent Financial Turmoil - Initial Assessment, Policy Lessons and Implications for Fund Surveillance." Monetary and Capital Markets Department. March.

International Organisation of Securities Commission. 2003. *Report on the Activities of Credit Rating Agencies*. September.

organisations on their activities, especially with regard to the triple bottomline, *i.e.*, the environmental, social and economic accounting. Global warming and climate change are particularly important in the context of sustainable development.

7.113 Since the market control is not sufficient to ensure proper governance in banks, the Reserve Bank and the Government, *inter alia*, oversee it by regulating and controlling the nature of activities, the structure of bonds, the ownership pattern, capital adequacy norms, liquidity ratios, disclosure and transparency, *etc*. (Box VII.10). Some initiatives in the area of improving corporate governance in banking have been taken by the Reserve Bank. 'Fit and proper' criteria for the elected directors on the boards of nationalised banks and associate banks of State Bank of India have been laid down by the Reserve Bank. With a view to reducing the burden on boards of banks on account of the

Box VII.10: Corporate Governance in Indian Banks

The importance of governance process lies in its contribution both to business prosperity and accountability. Good governance ensures that the shareholders/stakeholders are taken into confidence on matters concerning the company's business and activity. Given the important role of banks in financial intermediation in the economy and the need to safeguard depositors' money, corporate governance is of great significance for banking entities. The issues relating to corporate governance and corporate control have come to the forefront of business practice the world over in the recent past.

An increase in corporate failures, collapses and financial irregularities in countries such as the US and the UK in the late 1980s and early 1990s led shareholders and banks to worry about their investments. In May 1991, the London Stock Exchange set up a Committee (Cadbury Report) to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing. The Cadbury Report clearly spelt out the methods of governance needed to achieve a balance between the essential powers of the Board of Directors, their proper accountability and provided the basic framework of governance, reporting and control. The stipulated guidelines included that the Board of Directors meet regularly, retain full and effective control over the company and monitor the executive management. It was felt that a clear division of responsibilities at the head of the company would ensure balance of power and authority so that no individual had unfettered powers of decision.

The issue of corporate governance in banks is not exactly the same as that of manufacturing corporations. In the case of traditional manufacturing corporations, the issue has been that of safeguarding and maximising the shareholders' value. In the case of banking, the risk involved for depositors and the possibility of contagion assumes greater importance than that of consumers of manufactured products. Further, the involvement of Government is discernibly higher in banks due to importance of stability of financial system and the larger interests of the public. A large part of the Indian banking institutions is mostly Government owned and the interests of other stake holders appear more important to it than in the case of non-banking and non-finance organisations.

Clause 49 of the Listing Agreement deals with the corporate governance aspect for listed companies across all sectors in India. In addition, the Banking Regulation Act, 1949 (BR Act) remains the basic foundation for corporate governance framework for banks in India. Public sector banks, in addition, are governed by the statutes under which they were incorporated, *viz*., State Bank of India under the State Bank of India Act, 1955; the associate banks of SBI under the State Bank of India (Subsidiary Banks) Act, 1959; and nationalised banks under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/80. Public sector banks are exempted from some of the provisions of the BR Act in view of the separate statutes governing them.

The Basel Committee on Banking Supervision principles have been adopted for Indian banks after adjusting for local rules, regulations and the governance standard requirements. In February 2005, the Reserve Bank released a roadmap for the presence of foreign banks in India and also guidelines on ownership/governance in private sector banks. The recommendations of the Ganguly Committee on Corporate Governance also serve as a regulatory framework on corporate governance for banks. The Committe highlighted the role and responsibility of independent non-executive directors, qualification and other eligibility criteria ('fit and proper' criterion) for their appointment, training the directors and keeping them up-to-date with the latest developments. The philosophy of corporate governance was set at a level much higher than just compliance with legal and regulatory requirements. Besides effective management and control, it expressed the need to maintain business ethics and maximise value for all stakeholders. The board of directors were empowered to constitute various committees to oversee specific operational areas. Some of the committees included the audit committee, board governance and remuneration committee, credit approval committee, customer service committee, fraud monitoring committee, risk monitoring committee and shareholders/investors' grievance committee. Some of these committees are formed as per the guidelines of the Reserve Bank. For example, the risk management committee is expected to develop bank's credit and market risk policies and procedures, verify adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. It also ensures that the bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified. Therefore, appropriate functioning of these committees is critical for the overall performance of the bank.

Reference:

Leeladhar, V. 2004. "Corporate Governance in Banks." Reserve Bank of India Bulletin. December. 1101-1105.

Alexander, K. and R. Dhumale. 2000. "Enhancing Corporate Governance for Banking Institutions". A paper prepared for the Ford Foundation project on "A World Financial Authority" Centre for Business Research. Judge Institute of Management Studies. Cambridge.

calendar of reviews to be undertaken by them and to ensure that the calendar of reviews reflects the present day concerns, the calendar items were revised in April 2008. The above calendar outlines the critical minimum requirements of review and the bank boards would have the discretion to prescribe additional reviews to suit their requirements. The revised schedule, which was required to be in force with effect from June 2008, would be under the two heads, *viz*., 'review of operations' and 'review of strategy'. Banks were also advised that in every board meeting a separate time slot should be allocated for taking up strategy review for business plan - targets and achievement, review of non-fund business, human resources management, training and industrial relations, new prospective business/products lines and closure of existing business/products lines.

7.114 Based on their Annual Report 2007-08, some of the critical corporate governance indicators of select large commercial banks in India are presented in Table VII.7. It can be seen therefrom that Indian banks do not have a uniform pattern in terms of size of boards and the number of meetings conducted by the boards and other committees during the year. A review of the common and recurring deficiencies brought out in the annual financial inspection of banks over the last few years revealed weaknesses in the corporate governance in banks. It was, therefore, decided to examine bank-wise discomfort/governance issues and communicate the deficiencies to the Chairman and Managing Directors/Chief Executive Officers of banks. It was also decided that the concerns in respect of public sector banks may be brought to the notice of the Government of India stressing that total transformation of policy was desired for an effective impact on the efficiency levels and governance aspects. Accordingly, two sets of formats (separately for public sector and private sector banks) have been devised to enable the Principal Inspecting Officers (PIO) of the Reserve Bank to assess/evaluate banks' performance in the area of corporate governance in a comprehensive manner during on-site inspection. The formats evolved are comprehensive covering all the issues as covered under the Banking Regulation Act, 1949, Clause 49 of the Listing Agreement as prescribed by the Securities and Exchange Board of India, guidelines issued from time to time, and norms laid by the Ganguly Committee. The formats would be used by the PIOs initially for two inspection cycles for assessment of the corporate governance environment in the banks and based on the feedback received from them, further amendments to the formats would be considered.

Table VII.7: Corporate Governance in Banks - Select Indicators (2007-08)

Bank Name	Board of Directors			No. of Audit & Compli-ance Meeting	Shareholders'/Investors Grievance Committee			No. of Risk Monitoring Committee Meeting	No. of Credit Approval Committee Meeting	No. of Fraud Monitoring Committee Meeting	No. of Customer Service Committee Meeting
	Size of the Board	No. of Board Meeting	Average attendance in Board Meeting (per cent)		No. of Committee Meeting	No. of complaints from share-holders	Pending complaints (per cent)				
1	2	3	4	5	6	7	8	9	10	11	12
State Bank of India	11	11	89.3	6	4	3288	0.58	4	NA	3	4
Bank of Baroda	14	12	76.1	11	4	10029	0.49	4	NA	NA	2
ICICI Bank	16	5	78.8	6	12	19248	0.04	5	21	9	4
HDFC Bank	12	10	87.5	7	11	142	0.00	5	2	4	4

NA : Not available.

Arrangements for Dealing with Stress in the Financial System

7.115 In one isolated case of a private sector bank facing large withdrawal of cash at its ATMs and branches in some locations, the Reserve Bank immediately clarified that the bank had sufficient liquidity, including in its current account with the Reserve Bank of India, to meet the requirements of its depositors. The Reserve Bank also kept a vigil on the developments and arranged to provide adequate cash to meet the demands of its customers at its branches/ATMs. The Reserve Bank also assured depositors about the soundness of the bank and its subsidiary banks abroad.

Early Warning System

7.116 The early warning systems (EWS) are generally used by central banks/regulators as a prediction tool for timely identification of any imminent problems in banks, especially the inadequacy of capital, which reflects financial distress that may often lead to failure of the bank and consequent contagion effect. Thus, by implication, the EWS models can be used to provide a timely signal of the impending problems in banks to supervisory agencies (Box VII.11). The Reserve Bank has also instituted off-site monitoring and surveillance system (OSMOS) for banks in 1995, which provides for Early Warning System as also a trigger for on-site inspections of vulnerable institutions.

7.117 To a large extent, the Reserve Bank relies on its existing supervisory process for risk assessments and early warnings of distress. The Reserve Bank employs an approach that is a combination of the on-site inspection process, targeted appraisals, off-site surveillance system through a set of structured returns and an information system which is based on discussions with the Top Management of banks at quarterly intervals. The on-site inspection that is carried out under CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems and controls) model also evaluates risk management systems in the banks. Financial ratio analysis forms part of both the on-site and the off-site supervisory systems. In off-site supervisory system, a peer group analysis is also done. An attempt is also being made towards developing an off-site rating

Box VII.11: Early Warning Systems

The Early Warning System models used around the world could be divided into four broad groups: (i) supervisory rating system; (ii) financial ratios and peer group analysis system; (iii) detailed risk assessment system (such as, risk profile templates) and (iv) statistical models. Supervisory rating system is based on on-site examination of a bank and reflects the state of affairs or the riskiness of the bank in one single letter or number. Financial data, qualitative data on management, internal controls, systems, etc. are factored into the rating mechanism. The financial ratio and peer group analysis system uses the set of ratios which include capital adequacy, asset quality, earnings and liquidity. These ratios of individual banks are compared with their peer groups to assess the performance of individual banks. The bank risk profile assessment model is used under the risk based supervision framework. This model assesses the risk profile of a bank based on a wide range of business and risks *vis-a-vis* the control environment available in the bank. Based on the degree of risk and control environment, the bank is rated on a matrix reflecting the risk profile of the bank. The assessment of risk is dynamic and can be updated with periodic off-site data. The model is extremely resource intensive and time consuming, but compared to other methods of EWS, it is forward looking, factors in a wide range of quantitative and qualitative data both internal and external to the bank. The statistical models are based on rigorous quantitative analysis. However, these do not consider qualitative factors like management, internal controls, etc., and require large historical database; are often difficult to interpret, and hence, need expert analysts.

Irrespective of the approaches and models adopted for institutionalising an early warning system, EWS should primarily capture signals on solvency and liquidity of the banks. It should also look at leading indicators for banks *viz.*, asset quality, earnings, internal controls and risk limits, and corporate governance standards. Stress testing may serve as a complementary tool to the model adopted for EWS.

Reference:

BIS. 2000. "Supervisory Risk Assessment and Early Warning Systems." Basel Committee on Banking Supervision Working Papers.

system (ORS) for banks, based on an assessment of capital, asset quality, earnings and liquidity (CAEL) parameters. The macro prudential indicator approach currently in use is being broad based into vulnerability assessment exercise for the economy. It is intended to build econometric models in due course, with experience gained in the vulnerability exercise.

7.118 Based on the inspection findings and marks allotted under the CAMELS components, a supervisory rating is allotted to banks in the scale of 'A' to 'D' in descending order. For further granularity in the rating, three rating scales each have been introduced under A, B and C making a total of ten rating scales including D. In addition, the risk based supervision has also been taken up on a pilot basis in respect of certain select banks and based on the feedback from this exercise, the framework is being further fine tuned to suit the present supervisory system. The off-site supervision methodology is a 'continuous surveillance' process and involves the detection of incipient weaknesses and early warning signals in the banks. Comprehensive financial data covering all items of balance sheet, asset quality, exposure to certain specific sectors, structural liquidity and interest rate sensitivity analysis, *etc*., are submitted by banks under the system. This reporting arrangement for banks was devised after an exhaustive study of the prudential requirements and international best practices. The information received through the off-site monitoring is useful in micro as well as macro analysis of the banks. The current off-site monitoring mechanism involves banks, bank groups, peer groups and all bank level monitoring.

7.119 In the case of micro analysis, the focus is on changes in critical parameters of individual banks such as balance sheet growth, liquidity gaps, interest rate sensitivity, asset-liability management, risk concentration (funding/raising), capital adequacy, asset quality, profitability, connected lending and group risk. The thrust of such micro analysis is on the approach being forward-looking based on risk information available from off-site returns, that provide information about the business strategy, risk appetite and direction of the risk profile of banks. Similarly, asset quality, sectoral exposure, profitability, net interest margin, capital adequacy, among others, provide significant clues on the health of the bank. These may be considered as the leading indicators. Though there are no specific triggers for identifying the outliers in this case, a view is taken based on past trends, peer group ratios and industry averages.

7.120 In the case of macro analysis, the banking sector as a whole is a subject of examination. The macro-prudential indicators (MPIs) comprise both aggregated micro-prudential indicators (AMPIs) of the health of individual financial institutions and macroeconomic indicators (MEIs) associated with financial system soundness. Interest rate sensitivity analysis is undertaken to capture the interest rate sensitivity of investments held by banks in held for trading (HFT) and available for sale (AFS) categories for assumed rise in yields by 100, 125 and 150 basis points, respectively, based on the last reporting Friday of the concerned month. The resultant impact under the above three scenarios is related to regulatory capital (Tier I + Tier II Capital) to ascertain the likely erosion in capital funds of the banks on account of an increase in interest rate. Similarly, modified duration analysis is applied with the objective to assess the likely impact on the investment portfolio of banks for a 100 basis point increase in interest rate and the extent of cushion available to the banks to absorb the erosion in their economic value. The interest rate sensitivity analysis is done applying the modified duration approach as per the methodology suggested by the BIS. Another method used is the identification of outliers for various parameters, based on which, outlier banks are identified. The outlier banks are thereafter sensitised through supervisory letters, focused meetings, *etc*.

Deposit Insurance

7.121 Deposit insurance forms an integral component of the financial safety net. With the current threats to financial stability looming large, deposit insurance of individual retail accounts has once again come into prominence as a confidence building mechanism. However, expansion of deposit insurance beyond normal limits, or use of a blanket guarantee, in extreme conditions, should only be undertaken as a temporary, emergency measure and that too in a coordinated fashion across countries. Coordination among safety net players is, therefore, important in all aspects of the management of financial system stability (Box VII.12). An important area for co-operation is the sharing of information on the financial condition of banks under surveillance, supervisory action taken to revitalise them and the results thereof. Such information should be timely, accurate, and relevant with due importance to maintaining confidentiality, where required. It is highly desirable to formalise information sharing arrangements, either through legislation or Memorandum of Understanding (MoU) or legal agreements or a combination of these arrangements. These arrangements may also be helpful in providing a general framework for safety net participants to coordinate their related activities. It is preferable to spell out the arrangement for sharing of critical information in the law/by-laws.

7.122 In the recent past, several countries have taken extraordinary measures to stabilise financial markets and restart the flow of credit. In particular, recent plans by the European and US Governments to recapitalise their banking systems and guarantee bank borrowings in the wholesale markets have improved confidence. This was followed by a similar announcement in several jurisdictions to guarantee bank deposits with the objective of counteracting the impact of the recent international market turmoil on their banking systems, and removing any uncertainty on the part of counterparties and customers of the credit institutions, The announcement by a few jurisdictions in the area of Government guarantees for bank deposits set off a dynamics that has put pressure on other jurisdictions to respond, or else risk disadvantaging and potentially weakening their own financial institutions and financial sectors (Box VII.13).

7.123 In India, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has been extending insurance cover to small depositors with an objective of maintaining the confidence of small investors in the banking system of the country as also promoting financial stability. The number of registered insured banks as on October 2008 was 2,354 comprising 78 commercial banks, 92 RRBs, 4 LABs and 2,180 co-operative banks. Indian depositors enjoy a high degree of protection. About 93 per cent of deposit accounts and 61 per cent of total assessable deposits were fully protected at end-March 2008 (Table VII.8). This was more than the IMF's recommended limits of 80-90 per cent and 20 per cent, respectively.

7.124 Deposit Insurance Fund (DIF) created for meeting insurance claims is built out of the premium paid by the insured banks and the coupon income received from the Central Government securities in which DIF is invested. Inflow of small amounts also occurs into this fund out of the recoveries made by the liquidator/administrator/transferee

Box VII.12: Inter-relationships among Financial Safety Net Players (SNPs)

Deposit insurance is a component of financial safety net, which also includes prudential regulation and supervision, and the lender-of-last-resort function. The inter-relationship among these players, which are largely influenced by the institutional, economic and financial situation of a country as also its history, can vary significantly. Irrespective of the specific structure of a country's financial safety net, however, smooth cooperation and goodwill among the various components are key to an effective deposit insurance system.

The need for coordination and goodwill among the various safety-net participants is directly related to the possibility of conflicting mandates. When dealing with bank crises, for example, it is particularly important to establish precisely which safety-net participant(s) has the power to formally declare an institution to be insolvent (or formally initiate the liquidation procedure of a failed institution). If, for instance, there is more than one institution dealing with different phases of the resolution, co-ordination among them assumes even greater significance. In order to reconcile potentially conflicting mandates, prior discussion and a high degree of transparency must be a requirement when establishing the co-ordination framework to facilitate information sharing and effective communication.

Information sharing is one of the vital areas in the relationship of the deposit insurer and other safety net players. Owing to its specific powers and responsibilities, the supervisory authority is usually the only safety-net agency able to assess accurately and influence the quality of information provided by financial institutions. Therefore close co-ordination in collection and sharing of information between supervisory authority and other SNPs becomes imperative. For information to be useful to the deposit insurer, it should be timely, accurate and relevant to facilitate an effective system of ongoing evaluation of individual insured institutions as well as the banking industry as a whole. Further, it is important to balance the need of the deposit insurer for supplemental information against the additional burden that it may put on the banking industry. Depending on its institutional mandate and powers, the need for relevant information by the deposit insurer can vary significantly. In the case of a simple pay-box system, the deposit insurer would need the basic information to calculate insurance premium and to reimburse depositors in a timely and efficient manner, when required to do so. Such information would relate to data on banks' deposit base, including information on the amount of assessable and insured deposits held by individual depositors. The nature of information required by the deposit insurer will vary from normal times to that in a crisis. A risk-minimising deposit insurer would however, have greater need for information given, its broader mandate.

Although informal arrangements for information sharing and co-ordination can work well in certain circumstances, given the sensitivity of institution-specific information and the challenge of maintaining open communication channels, it may be useful to formalise arrangements in this regard either through legislation, Memoranda of Understanding (MoUs), formal agreements or a combination of these arrangements. If formal information-sharing arrangements are relied upon, they should clearly acknowledge the roles and responsibilities of the respective parties, set out what is to be shared and by whom, as well as the type, level of detail and frequency of information to be exchanged. Apart from these specifics, formal agreements may also be useful in providing a general framework for safety-net participants to coordinate their related operational and policy-making activities by promoting regular meetings and opportunities for consultation. The experience of various deposit insurance systems around the world shows that strong coordination, information-sharing and exchange arrangements are essential. In some of the countries, the functions and responsibilities of the deposit insurer and the central bank in the areas of examination, monitoring, prompt corrective action, and failure resolution, are defined in their respective charters and/or circulars, rules and regulations and MoUs. In some other countries, a statutory committee composed of representatives of the central bank, deposit insurance system, ministry of finance and supervisory authority has been established to facilitate information sharing and to coordinate regulatory policy. In a few countries, the inter-relationship between DIS and the Central Bank is through Strategic Alliance Agreement entered into between the key safety net players, complementing each other towards their common goals of promoting financial stability.

References:

Garcia, G.G.H. 2000. "Deposit Insurance - Actual and Good Practices." IMF Occasional Paper No. 197. Washington DC.

Financial Stability Forum. 2001. "Guidance for Developing Effective Deposit Insurance Systems." September.

International Association of Deposit Insurers. 2006. "General Guidance to Promote Effective Interrelationships among Financial Safety Net Participants." BIS. Switzerland.

banks. The size of the DIF (including surplus) was Rs.13,362 crore as on March 31, 2008 implying a designated reserve ratio (DRR) of 0.74 per cent. Under the Federal Deposit Insurance Reform Act of 2005, the Federal Deposit Insurance Company (FDIC) in the US must by regulation set the DRR for the DIF within a range of 1.15 per cent to 1.50 per cent of estimated insured deposits. In 1989, a 1.25 per cent DRR requirement was introduced in the US by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). In Indian context, while Advisory Group (Capoor Committee) on Reforms in

Box VII.13: Recent Announcements relating to Deposit Guarantee

To assuage the excessive reactions to the current financial crisis, some countries announced guarantee for bank deposits for a short period and earmarked funds for the purpose. Even though the banking system continued to be sound and resilient, some governments decided to take precautionary action to avoid an erosion of banks' deposit base and ensure a level international playing field for banks in their jurisdiction.

US

On October 3, 2008, the Congress temporarily increased Federal Deposit Insurance Corporation (FDIC) deposit insurance from $100,000 to $250,000 per depositor up to December 31, 2009. With effect from October 14, 2008, all non-interest bearing transaction deposit accounts at an FDIC-insured institution, including all personal and business checking deposit accounts that do not earn interest, have been fully insured for the entire amount in the deposit account. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009.

Europe

The UK: With effect from October 7, 2008, the Financial Services Authority (FSA) of UK increased the compensation limit on deposits with failed banks, building societies and credit unions from £35,000 to a total of £50,000 per depositor under the Financial Services Compensation Scheme (FSCS). Customers with joint accounts will be eligible to claim up to £100,000 between them.

Denmark: The Danish Financial Supervisory Authority guaranteed all bank deposits with effect from October 6, 2008 as part of a deal with banks to set up a 3.5 billion DKK Liquidation Fund. Earlier the guarantee cover was available up to 300,000 DKK per depositor, net of all loans and other liabilities to the bank.

Germany: On October 6, 2008, the German Government offered a blanket guarantee for bank deposits, which would cover some 568 billion euros ($785 billion) in savings and chequing accounts as well as time deposits, or CDs. Prior to this, compensation scheme of German Banks covered 90 per cent of the outstanding deposits and was limited to 20,000 Euros per depositor.

Ireland: The Government of Ireland decided to put in place a guarantee arrangement to safeguard all deposits (retail, commercial, institutional and interbank), covered bonds, senior debt and dated subordinated debt (lower tier II), with six banks and such specific subsidiaries as may be approved by the Government following consultation with the central bank and the financial regulator. The guarantee is being provided at a charge to the institutions concerned and will be subject to specific terms and conditions so that the taxpayers' interest can be protected. The guarantee will cover all existing afore mentioned facilities with these institutions and any new such facilities issued from midnight on 29 September 2008, and will expire at midnight on September 28, 2010. The Government's objective in taking this decisive action is to maintain financial stability for the benefit of depositors and businesses and is in the best interests of the Irish economy.

Austria: Austria's Parliament approved a 100-billion-euro (US $196.8 billion) bailout plan on September 20, 2008 to stabilise the country's banking sector in the fallout from the global financial crisis. The package, *inter alia*, includes unlimited protection to individuals' bank deposits until December 31, 2009. After that, the State guarantee will be available only up to 100,000 Euros per account. Bank deposits for business account holders will be guaranteed up to 50,000 Euros. Before the law was passed, just 20,000 Euros per individual / business account was protected.

Sweden: The Swedish government announced on October 6, 2008 that it will raise the limit for deposit insurance to 500,000 Kronor (US $71,000) in a move to retain confidence in the country's banks. Sweden previously had a deposit insurance for savings of up to 250,000 Kroner.

Greece: The Greek Finance Minister submitted a bill to Parliament on October 6, 2008 to raise the legal limit of deposit insurance to 100,000 Euros from the current 20,000 Euros. The guarantee is proposed to be in force for the next three years.

Governments of Czech Republic, Slovakia and Spain have also announced that they would consider enhancing the deposit insurance cover. Italy already provides deposit insurance cover up to 1,03,000 euros per depositor, which was till recently the highest in Europe. The Euro laws required the member countries to extend a minimum deposit insurance of 20,000 Euros, which has now (in the meeting of EU Finance Ministers held on October 7, 2008) been revised to 50,000 Euros. It has also been decided to abandon co-insurance. All countries in the EU Zone have taken / are taking action accordingly.

Asia

Philippines: A bill proposing to double the deposit insurance cover from Peso 250,000 to Peso 500,000 is pending in the Congress, but it has been reported in the press that the cabinet wants to further raise (four-fold) the insurance cover to one million pesos. No additional premium is proposed, but the government proposes to inject additional funds for the purpose.

Indonesia: The Government increased the deposit insurance cover to Indonesian Rupiah two billion.

Malaysia: It was decided on October 30, 2008 to extend blanket Government guarantee through the Malaysia Deposit Insurance Corporation (PIDM) on all ringgit and foreign currency deposits with commercial, Islamic and investment banks, and deposit taking development financial institutions regulated by Bank Negara Malaysia, until December 2010. The guarantee extends to all domestic and locally incorporated foreign banking institutions; and access to Bank Negara Malaysia's liquidity facility will be extended to insurance companies regulated and supervised by the Bank. Additional premium will be charged to all members for the guarantee.

Singapore: The Singapore Government decided to guarantee all Singapore Dollar and foreign currency deposits of individual and non-bank customers in banks, finance companies and merchant banks licensed by the Monetary Authority of Singapore (MAS). The guarantee will take immediate effect and will remain in place until December 31, 2010. All depositors, big and small, corporates and individuals, including those under the current Deposit Insurance Scheme administered by the Singapore Deposit Insurance Corporation would enjoy protection from the Government on the full amount of their deposits for the duration of the guarantee. The Government guarantee would also be extended to deposits placed with credit co-operatives registered with the Registry of Co-operative Societies. Given that Singapore's financial sector is sound and robust, the MOF and MAS have assessed that a guarantee of up to S$150 billion would be well in excess of possible liabilities arising from the failure of any financial institution. The guarantee will be backed by S$150 billion of the reserves of the Singapore Government.

Hong Kong: The Hong Kong Monetary Authority (HKMA) on October 14, 2008 stepped up its efforts to enhance financial stability, issuing a blanket guarantee for customer deposits and offering to re-capitalise its banks. The HKMA would use its Exchange Fund to guarantee all customer deposits held in authorised institutions in Hong Kong.

Others

Australia: On October 12, 2008, the Australian Government announced a blanket guarantee for all bank deposits, covering around A$700bn. This has been widely criticised by the financial sector, including the Governor of the RBA, as it has triggered withdrawal of funds from cash management trusts and mortgage funds. An example being Australia's largest mortgage fund, Challenger Howard Mortgage Fund, which had to freeze redemptions after jittery investors sought to secure their investments. Taking note of these developments, the Government has indicated that it was considering modifying the scheme with a limit for the government guarantee and stipulating an "insurance" premium for large depositors to qualify for the full guarantee.

New Zealand: The Government had announced a blanket guarantee for bank deposits on the same lines as Australia. On Oct 10, 2008 however, it revised the "Crown Retail Deposit Guarantee Scheme" fixing a cap on the size of deposit covered by the guarantee at A$1 million per depositor per guaranteed institution. Australia guaranteed all bank deposits for three years, while New Zealand guaranteed all deposits for two years.

Source: Websites of respective central banks.

Table VII.8: Insured Deposits @

(Accounts in million and amount in Rupees crore)

	2006-07	2007-08
1. Total No. of Accounts	716.89	1,038.91
2. Fully protected accounts	682.90	961.72
Percentage of 2 to 1	95.26	92.57
3. Assessable deposits	23,44,351.21	29,84,799.81
4. Insured deposits	13,72,596.97	18,05,080.83
Percentage of 5 to 4	58.55	60.48

@ : Based on returns as on last working day of September of the previous years.

Source : Annual Report 2007-08, DICGC.

Deposit Insurance in India, 1999, had recommended DRR of 2.0 per cent, the internal working group of DICGC had recommended DRR at 1.5 per cent level.

7.125 In India, the DICGC Act, 1961 provides a mechanism for inter-agency co-ordination between the DICGC and the Reserve Bank. DICGC is empowered to have free access to the records of an insured bank and to call for copies of such records. On DICGC's request, the Reserve Bank is required to undertake/ cause the inspection/investigation of an insured bank. By the same token, the DICGC is bound to furnish to the Reserve Bank such statements and information relating to the business or affairs of itself or of an insured bank as the Reserve Bank may consider necessary or expedient. Under normal circumstances, this provision of the Act is hardly put into practice. For improving coordination on matters relating to UCBs with its regulators, the following initiatives have been taken: (i) a co-ordination committee at the level of chief executive officer/chief general manager of DICGC and regulator of UCBs meets regularly and discusses issues of importance; (ii) DICGC is an invitee in the Standing Advisory Committee for UCBs; and (iii) representative of DICGC is invited to interact in local boards and central board of the Reserve Bank as also Board for Financial Supervision, on issues concerning the DICGC, as and when required. Representative of DICGC is invited at the meetings of the sub-committee of the TAFCUB. The coordination committee has helped solve many issues relating to UCBs with the support of the Reserve Bank.

7.126 The basic objective of deposit insurance is to ensure prompt reimbursement to the depositors, particularly small depositors. The DICGC has taken certain initiatives to eliminate delay in settlement of claims of the depositors by formulating policy guidelines to mitigate hardship to the depositors of insured banks due to delay on account of liquidation order having been challenged in court of law. Further, in extraordinary situations where the DICGC has issued advertisement in local newspapers informing the depositors about the non-receipt of claims, it has been observed that though this has yielded the desired results in some cases, in many other cases the response has been poor. An on-site pilot study was conducted by the DICGC in respect of four such banks in one of the States. Findings of the study reveals that: (i) the main reason for non-submission of claim list is pendency of audit of the books of accounts of the banks as on the cut off date and that for the earlier periods – inadequate and improper maintenance of records, unauthenticated entries in the books of the banks, *etc.*, are causing delay in the audit by the Government Auditors; (ii) some of the liquidators were having liquid funds sufficient to make payment to depositors, in accordance with the provisions of the DICGC Act, 1961, but they had utilised the funds for payment of deposits which were not eligible for settlement of claims, such as, deposits of the banks/Government and those exceeding Rs.1 lakh; (iii) the liquidators also resorted to adjustment of deposits against the loan amounts of third parties.

7.127 On the basis of observations made in the study report, it has been decided that if a bank under liquidation is having liquid funds which are adequate to make payment to depositors, the liquidator may approach DICGC for its in-principle approval to pay the small depositors up to Rs.1 lakh as per the provisions of DICGC Act 1961. DICGC would consider such requests for payment to depositors subject to the condition that the liquidator would not submit any claim to the Corporation, or if the payment is made in part to eligible depositors, submit the claim for net amount after adjustment of such payment.

7.128 In a special situation where claim list has not been submitted by the liquidator even after a long period because of delay in audit of accounts, DICGC has suggested for appointment of a chartered accountant firm by the Registrar of Co-operative Societies (RCS) to assist the liquidator in completing the audit and/or preparation of the claim list. On being satisfied about the authenticity of claims, DICGC may waive, as a special case, the submission of audited balance sheet as on the cut-off date. It has been suggested by DICGC that chartered accountant for the above purpose may be appointed by the RCS on the recommendation of the sub-committee of the TAFCUB and they should carry out audit as per the terms approved by the sub-committee. The DICGC would also consider request in other genuine circumstances on a case-to-case basis.

7.129 The cumulative impact of the above policies relating to settlement of claims during the pendency of court cases, issue of advertisement by DICGC regarding non-receipt of claim list and decisions taken in the light of the findings of the pilot study, has been encouraging and DICGC has settled such claims of 14 banks for a total amount of Rs.132 crore in respect of 1,93,873 depositors.

5. Overall Assessment

7.130 The ongoing financial crisis has had a deep impact on the existing framework for measuring, assessing and maintaining financial stability. The crisis has become more widespread. Although international financial markets had started showing some signs of improvements by mid-2008 in response to the co-ordinated policy responses, developments since September 2008 further precipitated the crisis. Emerging markets, which had earlier escaped the direct impact of the financial turmoil, increasingly became vulnerable to the international financial contagion. With the crisis extending to new areas and instruments, it has become extremely difficult to gauge its magnitude and implications, thereby rendering any assessment of financial stability extremely difficult at the current juncture.

7.131 The assessment of the Indian financial system during 2007-08 indicates that the banking sector in India continues to be healthy, sound and resilient. The profitability of the banking sector, which has shown remarkable resilience in the last few years, improved further during the year. Their capital position is also strong and they are less leveraged than they were a few years ago. The performance indicators such as operational efficiency, asset quality and soundness indicators of the Indian banking system currently compare well with the global standards. Although non-performing loans in absolute terms increased during the year, showing a reversal of the trend observed during the last few years, the gross NPA ratio (gross NPAs as percentage of gross advances) continued to decline. Even though the credit risk environment is becoming somewhat uncertain, highlighting the significance of NPA management, banks with comfortable capital buffers appear to be in a better position to withstand any shock on their balance sheets arising out of evolving macro-economic environment.

7.132 Urban co-operative banks have responded well to the restructuring and streamlining based on the Vision Document 2005. The issues in respect of rural co-operative sector are far more extensive and complex, and are being addressed in terms of the recommendations of the two task forces set up for the short-term and long-term institutions (Chairman: Prof. A. Vaidyanathan). Urban co-operative banks and RRBs have been strengthened.

7.133 Some of the major stability oriented measures for the markets and the financial infrastructure include setting up of the Clearing Corporation of India Limited to act as a central counterparty for facilitating payment and settlement systems relating to fixed income securities, money market instruments and foreign exchange transactions; setting up of Indian Financial Network (INFINET) as the communication backbone for the financial sector; introduction of negotiated dealing system (NDS) for screen-based trading in Government securities; and introduction of the RTGS system. It has been the endeavour of the Reserve Bank to foster financial stability through strengthening of financial institutions, increasing the depth and liquidity of the various segments of the financial market and improving the efficiency of the payment and settlement systems. Well calibrated liberalisation of macroeconomic and financial policy environment, in which banks operate, has promoted growth and provided newer business opportunities to banks and non-bank institutions.

7.134 Recent adverse developments and uncertainties following the failure/merger of some big international banks, have, however, posed new challenges for policy action. Global financial market developments since August 2008 have had some impact on domestic liquidity conditions and interest rates in the inter-bank market. The NBFCs and mutual funds faced resource crunch, affecting the CDs and CPs market significantly. Owing to increased risk aversion, portfolio flows reversed in recent months causing sharp correction in the equity market and depreciation of the rupee in the foreign exchange market. On the other hand, with merchandise imports running ahead of exports, the trade deficit continued to widen. There has also been tightening of external financing conditions due to the ongoing global financial turmoil.

7.135 In response to emerging global developments, the Reserve Bank initiated a number of measures beginning mid-September 2008. The aim of these measures was to augment domestic and forex liquidity and enable banks to continue to lend for productive purpose while maintaining credit quality so as to sustain the growth momentum. With a view to dealing with reversal of portfolio flows, the Reserve Bank continued to sell foreign exchange (US dollar) from its existing stock of foreign exchange reserves to meet the demand supply mismatch. The Reserve Bank's operations in the foreign exchange market however impacted the domestic liquidity conditions. To ease the liquidity condition, the Reserve Bank initiated several measures including reduction in the CRR by 350 basis points during October-November 2008 to 5.5 per cent level. The repo rate was also reduced by 250 basis points to 6.5 per cent and the reverse repo rate by 100 basis points to 5.0 per cent by December 6, 2008. The external commercial borrowings (ECBs) policy was eased with permission for up to US $ 500 million per borrower per financial year under the automatic route, and allowing banks to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier 1 capital as at the close of the previous quarter or US $ 10 million, whichever was higher, as against the earlier limit of 25 per cent. Systemically important non-deposit taking NBFCs were temporarily permitted to raise short-term foreign currency borrowings under the approval route, subject to their complying with the prudential requirements of capital adequacy and exposure norms.

7.136 The Reserve Bank instituted a mechanism of special market operations (SMO) for public sector oil marketing companies in June-July 2008 taking into account the extraordinary situation then prevailing in the money and forex markets. It also provided liquidity support to the lending institutions to pay instalment under the Agricultural Debt Waiver and Debt Relief Scheme. In view of the current macroeconomic, monetary and credit conditions and consistent with the practice of dynamic provisioning, the provisioning requirement for all types of standard assets was reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sector which continues to attract provisioning of 0.25 per cent, as hitherto. Similarly, risk weights on banks' exposures to certain sectors, which had been increased counter cyclically, were revised downward. The Government also recently announced that it would recapitalise seven public sector banks so as to raise their CRAR to the level of more than 12 per cent.

7.137 The overall long-term macroeconomic outlook continues to be favourable with moderation of growth being the current policy concern. The overall GDP growth has moderated, reflecting recent slackening of growth in the manufacturing sector and some of the services sectors. The industrial sector growth during 2008-09 (April-September) has remained volatile. Cumulatively, the IIP growth during April-September 2008 slowed down to 4.9 per cent as against 9.5 per cent last year. The slowdown in the industrial sector has the potential to adversely affect the profitability of the corporate sector, and thereby credit risk. Another factor which may adversely impact the credit risk is the elevated level of real estate prices. However, as banks maintain sufficient margins (loan to value ratio), the overall impact of such losses may not be significant. Moreover, banks' capital position is very strong and they should be able to easily absorb the loan losses, should they materialise.

7.138 Equity markets in India as in many other economies have fallen sharply since January 2008. However, banks' direct and indirect exposure to the equity market is limited and the sharp correction in the equity market should not have any significant impact on banks' balance sheets. With the domestic equity market having declined by more than 60 per cent from its peak level, valuations have also become quite attractive. Once calm and orderliness are restored, India should again become an attractive destination for portfolio flows.

7.139 Some useful lessons for the regulators and supervisors have emerged from the recent financial turmoil. Apart from liquidity risk, leveraging of financial institutions, valuation norms and securitisation practices, the entire framework for regulation and supervision is being reviewed by national authorities and international bodies. Apart from several regulatory and supervisory issues, international response to the turbulence has also highlighted the issue of the institutional structure for financial stability, and international financial architecture. The relevance of universal banking, the separation of central banking functions from regulation and supervision of banking entities are some of the topics being debated intensely.

7.140 The US banks bailout plan, guarantees, deposit insurance and other emergency measures have raised the issue of public *versus* private initiatives. It is being recognised that finance and financial institutions must be subject to a higher degree of official oversight than is necessary for virtually all other forms of commercial enterprises. However, official supervision is not a substitute for effective management of financial institutions which is - and should remain - a private function. The respective roles of central banks, regulators, supervisors, and fiscal authorities regarding financial stability need to be revisited and reinforced. Private sector organisations have recommended improvements to industry practices to establish frameworks for rigorously monitoring and reporting on their timely implementation.

7.141 The experience around the world over the past two decades suggests that banking crises have systemic and disruptive effects on the financial system as well as the real economy. A lasting stabilisation of the financial system calls for a holistic policy approach which links the microprudential base - the perspective on the individual institutions - with the macroprudential perspective and which simultaneously integrates the macroeconomic background and developments in the financial markets.

7.142 International co-operation in regulation and supervision has intensified. A comprehensive strategy for regulation, supervision and risk management of internationally active banks was announced by the Basel Committee on Banking Supervision on November 20, 2008 which focuses on strengthening capital buffers and help contain leverage in the banking system arising from both on- and off-balance sheet activities. It also highlights the need for promoting stronger risk management and governance practices to limit risk concentrations at banks so as to ensure that the banking sector serves its traditional role as a shock absorber to the financial system, rather than amplifies risk between the financial sector and the real economy. The Financial Stability Forum has also scaled up its follow up on implementation of the five principles for enhancing market and institutional resilience announced in April 2008. The G-20 Summit held in Washington on November 15, 2008 announced some immediate steps including, *inter alia*, providing liquidity to help unfreeze credit markets and ensuring that the IMF, World Bank and other multilateral development banks (MDBs) have sufficient resources to assist developing countries affected by the crisis, as well as provide trade and infrastructure financing. In an era of heightened financial globalisation, India needs to be an active participant in the international fora.

7.143 The Reserve Bank has developed a capacity to monitor the health of the nation's overall financial system, expanding its oversight and supervisory responsibilities well beyond commercial banks and payments systems to include the major segments of the market. With a view to reducing systemic risks, and keeping in view the inter-dependencies among financial agents, it is important that the initiatives towards inter-regulatory co-ordination are continued across the complex array of regulatory and supervisory arrangements with SEBI as the capital market regulator, IRDA as insurance regulator, and other government agencies, so as to maintain domestic financial stability. The vulnerability of financial intermediaries can be addressed through prudential regulations and supervision. Risk management of non-financial entities could be addressed through further development of the financial markets, which enable them to manage their risks using appropriate products.

7.144 Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent. The policy stance of the Reserve Bank is aimed at assuring financial stability, while maintaining the growth momentum at reasonable levels and giving a high priority to price stability. The relative stability in domestic financial markets, despite extreme turmoil in the global financial markets, is reflective of prudent practices, strengthened reserves and the strong growth performance in recent years in an environment of flexibility in the conduct of policies. Active liquidity management is a key element of the current monetary policy stance. Liquidity modulation through a flexible use of a combination of instruments has, to a significant extent, cushioned the impact of the international financial turbulence on domestic financial markets by absorbing excessive market pressures and ensuring orderly conditions. India, with its strong drivers of growth, may escape the worst consequences of the global financial crisis. Once the global situation is stabilised, and calm and confidence are restored, India would return to the high growth trajectory.

Chapter VIII

Perspectives

8.1 At a time when the financial system across the globe is engulfed in a deep crisis, the Indian banking system continues to show resilience. The underlying fundamentals of the Indian economy would continue to underpin the robust performance of the banking sector which remains profitable and well capitalised. The strength of the Indian banking sector reflects the well-thought out and calibrated measures undertaken over the years. Financial markets in India, however, are bearing the indirect knock-on effects of the global financial situation, reflecting the uncertainty and anxiety in the global financial markets. The Reserve Bank has injected liquidity into the system as warranted by the situation. It has been monitoring the situation on a continuous basis, and stands ready to take effective and swift action as appropriate to the evolving situation. Though substantial progress has been made towards strengthening the banking system, there is a need for further consolidating the gains keeping in view the lessons of the recent financial market turbulence.

8.2 The ongoing global financial crisis and financial market developments have highlighted several challenges confronting both the banks and the regulators. The major problems which banks and financial institutions have faced internationally are illiquid assets, capital shortages and collapse of counter-party trust. The crisis suggests that risk management and supervisory practices lagged behind financial innovations and emerging business models. The crisis underscores the extent to which the business models based on increased risk appetite and innovative and complex financial products could undermine financial health of institutions and impair financial stability. It also indicates that liquidity risks can increase manifold during a crisis and can pose serious downside risks to macroeconomic and financial stability. There is a need for regulators/supervisors to closely assess the inherent risks of new instruments.

8.3 The Reserve Bank has already put in place a system to mitigate liquidity risks at the very short-end, risks at the systemic level and at the institution level. In order to further strengthen capital requirements, the credit conversion factors, risk weights and provisioning requirements for specific off-balance sheet items, including derivatives, have been reviewed. Furthermore, in India, complex structures such as synthetic securitisation have not been permitted so far. Introduction of such products, when found appropriate, would be guided by the risk management capabilities of the system.

8.4 While the overall policy approach has been able to mitigate the potential impact of the turmoil on domestic financial markets and the economy, the increasing integration of the Indian economy and financial markets with the rest of the world, pose downside risks from these international developments. The risks arise mainly from the reversal of capital flows on a sustained medium-term basis, the projected slowdown of the global economy and from some elements of potential financial contagion. In India, the adverse effects have so far been largely felt on the equity market because of reversal of portfolio equity flows, the domestic foreign exchange market and liquidity conditions.

8.5 Banks in India need to have a mechanism for proper assessment of risks. The challenge for banks is to develop adequate skill for managing emerging risks resulting from innovations in financial products as well as technological advancements. The Reserve Bank has been encouraging banks to develop an integrated approach to managing risk and also undertake stress testing exercises, both in the context of liquidity and credit risk management. In this context, the availability of reliable data/information is crucial for both banks and regulators/supervisors of the banking system and efforts need to be made to strengthen the existing system. The Reserve Bank, as the regulator of the financial system, receives information on a regular basis from banks and other financial entities. In view of the recent global financial market turbulence, the need is to further improve the transparency and disclosure standards and corporate governance practices in India.

8.6 Though foreign banks and Indian banks with overseas presence have already migrated to Basel II, its full implementation would remain a major challenge for some time to come for both the banks and the Reserve Bank in terms of processes, infrastructure required and capacity building. In view of technological advances and greater reliance of banks on technology-based solutions, there is need for adequate safeguards against fraudulent activities. The asset quality of banks in India has improved significantly in recent years, though in 2007-08 there was an increase in NPAs in absolute terms. Efforts, therefore, need to be made by all concerned to ensure that hard earned gains in reducing NPAs are not frittered away, particularly due to some economic slowdown that is now expected in the wake of the significant global slowdown.

8.7 There are some other challenges faced by the Indian banking system. As the agricultural sector provides employment to the vast majority of the Indian population and lends critical support to the growth momentum of the economy, a major challenge for banks continues to be timely and cost-effective provision of credit to the sector. During 2004-05 to 2006-07, credit to agriculture expanded substantially. However, agricultural credit decelerated in 2007-08, which needs to be reversed. Though credit growth to micro and small enterprises increased significantly during 2007-08, the challenge is to sustain the momentum in view of the sector's critical importance to the overall economy.

Monetary Policy

8.8 The task of monetary management has always centred around managing a judicious balance between price stability, sustaining the growth momentum and maintaining financial stability. The relative emphasis across these objectives has varied from time to time, depending on the underlying macroeconomic conditions. The global financial turmoil has, however, reinforced the importance of putting special emphasis on preserving financial stability. At the same time, moderating inflation and promoting growth continue to be critical policy concerns. Accordingly, the Mid-term Review for 2008-09 (issued in October 2008) indicated that the challenge was to strike an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations and sustaining the growth momentum.

8.9 In India, the domestic financial markets have also been impacted by the turbulence overseas, particulary the equity markets, which have reflected the widespread risk aversion and the increase in uncertainty in the international financial environment. The liquidity crunch in the advanced countries led to significant divestments by FIIs in the Indian stock markets resulting in capital outflows from India and subdued activity in the domestic primary capital market. In the face of reversal of portfolio flows in recent months, the Reserve Bank has been managing the consequent pressure on and volatility in the exchange rate. The reduced availability of funding from international capital, both debt and equity, and the subdued domestic capital market impacted the availability of funding to certain sectors of the economy and led to increased demand for credit from the banking sector.

8.10 The Reserve Bank initiated a variety of policy measures to infuse liquidity into the system. These, *inter alia*, included 350 basis points reduction in the CRR, 250 basis points reduction in the repo rate, 100 basis points reduction in the reverse repo rate, 100 basis points reduction in the SLR to 24 per cent of NDTL, upward revisions in ceilings on interest rates on non-resident and foreign currency deposits, assurance of supply of foreign exchange to meet supply-demand gap and special term repo for a cumulative amount of Rs.60,000 crore for enabling banks to meet the funding requirements of mutual funds, NBFCs and housing finance companies. The ECB policies were further liberalised in October 2008. Foreign exchange swaps with tenure up to three months have been allowed till June 30, 2009 to provide foreign exchange liquidity to Indian banks with foreign branches or subsidiaries. The Reserve Bank announced on November 15, 2008 that it would consider proposals, under the approval route, from Indian companies for buyback of their FCCBs, provided the buyback was financed out of foreign currency resources held in India or abroad and/or out of fresh ECBs. The policy on the premature buyback of FCCBs was reviewed on December 6, 2008 and it was decided to further liberalise the procedure and consider applications for buyback, under both automatic and approval routes. Under the automatic route, the designated AD category-I banks could allow Indian companies to prematurely buyback FCCBs, subject, among others, to the conditions that the buyback value would be at a minimum discount of 15 per cent on the book value and the funds used for the buyback would be out of existing foreign currency funds held either in India or abroad and/or out of fresh ECBs. Under the approval route, buyback, among others, is subject to the conditions that it should be at a minimum discount of 25 per cent on the book value, the funds used for the buyback should be out of internal accruals and the total amount of buyback should not exceed US$ 50 million of the redemption value, per company. The Reserve Bank is monitoring developments closely and continuously and would respond swiftly and even pre-emptively to any adverse external developments impinging on domestic financial stability, price stability and growth momentum of the Indian economy.

8.11 Even as the Reserve Bank has taken steps to bolster the liquidity in the system, banks have been advised to permit drawals of sanctioned limits guided by commercial judgement. They should pay attention to maintaining credit quality which has always been a key concern of the Reserve Bank. Banks have also been advised to undertake credit appraisals on a sectoral basis, monitor loan to value ratios and calibrate their credit portfolio in tune with their asset-liability projections.

Credit Delivery and Pricing

8.12 Bank credit growth moderated during 2007-08 after showing more than 30 per cent growth during the preceding three years. To meet the high credit demand, banks reduced their excess SLR investment. The SLR investment of banks declined from more than 41 per cent of NDTL at end-March 2004 to 27.8 per cent at end-March 2008. Fundamentals of the Indian economy continue to be strong, although there are some downside risks in the short run, suggesting that the demand for credit would also remain strong. While banks need to meet all the legitimate credit requirements of industry, they have to recognise that there are also some critical sectors such as agriculture and SMEs, which do not have access to other sources of funds and are entirely dependent on the banking sector. The high growth in credit during 2004-05 to 2006-07 was broad-based in line with the expansion in economic activity across all the major sectors of the economy. During 2007-08, however, credit to agriculture and allied activities showed a deceleration whereas growth in credit to industry declined marginally. The credit to the services sector, on the other hand, continued to show a higher growth. Though credit growth to sensitive sectors moderated partly in response to the measures taken by the Reserve Bank in this regard, it continued to be high. Despite the sizeable increase in the growth of bank credit during the current financial year so far, there has been a perception of credit pressures. Constraints in access to external financing as also repricing of risks and higher spreads resulted in additional demand for domestic bank credit from corporates with attendant hardening of interest rates across the spectrum. Moreover, domestic equity markets were significantly affected by the global de-leveraging of assets and the adverse sentiments from overseas markets, which made it difficult to raise capital in the markets.

8.13 The Reserve Bank continued its efforts towards further increasing the flow of credit to the agriculture sector. The priority sector advances norms were further fine-tuned during the year. The targets and sub-targets for priority sector are now linked to the adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher. Recognising the problem of agricultural indebtedness and the difficulties faced by the farming community, especially the small and marginal farmers, the Union Finance Minister announced a scheme for agriculture debt waiver in the Union Budget for 2008-09. The Reserve Bank and NABARD are the nodal agencies for implementation of the Agriculture Debt Waiver and Relief Scheme, 2008. The Reserve Bank has, since 2006-07, been carrying forward the Government's relief measure for agriculture in the form of interest rate subvention of 2.0 per cent for short-term production credit up to Rs.3 lakh (the Government increased the subvention for 2008-09 to 3.0 per cent in December 2008). Besides, relief measures were put in place to help the poultry industry which was affected by the outbreak of avian influenza in certain parts of the country.

8.14 Several measures were also initiated to enhance the flow of credit to the agriculture and allied sectors and other underserved sectors based on the recommendations of the various Working Groups/Committees appointed by the Reserve Bank. Banks were advised that landless labourers/share-croppers/oral lessees, who were unable to get the necessary certification from local administration, could submit affidavits regarding their occupational status. The Reserve Bank has encouraged the self-help group (SHG) mode of lending to such persons. The Reserve Bank advised banks to introduce, on a pilot basis, a new product for farmers in rain-fed areas whereby 80 per cent of the total crop loan requirement was released by way of short-term production loan and remaining 20 per cent as a 'clean credit limit' to ensure year-round liquidity on the pattern of cash credit/overdraft facility. The Reserve Bank has also been continuously making efforts to increase the flow of credit to the SMEs. The SME sector is crucial to the overall economy as it is employment-intensive and has significant export potential. The new guidelines on priority sector advances take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006. The Code of Banks' Commitment to Micro and Small Enterprise (MSE) Customers, a voluntary code aimed at easing the MSEs' access to credit, was formulated by the Banking Codes and Standards Board of India (BCSBI). The Reserve Bank is examining the recommendations made by an Advisory Committee for Rehabilitation of sick SMEs. In dealing with new consumer and production demands of rural enterprises and that of SMEs in urban areas, banks have to look for new delivery mechanisms that economise on transaction costs and provide better access to the currently under-served. Innovative channels of credit delivery for serving these rural credit needs are already being explored by some banks and financial institutions under the umbrella of financial inclusion.

8.15 The evolving macroeconomic environment and the global financial crisis have resulted in tight domestic liquidity conditions which put an upward pressure on the lending rates of banks. Lending rates of scheduled commercial banks (SCBs) across various bank groups hardened during 2007-08. Overall, there was an increase of around 75 basis points in the benchmark prime lending rates (BPLRs) of public sector banks during 2007-08. The range of actual lending rates on demand and term loans (other than export credit) for the SCBs widened to a range of 4.00-28.00 per cent in March 2008 from the range of 3.15-26.50 per cent in March 2007. The BPLR showed significant variations across bank groups. The share of sub-BPLR lending in total lending of commercial banks, excluding export credit and small loans, however, declined marginally from 78 per cent at end-March 2007 to about 76 per cent at end-March 2008. Banks should do a careful review of their lending rates based on change in the inflation outlook, the domestic liquidity conditions and their cost of funds. BPLRs exhibit upward flexibility during monetary tightening, but downward rigidity during monetary easing which impedes the monetary transmission mechanism. As such, these rigidities do not allow the benefits of easy liquidity conditions to be passed on to the borrowers.

8.16 Measures taken in November/ December 2008 to encourage the flow of credit to sectors which are coming under pressure included extension of the period of pre-shipment and post-shipment rupee credit for exports by 90 days, expanding the export credit refinance facility and making the post-shipment rupee export credit interest rate applicable to overdue bills up to 180 days from the date of advance. Besides, contra-cyclical adjustments were made in provisioning norms for all types of standard assets (except in the case of direct advances to agriculture and SMEs which continue to be 0.25 per cent) and risk weights on banks' exposure to certain sectors, which were earlier increased counter-cyclically. To enhance credit delivery to the employment-intensive MSE sector, a refinance facility worth Rs.7,000 crore has been instituted for SIDBI. A similar facility worth Rs.4,000 crore is being worked out for NHB. Furthermore, loans granted by banks to housing finance companies for on-lending to individuals for purchase/construction of dwelling units (up to Rs.20 lakh per dwelling unit per family) would be classified under the priority sector up to March 31, 2010, subject to conditions.

Financial Inclusion

8.17 Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognised as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks. To achieve the objective of financial inclusion, banks need to increase the banking outreach to the remote corners of the country, with affordable infrastructure, low operational costs and use of technology, thereby making the small transactions economically viable. Banks have been urged to scale up their financial inclusion efforts by utilising appropriate technology, which is highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. A few banks have already initiated certain pilot projects in some parts of the country utilising smart cards/ mobile technology to extend banking services similar to those dispensed from branches.

8.18 Branchless banking through business correspondents (BCs) has become important in the area of inclusive finance. The benefits of the model to the customers include saving of their time and cost of travel to the branch, comfort in dealing with the BC as he/she is a familiar face and convenience of transacting business practically at any time of the day. The advantage for the BC is that it is an alternative source of income. The benefits for the bank are that they are able to reach out to the hitherto unreached segments and mop up rural savings at lower transaction costs. The Reserve Bank has steadily increased the number of entities that could be employed as BCs by banks. Besides covering non-governmental organisations (NGOs), micro-finance institutions (other than regular NBFCs) and other civil society organisations as intermediaries; retired bank employees, ex-servicemen, retired government employees and section 25 companies (with some attendant restrictions) have been allowed to be appointed as BCs.

8.19 Banks were allowed to classify 100 per cent of the credit outstanding under general-purpose credit cards and overdrafts up to Rs.25,000 (per account) granted against ‘no-frills’ accounts in rural and semi-urban areas as indirect finance to the agriculture sector under the priority sector. Banks have also been advised to set up financial literacy-*cum*-counselling centres. With a view to improving the financial well-being of the people at large, financial literacy is believed to play a critical role in equipping consumers with the knowledge required to choose from a myriad of financial products and their providers. Financial literacy could help provide individuals with the knowledge necessary to create household budgets, initiate savings plans, manage debt and make strategic investment decisions for their future.

8.20 In the Annual Policy Statement for 2007-08, it was announced that an evaluation of the progress made in the districts that have reported 100 per cent financial inclusion would be taken up by independent external agencies. The studies conducted in 26 districts in eight States revealed that although several districts were declared by the State Level Bankers' Committees as 100 per cent financially included, actual financial inclusion had not been to that extent in these districts. Further, many of the bank accounts that were opened as part of financial inclusion drive were not operated upon due mainly to distance factor and households not having regular income. In order to make financial inclusion more effective, banks would need to offer banking services much closer to the account holders apart from offering other services such as loan and insurance products. This would need to be done through a variety of channels by leveraging on technology and intermediaries.

Micro Finance

8.21 Micro finance has emerged as an important tool for credit delivery, particularly in the remote areas and for economically weaker sections of the society. However, there are several challenges confronting the sector. The progress of micro finance movement has been skewed. The movement has taken stronger roots in the southern parts of the country, while the progress in the other parts has been slow. The stronger micro finance movement in the southern part is attributable to a variety of factors such as greater presence of micro finance institutions (MFIs) and other micro finance providers, well developed network of NGOs or promotional agencies and greater availability of infrastructure support. Although significant progress has been made in recent years in non-southern States, concerted efforts need to be made by NABARD and other participating agencies to expand its SHG-bank linkage programme, which is a major micro finance programme, in the central, northern, eastern and north-eastern areas.

8.22 There have been reports from certain parts of the country that the interest rates charged by the MFIs are rather high. The cost of micro finance delivery depends upon various factors such as the cost of funds, risk and transaction cost, among others. As micro finance services are generally provided at the doorstep of the customers, the cost of operations of MFIs increase substantially. This tends to get reflected in the ultimate interest rates charged to the clients. It is also important that the interest rates structure of the institutions is simple so that the clients can understand it. MFIs should also have appropriate transparent disclosure mechanisms whereby the various costs and other charges payable by the clients are disclosed properly. In order to reduce the ultimate cost to the clients, MFIs can adopt IT enabled services which may help in reducing the operational costs and interest rates charged to borrowers.

8.23 Another area of concern is that the MFIs, which are on the growth path, face paucity of owned funds which is a critical constraint for scaling up their operations. Many of them are socially-oriented institutions and have little access to financial capital. As a result, they have high debt-equity ratios. The Micro Finance Development and Equity Fund (MFDEF), set up with NABARD, helps in meeting the equity needs of MFIs to some extent.

8.24 In comparison with earlier years, MFIs now find it relatively easier to raise loans from banks. This change came after the year 2000, when the Reserve Bank allowed banks to choose any conduit or intermediary for micro finance delivery and treat such lending as part of their priority sector lending obligations. Some private sector banks have since designed innovative products to fund MFIs and have also started viewing lending to the sector as a viable business proposition. However, banks need to work on choosing the right technologies to assess the risk of funding to MFIs. They also need to improve their capability of appraising MFIs and assessing their credit needs. Appropriate credit rating of MFIs will help in increasing the comfort level of the banking system. In this context, NABARD has introduced a scheme under which 100 per cent of the professional fee for the first rating of a MFI will be borne by it, subject to a maximum of Rs.1 lakh.

8.25 For a successful micro finance programme, the challenge is to provide financial products to clients in the form they desire. The MFIs should be able to offer flexible products according to the convenience of the clients. Flexibility can be with respect to the amount of credit, interest rates, instalments and repayment periods. Often small credit may be required a number of times, rather than a single large credit. Further, the requirement for micro enterprises may vary from that of other categories. An important area where the rural populace is dependent on informal credit providers is their unexpected credit needs for emergencies like medical expenditure, death, marriage or other social functions. Suitable micro finance products for meeting such requirements can go a long way in mitigating the dependence of such people on informal credit providers.

8.26 Owing to the fast growth of the SHG-bank linkage programme, the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts. The deterioration in the quality of the SHGs needs to be checked.

8.27 For several years, it was being reported that the repayment rates of loans under micro finance were above 95 per cent. In fact, the high repayment rates in this sector were considered to be the most prominent feature of micro finance. Recent data published by NABARD, however, suggest that the recoveries in the micro finance sector have not been as high as they were believed to be earlier. Under the SHG-bank linkage programme, the largest micro finance programme in the country, out of the 290 reporting banks, only about 37 per cent of banks reported recovery above 95 per cent and around 36 per cent banks reported recovery in the range of 80-94 per cent. The recovery of the remaining banks was below 80 per cent. However, when it comes to recovery by the MFIs, most MFIs had a repayment record of above 90 per cent.

8.28 The emergence of SHG federations has posed another challenge. On the one hand, such federations represent the aggregation of collective bargaining power, economies of scale and are fora for addressing social and economic issues. On the other hand, there is evidence to show that every additional tier, in addition to increasing costs, tends to weaken the primaries. However, keeping in view the beneficial aspects of federations, especially in terms of increasing the bargaining powers of the SHG members and livelihood promotion, NABARD has decided to support federations on a model neutral basis for training, capacity building and exposure visits of SHG members.

Customer Services

8.29 Liberalisation and competition lead to immense benefits, but experience has shown that consumers' interests are not necessarily accorded full protection and their grievances are not properly attended to. The Reserve Bank, as the regulator of the banking sector, has been actively engaged in improving customer service in banks. It has regularly highlighted the inadequacy in banking services available to common person and emphasised the need to benchmark the current level of service, periodically review the progress, enhance the timeliness and quality of service and rationalise the processes taking into account technological developments. The broad approach of the Reserve Bank with regard to customer service is to empower the common person where banking services are concerned and improve customer service by adopting a consultative process with banks, through the Indian Banks' Association (IBA). The focus is on encouraging the involvement of the boards of the banks, strengthening the banks' own grievance redressal machinery, insisting on transparency in all the dealings with the customers, ensuring reasonableness in pricing, promoting adherence to self-imposed codes by banks on commitments to bank customers and monitoring compliance by an independent agency, *viz.*, the BCSBI. The Reserve Bank has been actively encouraging the IBA to take initiatives in these regard.

8.30 The formation of the BCSBI has helped sharpen the customer orientation of the banking industry overall. The Board undertook an evaluation of the implementation of the Code of Banks' Commitment to Customers. As a follow-up to the recommendations of the Working Group on reasonableness of bank charges, an assessment was done of charges levied by banks for some commonly availed services. In recent years, the Reserve Bank has also emphasised protection of customer rights, right to privacy, customer confidentiality, fair practices in debt collection, lender's liability and asset repossession.

8.31 Commercial banks now have a four-fold structure in place to pay adequate attention to customer service. The Reserve Bank has in recent times taken cognisance of methods used by banks that cause harm to customers or go against basic tenets of banking. Accordingly, banks were advised about remedial measures to be adopted in each case. Some of the issues that have engaged the attention of the Reserve Bank include the engagement of recovery agents by banks, increasing recourse to telemarketing calls, non-acceptance of cash over-the-counter, deposit schemes with lock-in periods and credit card operations of banks. Instructions have been issued to offer all banking facilities to the visually challenged and facilitate opening of accounts for disabled persons by their appointed guardians, while settlement of claims in respect of missing persons has been made easier.

8.32 A major initiative in improving customer service was the re-formulation of the Banking Ombudsman Scheme, which is in operation since 1995 and was revised in 2002 and 2006. The scheme is being executed by the Banking Ombudsmen appointed by the Reserve Bank at 15 centres across the country. The scheme helped achieve expeditious and satisfactory disposal of customer complaints in a time-bound manner. At end-March 2008, 89 per cent of the complaints addressed to the Ombudsmen were effectively resolved and only 6 per cent of the complaints remained pending for more than two months. However, the customer service area faces significant challenges in the coming year. The foremost amongst these is creation of more awareness regarding the Banking Ombudsman scheme, especially in mofussil and rural areas. Service standards and transparency in public service is also an area where further improvements are on the anvil. Customer education and skill development in banks and in the offices of the Banking Ombudsman is another area that would be focussed upon in the coming years.

Basel II Implementation

8.33 India has been adopting international best practices in the area of banking regulation and supervision with a view to strengthening the banking sector. Accordingly, as a part of the banking sector reforms, India adopted the Basel norms in a phased manner 1992 onwards. In fact, India went a step further and stipulated the capital to risk-weighted assets ratio (CRAR) at 9.0 per cent as against the international norm of 8.0 per cent. Furthermore, India also prescribed the capital charge for market risk in June 2004, broadly in line with the Market Risk Amendment of 1996 to the Basel Accord of 1988.

8.34 In view of the emergence of large and complex banking institutions and with the increasing sophistication of institutions in risk management, the straitjacket system of risk weights under Basel I became less meaningful. Furthermore, improvements in credit risk measurement facilitated increased use of securitisation and credit derivatives to arbitrage those capital rules. Therefore, the Basel Committee on Banking Supervision (BCBS) introduced the new capital framework (Basel II) in June 2004, which provides a more risk-sensitive approach to determining capital requirement for banks not only for credit and market risks but also for operational risk as well as for all other material risks. The minimum capital requirements stipulated under Pillar 1 of the framework are complemented by supervisory review process (Pillar 2) and market discipline (Pillar 3). According to the timetable for implementation of Basel II framework for commercial banks, Indian banks with international presence and foreign banks operating in India migrated to Basel II on March 31, 2008. The remaining banks (except RRBs and local area banks) are to migrate by March 31, 2009.

8.35 As at end-March 2008, the overall CRAR of Indian banks, under Basel I, was 13 per cent, much above the prescribed level of 9 per cent. At the individual bank level, while the CRAR of as many as 77 banks was above 10 per cent, that of two other banks was in the range of 9-10 per cent. Overall, 41 banks migrated to Basel II norms by end-March 2008, of which 40 banks had CRAR of more than 10 per cent and one bank had close to 10 per cent.

8.36 The full implementation of the Basel II accord, even under the basic/standardised approaches, would remain a major challenge for some time to come, for both the banks and the Reserve Bank as the banking supervisor. At the banks' level, the implementation would require, *inter alia*, upgradation of the bank-wide information system through better branch-connectivity, which would entail cost and may also raise some IT-security issues. The implementation of Basel II also raises several issues relating to development of human resource skills and database management. The banks which require higher amount of capital under the Basel II framework would also need to explore various capital raising options.

8.37 The Basel II framework also offers multiple options of increasing sophistication, for computing capital requirements for the three major categories of risks. While for the present, banks are required to adopt the relatively simpler approaches available under the framework, they are likely to be permitted by the Reserve Bank to migrate to the advanced approaches envisaged under the Basel II framework, though a definite timeframe for the purpose is yet to be firmed up. Given the greater complexity of the advanced approaches, a progressive improvement in the quality of human resources in the banks, particularly for equipping them with the necessary quantitative skills, would be a pre-requisite for the migration. As under the advanced approaches, the Reserve Bank would also be required to approve the internal models of the banks, developing the required expertise within the Reserve Bank would also be a significant challenge. Under Pillar 2 of the framework, the Reserve Bank would be required to review the internal capital adequacy assessment process of the banks to ensure that the internal capital held by the banks under Pillar 2 adequately reflects all their material risk exposures. This would be a challenge for the Reserve Bank too and may require a review of its supervisory processes.

Risk Management Systems in Banks

8.38 Banks are confronted with various kinds of financial and non-financial risks *viz.*, credit, market, operational, liquidity, concentration and reputational risk, among others. These risks are highly interdependent and events that affect one area of risk can have ramifications for a range of other risk categories. Recognising the importance of risk management, the Reserve Bank has been encouraging banks to strengthen and upgrade their risk management systems with due emphasis on developing an integrated approach to managing risks. Basel II framework provides opportunities to banks to further improve their risk management systems as it provides incentives by way of capital relief to well managed banks.

8.39 The ongoing market turmoil has re-emphasised the importance of risk management, especially liquidity risk management, to the functioning of financial markets and the banking sector. The reversal in market conditions has illustrated how quickly liquidity can evaporate and that illiquidity can last for an extended period of time. Further, the financial market developments in the recent past have increased the complexity of liquidity risk faced by banks and thus its management. Since international operations are considerably ring fenced, liquidity mismatches in other jurisdictions do not immediately affect domestic liquidity position. But persistent liquidity problems in other jurisdictions could affect the overall liquidity position and solvency of banks. In terms of the asset-liability management (ALM) guidelines prescribed by the Reserve Bank to banks, their liquidity is tracked through traditional maturity or cash flow mismatches. Underlining the importance of liquidity risk management, certain changes have been initiated recently in these guidelines. In due consideration of the international practices in this regard and the need for sharper assessment and better liquidity management, the first bucket in the structural liquidity statement, *viz.*, 1-14 days has been made more granular. Banks have been advised that they may undertake dynamic liquidity management and should prepare the structural liquidity statement on a daily basis.

8.40 The Reserve Bank is examining the issue of banks establishing a more robust liquidity risk management framework that is well integrated into the bank-wide risk management process. The BCBS published 'Principles for Sound Liquidity Risk Management and Supervision' in September 2008, which materially raises standards for sound liquidity risk management. It provides detailed guidance, *inter alia*, on the importance of establishing liquidity risk tolerance, maintenance of an adequate level of liquidity through a cushion of liquid assets, identification and measurement of a full range of liquidity risks, including contingent liquidity risks, design and use of severe stress test scenarios and need for a robust and operational contingency funding plan by banks. The guidance also emphasises the importance of supervisors assessing the adequacy of a bank's liquidity risk management framework and its level of liquidity and suggests steps that supervisors should take if these are deemed inadequate. The Reserve Bank is studying the guiding principles contained in the document for early implementation. Furthermore, enhancing market and institutional resilience requires ensuring that capital and liquidity buffers by banks and financial institutions are large enough to face any internal and external shocks. This will also minimise the pro-cyclicality effect, *viz.*, the tendency of banks of glossing over risk during good times and becoming extremely risk averse during bad times.

8.41 The root of the problems for many financial institutions around the world affected by the financial markets turmoil was their inability to adequately assess the risks associated with the exposures they held. Imperfections in risk management systems as well as in risk governance proved to be substantial contributing factors to the accumulation of exposures whose long-term risk characteristics were not properly identified in advance. As such, evaluation of risk management techniques in banks as well as enhancing firm-wide oversight will be the cornerstone of the Reserve Bank's supervisory policy for some time to come.

8.42 Implementation of Basel II would ensure revision in banks' stress testing practices in the context of liquidity and credit risk management as well as addressing the weaknesses in the management of securitised assets and other off-balance sheet exposures.

Notwithstanding the important role to be played by the supervisors, the primary responsibility to address the serious weaknesses in business practices would rest with the banking institutions.

8.43 The recent crisis, as other crises in the past, also proved that asset/financial bubbles are built during times of relative economic uptrend and availability of easy credit. Poor credit standards during such periods also result in large delinquencies, thus, contributing to the crisis. During the year, the Reserve Bank had conducted supervisory review of banks' exposure to the real estate sector, capital market and advances against agricultural commodities. Regulators and supervisors will be facing such disturbances from time to time, and will have to remain vigilant. Supervisory review of the exposure of the banking system to specific sectors may become an integral part of ongoing supervision of banks.

8.44 Strengthening regulation on capital adequacy is key to promoting financial stability. Implementation of Basel II in the Indian banks is aimed at precisely achieving this objective. However, the challenge in this regard is that it needs to be seen how well prepared the banks are in this respect in terms of their ability to assess accurately the risks they are faced with, the robustness of IT infrastructure available to them for the purpose and the capital allocation process *vis-a-vis* these risks.

NPA Management

8.45 The level of NPA of the Indian banking industry has declined significantly in recent years. The improvement, generally observed across all bank groups as well as among individual banks, continued in 2007-08. At end-March 2008, net NPA level of 75 banks was less than 2 per cent and of only two banks was more than 2 per cent. During 2007-08, the gross NPAs, in absolute terms, however, increased by around 12 per cent, reversing the declining trend noticed since 2001-02. This was partly on account of the high credit growth during the period 2004-05 to 2006-07 and partly on account of hardening of interest rates as most of the housing loans are on a floating rate basis. The reduction in NPAs over the years has been the result of concerted efforts made by the Government, the Reserve Bank and banks themselves and it needs to be ensured that recent gains are not frittered away. The turbulence in the global financial markets and its likely macroeconomic impact on the Indian economy, *albeit* marginal, are likely to have adverse impact on credit risk environment. It is, therefore, critical for the strength of the banking system that fresh accretion to NPAs remain at a minimum and the recovery process of existing NPAs is expedited. In this regard, the Reserve Bank is in the process of finalising the names of companies that could commence business as credit information companies in the country and help bring about an improvement in the credit culture.

8.46 The Reserve Bank and the Government have undertaken a number of initiatives to establish a strong institutional framework to facilitate the recovery of loans. The rise in NPAs (in absolute terms) in 2007-08, however, suggests the need and scope for further improvement in the recovery mechanism. In the critical area of NPA management, banks' boards are now required to lay down policies and guidelines covering, among others, the valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayment and recovery prospects on purchase/sale of NPAs among banks. In order to protect their balance sheets, banks are now required to work out the net present value of the estimated cash flow associated with the realisable value of the available securities while selling NPAs and in compromise settlements.

8.47 The Reserve Bank has, in a calibrated manner, introduced and revised prudential norms, risk weights and provisioning relating to sensitive sectors with the objective of ensuring asset growth with minimum volatility. In view of the recent developments in the global financial markets and for ensuring financial stability, stipulations regarding conversion factors, risk weights and provisioning requirements for specific off-balance sheet exposures of banks were revised. For the purpose of exposure norms and capital adequacy, banks are required to compute their credit exposures and credit equivalent amounts, respectively, arising on account of the interest rate and foreign exchange derivative transactions and gold using the current exposure method. Credit exposures computed as per the current marked-to-market value of the contract arising on account of the interest rate and foreign exchange derivatives transactions, and gold now attract provisioning requirements as applicable to loan assets in the standard category. In respect of derivative transactions, any amount due to a bank, which remains unpaid in cash for a period of 90 days from the specified due date for payment, is classified as NPA as per the stipulated prudential norms on income recognition, asset classification and provisioning pertaining to advances portfolio.

8.48 Keeping in view the difficulties faced by the real estate sector, the Reserve Bank, on December 6, 2008, extended the exceptional/concessional treatment of retaining the asset classification of the restructured standard accounts in standard category to the commercial real estate exposures which are restructured up to June 30, 2009. In the face of current economic downturn, there are likely to be more instances of even viable units facing temporary cash flow problems. To address this problem, as a one time measure, the second restructuring done by banks of exposures (other than to commercial real estate, capital market and personal/consumer loans) up to June 30, 2009, would be eligible for exceptional regulatory treatment.

Financial Data Reporting System

8.49 As the regulator of the financial system, the Reserve Bank receives financial information from banks and other financial entities. The recent financial crisis underlines the critical importance of timely receipt of financial information in a standardised and transparent format and at the most disaggregated level, which would facilitate a quicker and more qualitative analysis of the financial information, thereby enabling the regulator to closely monitor the financial entities and undertake certain immediate corrective policy measures, whenever required. This would necessitate putting in place a data reporting system that has standardised accounting norms and a system that simplifies disclosures. Moreover, not just the Reserve Bank, but other financial regulators and repositories of financial information in India and across the world also need to move towards a standardised and transparent data reporting system. It would then be possible to evolve closer regulatory coordination among the various regulatory authorities at the domestic and global levels.

8.50 A culture of transparency and disclosures needs to be inculcated among the market participants through regulatory guidelines and moral suasion. The Reserve Bank has already issued guidelines on Pillar 3 (market discipline) of Basel II and it needs to be ensured that this develops into a form of management ethics within the banks, especially large and complex banks and those which are systemically important. The Reserve Bank has taken a number of steps to improve the disclosure standards of Indian banks to bring them closer to the international best practices. The disclosure norms introduced for enhancing the transparency in banking were further enhanced by requiring banks to disclose full particulars of all letters of comfort (LoCs) issued by them during the year, including their assessed financial impact, as also their assessed cumulative financial obligations under the LoCs issued by them in the past and outstanding, in its published financial statements as part of the 'notes to accounts'.

8.51 The Reserve Bank has already taken the first step in the direction of a more efficient financial data reporting system by implementing the online returns filing system (ORFS). The implementation of this system has significantly enhanced the speed of data reporting and data dissemination. With the spread of electronic technology, it would be possible for all the banks in the country to adopt the ORFS. The Reserve Bank proposes to expand the scope of the ORFS by bringing into its ambit more returns, including even the OSMOS returns in the near future. This would facilitate closer monitoring of the banking system by the Reserve Bank. The next major step towards a more efficient, standardised and transparent reporting system for financial data has been the recent adoption of the eXtensible Business Reporting Language (XBRL) by the Reserve Bank. The XBRL-based data reporting would also facilitate more accurate and reliable extraction of data. It would improve the usage as well as transparency of information received from financial entities. The Reserve Bank, to begin with, has introduced the XBRL reporting system for the Basel II reports from banks. It is in the process of extending the XBRL reporting system to a number of other returns, including the Financial Statement Reports.

Corporate Governance

8.52 The role of corporate governance in providing financial stability can hardly be over emphasised. It plays an important role in maintaining the health of the financial system and its ability to withstand economic shocks. Any weakness in corporate governance could lead to a serious crisis. It has been the endeavour of the Reserve Bank to establish a strong corporate governance culture in Indian banks. In this regard, 'fit and proper' criteria were prescribed for elected directors of private sector banks in 2004. During the year, the 'fit and proper' criteria for elected directors of nationalised banks and associate banks of the SBI were also laid down. To build in social and environmental accountability, banks have been advised to keep themselves up to date with international best practices in the areas of corporate social responsibility and sustainable development. Social and environment responsibility assumes greater importance as banking finance may sometimes be utilised for projects which have adverse impact on ecology. Banks need to pay greater attention to ensure that such projects are financed carefully as it may affect the medium to long term business prospects through inviting criticism from various agencies and consequent erosion in credibility.

8.53 To reduce the burden on boards of banks on account of the calendar of reviews to be undertaken by them and to ensure that the calendar of reviews reflects the present day concerns, the calendar items were revised in April 2008. The revised calendar items outline the critical minimum requirements of review and the bank boards will have the discretion to prescribe additional reviews to suit their requirements. The revised schedule, which is required to be in force with effect from June 2008, would be under the two heads, *viz*., 'review of operations' and 'review of strategy'. Banks were also advised that in every board meeting, a separate time slot should be allocated for taking up strategy review for business plan – targets and achievement, review of non-fund business, human resources management, training and industrial relations, new prospective business/products lines and closure of existing business/products lines.

Derivatives Markets in India

8.54 Financial derivatives have been present in the Indian financial markets for a few decades now. The market players have been extensively using forward contracts, perhaps the oldest derivative product in the country, as a tool for hedging their exchange rate exposures. Over the years, foreign currency options, range forwards, range accruals, forward rate agreements, interest rate swaps, interest rate futures and currency futures were introduced, in a phased manner in the Indian markets, to provide a wider choice of instruments to the market players. The options and futures segments in the equity and commodity markets in India have also been functioning for some time now. Thus, derivatives as a product category have been in vogue in the Indian markets and the products have been used by a variety of market players.

8.55 However, certain categories of derivative products, such as credit derivatives, are yet to be permitted in the Indian markets. It may be recalled that the draft guidelines on credit derivatives were first issued by the Reserve Bank for public comments in March 2003. However, taking into account the status of the risk management practices then prevailing in the banking system, the issuance of final guidelines was deferred. Subsequently, it was announced in the Annual Policy Statement for 2007-08 that as a part of the gradual process of financial sector liberalisation, it was considered appropriate to introduce credit derivatives in a calibrated manner in India. Modified draft guidelines on Credit Default Swaps were, therefore, issued in May 2007. Based on the feedback received, a second draft of the guidelines was issued in October 2007, for another round of consultation. The final guidelines in this regard have, however, been held in abeyance and would take into account the experience of other countries and the lessons emerging from the current financial market turbulence.

Competition and Consolidation

8.56 With the intensification of competition through deregulation, privatisation and entry of foreign banks in the emerging markets, consolidation has become more market-driven. The Reserve Bank has been encouraging the consolidation process, wherever possible, given the inability of small banks to compete with large banks which enjoy enormous economies of scale and scope. The consolidation drive witnessed by the Indian banking industry during the past few years has gathered further momentum with the first acquisition of a subsidiary bank by a public sector bank to reap the benefits of synergy. The business, geographical, technological and personnel synergies offered by the consolidation process could act as a strong motivating factor for the banking sector in the coming future.

8.57 Despite the mergers and amalgamations that have taken place in the recent past, the competition in the banking sector has increased as mergers involved smaller banks. However, going forward, the scenario could change. The Government may have to allow public sector banks to raise capital from the market. Also, the roadmap for foreign banks is due for review in 2009. These developments, as and when they occur, would need to be monitored and guided carefully so that competitive pressures in the banking system are maintained in the interests of overall banking efficiency.

8.58 The RRBs have a vast untapped potential in providing financial services to the rural people. Recent measures taken by the

Reserve Bank, such as providing greater flexibility in operations of RRBs, allowing them greater flexibility in opening new branches subject to their making operational profits, encouraging growth in all business parameters and technological upgradation of RRBs and effecting a process of amalgamation of RRBs, are expected to strengthen these institutions. Also, the ongoing implementation of the Government of India's revival package, based on the Vaidyanathan Committee recommendations, is expected to bring the rural co-operative banks back to sound financial health. In order to strengthen the capital structure in the context of financial stability of the system, state/district central co-operative banks and RRBs were advised to disclose their level of CRAR as on March 31, 2008 in their balance sheets and thereafter every year as 'notes on accounts' to their balance sheets.

Payments and Settlement

8.59 The safety, soundness and efficiency of payment systems assume critical importance from the angle of systemic stability. The Reserve Bank has taken a number of initiatives for smooth operation and proper conduct of the payment systems. The Payment and Settlement Systems Act provides a sound legal framework and the base for efficient operation of the payment systems. The focus would be on authorising new systems based on requirement and continuing to operate those which are needed. The emphasis would be on effective oversight of the payment and settlement systems.

8.60 Smooth operation of the electronic payment systems, *viz.*, real time gross settlement (RTGS) and national electronic funds transfer (NEFT), have facilitated transfer/receipt of funds on a real time/near to real time basis. National electronic clearing services (NECS) aimed at centralising the electronic clearing service operation and bringing in uniformity and efficiency to the system, has been implemented. The NECS implemented at present is only for credit transfers. NECS (debit) would be introduced subsequently, based on the experience and feedback received from member banks. To contain risk in payment systems, the focus would be on migrating all large value payments to electronic mode.

8.61 Leveraging on technology developments, the implementation of the cheque truncation system (CTS) and 'speed clearing' brought in efficiency in paper-based systems. While speed clearing has brought in faster realisation of inter-city cheques drawn on core banking solutions (CBS)-enabled branches, CTS, when used to its full potential, besides enabling speedier realisation, would facilitate multiple settlements and reduce settlement cycles, which, in turn, would reduce risk in this mode of the payment system. The availability and reach of mobile telephones, combined with its ease of use for faster transfer of funds, necessitated issue of guidelines for safe operation of this system. The infrastructure created for the various payment systems, including cards/ATMs, has opened various options for financial inclusion.

8.62 The objective of the Reserve Bank has been to standardise the procedure and processes for each payment system operated in the country. With more and more systems now dependent on use of technology, each system needs to have a proper business continuity plan (BCP). Banks, while providing various services to their customers levy service charges, which vary across banks. There is a need to rationalise and bring in uniformity in the mode and amount of service charges for various payment systems. A beginning has been made by prescribing the maximum charges which could be levied on the customer for collection of outstation cheques, as well as for NEFT and RTGS transactions. Pooling the clearing and settlement data at a centralised system, which would collect, collate and disseminate the relevant information, is under consideration.

Non-Banking Financial Companies

8.63 Financially sound, prudently governed and effectively regulated non-banking financial companies (NBFCs) can contribute to the stability and soundness of an efficient financial system as NBFCs participate actively in the financial sector and play a complementary role by offering varied financial products and dispersing risk. The shift in focus from deposit taking NBFCs (NBFCs-D) to non-deposit taking NBFCs continued during the year. NBFCs with eligibility to accept deposits can cause crisis of confidence in the case of failure to repay the deposits as and when they mature. Failure of non-deposit taking systemically important NBFCs (NBFCs-ND-SI) can trigger systemic stress. In order to strengthen both the segments to enhance their comfort levels for meeting deposit liabilities and withstand shocks, the Reserve Bank is taking proactive stance on various issues which have a direct bearing on the financial soundness and effective regulation of NBFCs.

8.64 Re-emphasising the need to strengthen the financial system in general and deposit taking entities in particular, the quantum of deposit in respect of those NBFCs-D which have not achieved minimum net owned fund of Rs.2 crore, has been frozen at the current level for protecting depositors' interest. To address the systemic concerns arising from minimal regulation in the case of NBFCs-ND-SI, requirements relating to capital adequacy, liquidity and disclosure norms were made more stringent. A reporting system on ALM discipline in respect of NBFC-ND-SI has also been prescribed for monitoring the liquidity and interest rate risks. The Reserve Bank has also prescribed off-site monitoring return for NBFCs-ND with asset base of Rs.50 crore or more but less than Rs.100 crore to make the MIS in this regard more robust and enhance information on these companies which are sizeable in number. In order to address the issue of their funding requirements, NBFCs-ND-SI were permitted to augment their capital funds by issuance of perpetual debt instruments in rupees, subject to certain conditions. To address the transient liquidity strain being faced by NBFCs-ND-SI, they were, as a temporary measure, also permitted in October 2008 to raise short-term foreign currency borrowings, under the approval route, subject to certain conditions such as end-uses of funds and maturity. A temporary facility has been introduced that allows banks to offer liquidity support to NBFCs and mutual funds through relaxation in maintenance of SLR up to 1.5 per cent of banks' NDTL.

8.65 To enable investors to make informed investment decision in security receipts (SRs), the disclosures by securitisation/ reconstruction companies in the offer document have been modified to include disclosure of date of acquisition of the assets, valuation of the assets and the interest of securitisation/asset reconstruction companies in such assets at the time of issue of the SRs. Mortgage guarantee companies have been recognised as NBFCs and a regulatory framework has been put in place for them.

8.66 The Reserve Banks' interaction with large NBFCs has been enhanced through periodic meetings and video conferencing. The regional offices of the Reserve Bank were advised to frequently interact with the companies within their jurisdiction. Such interaction, undertaken on a regular basis, would enable the Reserve Bank to take prompt action in response to problems faced by NBFCs which would facilitate healthy growth and effective regulation of the NBFC sector.

Regulatory and Supervisory Challenges

8.67 The Reserve Bank has taken several wide-ranging measures at the systemic level over the years to strengthen the regulation and supervision of the banking sector. The prudential measures taken by the Reserve Bank in recent years in anticipation of some vulnerabilities in areas such as housing, retail trade and securitisation, among others, have largely helped in protecting the Indian banking sector from the problems that have afflicted banks in advanced economies. In addition to the normal prudential requirements on banks, the Reserve Bank has also successively imposed counter-cyclical prudential measures in respect of exposures to sensitive sectors, akin to a policy of dynamic provisioning. Recognising the importance of liquidity risk management in the Indian banking system, guidelines on ALM system were also issued, besides guidance notes to banks on management of credit, market and operational risks.

8.68 The global financial system is undergoing an unprecedented crisis. While the impact on Indian banks has not been significant, the turmoil has underscored the importance of a sound, efficient and well-functioning banking system with robust risk management mechanism in place. A few Indian banks were affected, to a certain extent, mainly due to the exposure of their overseas branches and subsidiaries. In recent times, the global financial integration process has resulted in substantial increase in cross-border banking operations. While, on the one hand, the enhancement of cross-border banking operations broadens and deepens financial markets, increases the efficiency of the banking system and reduces cost of funding for the productive sectors by increasing availability of liquidity, banks are also increasingly exposed to contagion risks as financial disturbances are transmitted more easily across borders. This prompted the supervisors to have an approach of consolidated supervision of the banking system covering the entire operations of the banking group across all jurisdictions. One of the major requirements to achieve the goal is enhanced cross-border supervision and supervisory cooperation. The Reserve Bank has been supervising the overseas operations of Indian banks through off-site returns, informal interaction and exchange of information with host country supervisors and occasional on-site visits. Presently, an Internal Working Group in the Reserve Bank is examining these aspects with a view to enhancing and strengthening the existing mechanism.

8.69 The banking system is exposed to all segments of the financial market through the exposures of their subsidiaries and associates, while the number of financial conglomerates (FCs) has grown over the years. Recognising the potential of FCs to cause systemic turbulence in financial markets, the Reserve Bank had initiated a system of monitoring of FCs in June 2004. The supervisory process focusses on regulatory/supervisory arbitrage, 'non-arm’s length' dealings in the conduct of intra-group transactions and exposures, contagion or reputation effects, risks posed by unregulated entities, moral hazard associated with ‘too big to fail’ syndrome, complex and opaque corporate structures of conglomerates. Based on the experience gained, a suitable framework for monitoring and supervision of FCs is being developed.

8.70 The co-operative banking sector with more than a century of existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspectives. However, the financial health of most co-operative banks has been a cause of concern and has so far proved to be a serious handicap in reaching out to the larger population. Owing to the complex structure of the sector, the regulation and supervision of urban co-operative banks (UCBs) has been a major challenge. Recognising the importance of UCBs, the Reserve Bank in March 2005 drafted a vision document for UCBs pointing out the problem of dual control as constraining its ability to effectively deal with the weaknesses of the entities within the sector. In terms of the document, 23 State Governments and the Central Government (in case of multi-State

UCBs) so far have signed the MoUs with the Reserve Bank covering 98.6 per cent of the total number of the UCBs and representing 99.2 per cent of deposits of the sector. As part of the MoU, the State level Task Forces for Co-operative Urban Banks (TAFCUBs) have been set up to identify the potentially viable and non-viable UCBs in the State and to chart out the revival path and non-disruptive exit route for the two sets of banks, respectively. These measures instilled public confidence in the sector which is evident from the increase in their deposits for three successive years, *i.e.*, from 2005-06 to 2007-08. During 2007-08, the Reserve Bank continued with its policy of encouraging States to sign MoUs to establish a coordinated supervisory/regulatory structure, by further incentivising the scheme in the form of additional business opportunities, opening of new ATMs and conversion of exchange counters into branches, among others. The process of consolidation through mergers of UCBs progressed further during the year with a total of 54 mergers being effected upon the issue of statutory orders by the Central Registrar of Co-operative Societies/Registrar of Co-operative Societies concerned. Further, as on March 31, 2008, 269 UCBs were under various stages of liquidation. All these measures appeared to have had a positive impact on the performance of the UCBs as a whole. Their businesses expanded at impressive rates while both operating profit and net profit increased during the year.

Debt Management

8.71 In order to create a more robust and vibrant PD system, commercial banks were allowed to take up PD business as a departmental activity. Many banks have adopted this business model. This has strengthened the PD system. In 2006, PDs were permitted to diversify their activities, even while maintaining their business profile predominantly in the Government securities business. This provided an opportunity to the PDs to enter into certain permitted activities, other than Government securities business, and benefit from alternative streams of income, as a de-risking strategy. The Reserve Bank has also been taking steps to ensure that non-bank PDs are adequately capitalised and that their risk-taking is within prudential limits. In the context of the recent global financial turmoil, if the overseas parent of an Indian arm were to face solvency or liquidity problems, efforts would be made to ensure that the Indian arm is ring fenced with adequate capital and that its domestic counter-parties are not adversely affected.

Summing Up

8.72 India's financial sector is stable and healthy. Financial strength indicators such as capital adequacy and return on assets of commercial banks continue to be robust. A major challenge is how to meet the credit demand without impairing credit quality. Banks have to monitor their credit portfolios closely in the context of persisting high growth in bank credit at the system level and take corrective action as appropriate in order to prevent undue asset-liability mismatches or deterioration in the quality of credit, recognising the reality of business cycles and counter-cyclical monetary policy measures. The Reserve Bank has been monitoring the functioning of systemically important NBFCs and banks' exposure to them. In the light of international developments and increasing exposure of banks to these systemically important NBFCs, more stringent regulations in respect of capital adequacy, liquidity and disclosure norms for these entities were issued in August 2008.

8.73 Though emerging market economies, including India, do not have direct or significant exposure to stressed financial instruments and troubled financial institutions, they are facing significant indirect impact of the financial crisis. There are a number of lessons that can be drawn from the crisis. One, financial supervision should not lag behind financial innovations and emerging new business models. However, it needs to be ensured that in the process of staying ahead of innovation through continually upgrading skills and instruments for financial regulation and supervision, innovations should not be stifled. A second lesson relates to inter-agency coordination. The origins of the current crisis can be traced to both the build up of macro-global imbalances as well as the mis-pricing of risks in the financial system, which in turn, was encouraged by excess liquidity. The respective roles of central banks, regulators, supervisors and fiscal authorities regarding financial stability need to be revisited such that central banks have the necessary informational base to play a central and effective role in maintaining financial stability. The third lesson is that the large scale bailout packages would have implications for the regulatory architecture of the financial system and for the fiscal condition of countries. A relevant issue in this context is the efficacy and coverage of deposit insurance. Fourth, the unfolding crisis has revealed the weaknesses of structured products and derivatives in the credit markets, including the "originate-to-distribute" model, which need to be addressed. Also, the near meltdown of the US financial sector should not be construed as evidence that markets and competition do not work. The right lesson is that markets and institutions occasionally succumb to excesses, so that regulators have to be vigilant, constantly finding the right balance between attenuating risk-taking and inhibiting growth. Further, inasmuch as emerging and developing economies are likely to be increasingly impacted by the crisis, going forward, two issues become important. First, in managing the crisis, the implications of that management for emerging and developing economies should be explicitly factored in. Second, in terms of global financial architecture, emerging and developing economies should be taken into confidence for policies and actions of the developed countries that have significant implications for them.

8.74 There is a need to deliberate on the issue of coping with liquidity stresses under unusual circumstances. The role of 'pro-cyclicality' of capital requirements needs to be examined as a factor that escalates the impact of booms and busts. The role of non-banks in the financial system also needs to be examined from a regulatory perspective. It also needs to be assessed whether institutions should be allowed to become so big and so complex that their problems could have system-wide repercussions.

8.75 The Reserve Bank accords considerable importance to financial stability which is also recognised as one of the objectives of monetary policy. The Reserve Bank has been keenly observing the latest developments in regulation and supervision and would continue to adapt institutional best practices to domestic conditions. Banks, on their part, would need to ensure that their business strategies and decisions are guided by the longer-term perspective of systemic and macroeconomic developments and are not unduly influenced by the current stream of exceptional events. It needs to be recognised that as banks have a key role in successfully countering the adverse impact of the recent developments, their continued safety and soundness and financial health would be of utmost importance for preserving financial stability so that the momentum of growth could be maintained.

Annex II.1
Initiatives by the Board for Financial Supervision – 2007-08

During 2007-08, the Board for Financial Supervision (BFS) continued to exercise its supervisory role over those segments of the financial institutions that are under the regulatory purview of the Reserve Bank. The BFS met ten times during 2007-08 (July-June) and the major initiatives taken are set out below.

(i) The BFS deliberated upon the unprecedented growth in the exposure of banks to the real estate sector and related issues like improper documentation, frauds, incidence of NPAs and lack of registration system for equitable mortgages, among others. The Reserve Bank has been sensitising the banks in this regard and stressing the need for quality, due diligence and proper documentation, among others. At the instance of the BFS, the NHB has been advised to carry out a study on the arrangements in place for housing loans in order to get a better picture of the matter.

(ii) Keeping in view the irregularities observed in the functioning of an Indian bank abroad, a system for monthly reporting of incidents of overseas regulatory violations/breaches and related issues by banks, in any of the countries where they have a presence, to their boards of directors and the Reserve Bank was put in place. This prescription is in addition to the existing reporting requirements in this regard and the compliance officer of the bank shall be responsible for this reporting.

(iii) Against the backdrop of the steady improvement in the asset quality of the Indian banking system over the years, the BFS desired that this achievement be taken up as a case study by documenting the history of evolution of the current NPA scenario in India and highlighting the regulatory and institutional efforts made to bring down the NPAs. Accordingly, a comprehensive study on NPA management was carried out covering the position in the pre- and post-reform period and legislative, regulatory and institutional changes in the area.

(iv) The BFS felt that the incidences of common and recurring deficiencies pointed out in successive Annual Financial Inspection reports had a bearing on the level of corporate governance in banks and directed that the position of discomfort/governance issues may be examined bank-wise. Accordingly, separate formats were devised for public sector and private sector banks for evaluation of their performance in the area of corporate governance, touching upon the issues covered under the Banking Regulation Act, 1949; Clause 49 of the Listing Agreement as prescribed by SEBI; recommendations of the Ganguly committee and guidelines issued from time to time.

(v) The issue of sale of NPAs by banks was deliberated upon by the BFS, which directed that banks should clearly indicate the realisation cost and establish that the amount of settlement is larger than the NPV of the net realisable value of the securities, when taking decisions for sale of NPAs.

(vi) On the matter of outsourcing of services by banks, the BFS directed that the guidelines on the issue should clearly emphasise the enforceability requirement in the outsourcing contracts. All documents pertaining to the outsourcing contract should be made available for inspection. It would be obligatory on the part of banks to cover the outsourcing agencies under their internal audit and submit a confirmation report and compliance certificate in this regard to the Reserve Bank.

(vii) Two rounds of the SRP with regard to exposure of banks to sensitive sectors were undertaken. In regard to the exposure to real estate sector, banks were advised to put in place board approved policy specifying, *inter alia*, internal limits for such exposures, minimum rating for builders, minimum share of the promoters' contribution, requisite security cover, panel of approved valuers for giving valuation reports, and procedure for registration of documents and verification of the registration with the authorities.

(viii) After detailed deliberations on the efficacy of issuing instructions on matters such as the method of valuation to be adopted for property/land taken as security by banks, the BFS advised banks to go by the current market value of the land for valuation purpose. Accordingly, the Reserve Bank issued a mail-box clarification to all banks.

(ix) The BFS took note of the press reports on the substantial losses suffered by certain corporates on the cross-currency derivatives undertaken by them. The losses were on account of the continued fall in the value of the dollar *vis-à-vis* other European currencies and yen. On the directions of the BFS, banks with high off-balance sheet exposure were identified and a study was carried out on the nature of exposures and overall implications in the current scenario.

(x) The rising trend of banks accepting bulk deposits at higher interest rates attracted the attention of the BFS which querried the Reserve Bank about its comfort level regarding these kinds of deposits. A study was undertaken which revealed that the risk of concentration of deposits sourced from a few large depositors was high in the case of foreign banks, particularly those with a limited retail deposit base. Some private sector banks also had a significant degree of concentration risk, while for public sector banks, this risk was found to be low. The level of concentration risk had not changed significantly over the past three years. In comparison to other bank groups, new private sector banks paid higher rates of interest irrespective of the size of the deposits. Though the foreign banks paid the lowest rates of interest, they had a significant proportion of current deposits in the bulk deposits. This reliance on bulk deposits, including bulk current deposits, and short-term money market exposed the foreign banks to significant liquidity and earnings risk.

(xi) While deliberating on the review of the Indian banking system for the half-year ended September 2007, the BFS directed that a special study be carried out to examine: (a) centre-wise, sector-wise data on advances and deposits that would indicate the sectors which were experiencing strong growth; (b) whether the credit growth in the retail sector had slowed down; (c) whether NPAs in that area were growing; and (d) whether the data squared with the data compiled through other sources such as the Basic Statistical Returns data. The study has been undertaken and the report is awaited.

Annex VII.1
Financial Stability Forum (FSF) Report: Status

In the wake of the turmoil in global financial markets, the FSF brought out a report in April 2008 identifying the underlying causes and weaknesses in the international financial markets. The proposals made by the FSF and status in regard to each in India are narrated below:

Proposal 1. *Strengthened Prudential Oversight of Capital, Liquidity and Risk Management*

(i) Capital requirements:

- *Raise Basel II capital requirements for certain complex structured credit products;*
- *Introduce additional capital charges for default and event risk in the trading books of banks and securities firms;*
- *Strengthen the capital treatment of liquidity facilities to off-balance sheet conduits.*

Changes will be implemented over time to avoid exacerbating short-term stress.

(ii) Liquidity:

Supervisory guidance to be issued for the supervision and management of liquidity risks.

(iii) Oversight of risk management:

Guidance for supervisory reviews under Basel II will be developed that will:

- *Strengthen oversight of banks' identification and management of firm-wide risks;*
- *Strengthen oversight of banks' stress testing practices for risk management and capital planning purposes;*
- *Require banks to soundly manage and report off-balance sheet exposures;*

Supervisors will use Basel II to ensure banks' risk management, capital buffers and estimates of potential credit losses are appropriately forward looking.

(iv) Over-the-counter derivatives:

Authorities will encourage market participants to act promptly to ensure that the settlement, legal and operational infrastructure for over-the-counter derivatives is sound.

Status

The road-map for the implementation of Basel II in India has been designed to suit the country-specific conditions. The phased implementation process got underway with the Basel II Accord being made applicable to foreign banks operating in India and Indian banks having operational presence outside India with effect from March 31, 2008. All other commercial banks (except Local Area Banks and RRBs) are encouraged to migrate to Basel II in alignment with them but in any case not later than March 31, 2009. The process of implementation is being monitored on an on-going basis for calibration and fine-tuning.

The minimum capital to risk-weighted asset ratio (CRAR) in India is placed at 9 per cent, one percentage point above the Basel II requirement. Further, regular monitoring of banks' exposure to sensitive sectors and their liquidity position is also undertaken. In India, off-balance sheet vehicles in the form of SPVs for the purpose of securitisation are in existence for which extensive guidelines, in line with the international best practices, have already been issued. Liquidity facilities to such SPVs are subject to capital charge. Banks were required to put in place appropriate stress test policies and relevant stress test frameworks for various risk factors by March 31, 2008.

In order to further strengthen capital requirements, the credit conversion factors, risk weights and provisioning requirements for specific off-balance sheet items including derivatives have been reviewed. Further, in India, complex structures like synthetic securitisation have not been permitted so far. Introduction of such products, when found appropriate, would be guided by the risk management capabilities of the system.

The Reserve Bank had issued broad guidelines for asset-liability management and banks have flexibility in devising their own risk management strategies as per board-approved policies. However, in regard to liquidity risks at the very short end, the Reserve Bank has taken steps to mitigate risks at the systemic level and at the institution level as well. The Reserve Bank has introduced greater granularity to measurement of liquidity risk by splitting the first time bucket (1-14 days, at present) into three time buckets, *viz.*, next day, 2-7 days and 8-14 days. The net cumulative negative mismatches in the three time buckets have been capped at 5 per cent, 10 per cent, and 15 per cent of the cumulative cash outflows.

The Reserve Bank had recognised the risks of allowing access to unsecured overnight market funds to all entities and, therefore, restricted the overnight unsecured market for funds only to banks and primary dealers (PD). Since August 2005, the overnight call market is a pure inter-bank market. Accordingly, trading volumes have shifted from the overnight unsecured market to the collateralised market.

Greater inter-linkages and excessive reliance on call money borrowings by banks could cause systemic problems. The Reserve Bank has, therefore, introduced prudential measures to address the extent to which banks can borrow and lend in the call money market. On a fortnightly average basis, call market borrowings outstanding should not exceed 100 per cent of capital funds (*i.e.*, sum of Tier I and Tier II capital) in the latest audited balance sheet.

Recognising the potential of 'purchased inter-bank liabilities' (IBL) to create systemic problems, the Reserve Bank had issued guidelines in March 2007 prescribing that IBL of a bank should not exceed 200 per cent of its net worth (300 per cent for banks with a CRAR more than 11.25 per cent).

Proposal 2. *Enhancing Transparency and Valuation*

(i) Robust risk disclosures:

- *The FSF strongly encourages financial institutions to make robust risk disclosures using leading disclosure practices at the time of their mid-year 2008 reports.*
- *Further guidance to strengthen disclosure requirements under Pillar 3 of Basel II will be issued by 2009.*

(ii) Standards for off-balance sheet vehicles and valuations:

Standard setters will take urgent action to:

- *Improve and converge financial reporting standards for off-balance sheet vehicles;*

Develop guidance on valuations when markets are no longer active, establishing an expert advisory panel in 2008.

(iii) Transparency in structured products:
Market participants and securities regulators will expand the information provided about securitised products and their underlying assets.

Status

The Reserve Bank has, over the years, issued guidelines on valuation of various instruments/ assets in conformity with the international best practices while keeping India-specific conditions in view. In order to encourage market discipline, the Reserve Bank has developed a set of disclosure requirements which allow the market participants to assess key pieces of information on capital adequacy, risk exposure, risk assessment processes and key business parameters which provide a consistent and understandable disclosure framework that enhances comparability. Banks are also required to comply with the Accounting Standard (AS) on Disclosure of Accounting Policies issued by the Institute of Chartered Accountants of India (ICAI).

In recognition of the fact that market discipline can contribute to a safe and sound banking environment and as part of the ongoing efforts to implement the Basel II Accord, the Reserve Bank issued guidelines on minimum capital ratio (Pillar 1) and market discipline (Pillar 3) in April 2007 and guidelines for Pillar 2 (supervisory review process) were issued in March 2008. Under these guidelines, non-compliance with the prescribed disclosure requirements would attract a penalty, including financial penalty.

Proposal 3. *Changes in the Role and Uses of Credit Ratings*

Credit rating agencies should:

- *Implement the revised IOSCO Code of Conduct Fundamentals for Credit Rating Agencies to manage conflicts of interest in rating structured products and improve the quality of the rating process;*

- *Differentiate ratings on structured credit products from those on bonds and expand the information they provide.*

Regulators will review the roles given to ratings in regulations and prudential frameworks.

Status

The Reserve Bank has undertaken a detailed process of identifying the eligible credit rating agencies whose ratings may be used by banks for assigning risk weights for credit risk. Banks should use the chosen credit rating agencies and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks are not allowed to 'cherry pick' the assessments provided by different credit rating agencies. If a bank has decided to use the ratings of some of the chosen credit rating agencies for a given type of claim, it can use only the ratings of those credit rating agencies, despite the fact that some of these claims may be rated by other chosen credit rating agencies whose ratings the bank has decided not to use. External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group.

Banks must disclose the names of the credit rating agencies that they use for the risk weighting of their assets, the risk weights associated with the particular rating grades as determined by the Reserve Bank through the mapping process for each eligible credit rating agency as well as the aggregated risk weighted assets as required.

In India, complex structures like synthetic securitisations have not been permitted so far. As and when such products are to be introduced, the Reserve Bank would put in place the necessary enabling regulatory framework, including calibrating the role and capacity building of the rating agencies.

Proposal 4. *Strengthening the Authorities' Responsiveness to Risks*

- *A college of supervisors will be put in place by end-2008 for each of the largest global financial institutions.*

Status

In the Indian context, there has been exchange of supervisory information on specific issues between the Reserve Bank and few other overseas banking supervisors/regulators. Supervisory cooperation has been working smoothly and efficiently.

The Mid-Term Review of October 2007 had announced the constitution of a Working Group to lay down a road-map for adoption of a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators, consistent with the framework envisaged in the Basel Committee on Banking Supervision (BCBS). A Working Group was constituted in March 2008 and is in the process of finalising its Report. A number of overseas regulators of countries such as the USA, the UK, Canada, Hong Kong, Australia and Singapore have been formally approached to share systems and practices, including legal positions, in the matter of supervisory cooperation and sharing of information with overseas regulators. The response from a few countries has been received and is being examined. The 'Supervisory College' arrangement for this purpose is also being examined by the Group.

Proposal 5. *Robust Arrangements for Dealing with Stress in the Financial System*

- *Central banks will enhance their operational frameworks and authorities will strengthen their cooperation for dealing with stress.*

Status

In the Reserve Bank, there is an institutional arrangement in place to oversee the functioning of the financial markets on a daily basis. There is a Financial Market Committee monitoring and assessing the functioning of different financial markets. Based on such an oversight, appropriate and prompt action is taken, whenever necessary.

The Reserve Bank has the necessary framework for provision of liquidity to the banking system, in terms of Sections 17 and 18 of the Reserve Bank of India Act, 1934. The regular liquidity management facilities of the Reserve Bank include the LAF, OMO and MSS besides standing facilities such as export credit refinance (ECR) and the liquidity facility for standalone PDs. The Reserve Bank can undertake purchase/sale of securities of the Central or State Governments and can purchase, sell and rediscount bills of exchange and promissory notes drawn on and payable in India and arising out of *bona fide* commercial or trade transactions for provision/absorption of liquidity for normal day-to-day liquidity management operations as also for provision of emergency liquidity assistance to the banks under the lender of last resort function.

The Reserve Bank is empowered under the existing legal framework to deal with the resolution of weak and failing banks. The Deposit Insurance and Credit Guarantee Corporation (DICGC) offers deposit insurance cover in India. The Banking Regulation Act provides the legal framework for voluntary amalgamation and compulsory merger of banks under Sections 44 (A) and 45, respectively. The mergers of many weak private sector banks with healthy banks have improved overall stability of the system.

Source: Annual Policy Statement for the Year 2008-09, Reserve Bank of India.

Appendix: Chronology of Major Policy Developments

Announcement Date		Measures
		A) Scheduled Commercial Banks
2007		
April	3	• All SCBs (excluding RRBs) were 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.
	4	• All SCBs (excluding RRBs) were advised that it was decided to increase the CRR by 50 basis points of their NDTL in two stages to 6.25 per cent and 6.50 per cent, respectively, effective from the fortnights beginning April 14, 2007 and April 28, 2007. However, the effective CRR maintained by SCBs on total demand and time liabilities should not be less than 3.0 per cent, as stipulated under the RBI Act, 1934. With effect from the fortnight beginning April 14, 2007, the SCBs would be paid interest at the rate of 0.50 per cent per annum on eligible cash balances maintained with the Reserve Bank under CRR requirement. • All SCBs (including RRBs and LABs) were advised that the GoI had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 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 along with other policy measures with immediate effect. Bank's lending to medium enterprises would not be reckoned for the purpose of the priority sector.
	5	• All SCBs (excluding RRBs) were advised to generally insist that the person opening a deposit account made a nomination. They were also advised to explain the advantages of the nomination facility if the person declined to do so. If the person opening the account still did not want to nominate and declined to give a letter to the effect, 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 could a bank refuse to open an account solely on the ground that the person opening the account refused to nominate. Similar guidelines were issued to RRBs on April 13, 2007. • AD category-1 banks were allowed refund of export proceeds for goods re-imported into India on account of poor quality, subject to certain conditions.
	10	• All SCBs (excluding RRBs) were advised to complete the disbursements of sanction cases of the PMRY under the programme year 2006-07 by June 30, 2007.
	11	• All RRBs were advised to ensure that cheques/drafts issued by clients containing fractions of a rupee were not rejected or dishonoured by them.
	12	• All SCBs (excluding RRBs) were advised to ensure that the date of completion of the infrastructure projects financed by them was clearly spelt out at the time of financial closure of the project and to treat such accounts as sub-standard 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 revised instructions came into force with effect from March 31, 2007. • The validity of the interest rate ceiling stipulated at BPLR minus 2.5 per cent on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days was extended to October 31, 2007.
	13	• Guidelines on KYC Norms/AML Standards/CFT – Wire Transfers were issued to SCBs (excluding RRBs). Similar guidelines were issued to RRBs on May 21, 2007.
	17	• Fresh guidelines on various aspects relating to safe deposit lockers/safe custody articles were issued to all SCBs (excluding RRBs) for easy operation of lockers based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS).
	18	• All SCBs (excluding RRBs) were advised that for the purpose of segment reporting under AS-17, the 'other banking business' segment should be divided into three categories – corporate/wholesale banking, retail banking and other banking operations. Accordingly, banks were required to 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 business. The geographical segments would remain unchanged as 'domestic' and 'international'.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
April	20	• Comprehensive guidelines on derivatives were issued to all SCBs. The major requirements for undertaking any derivative transaction from the regulatory perspective were laid down. Guidelines also covered extant instructions relating to rupee interest rate derivatives, while those for foreign exchange derivatives would be issued separately. • Final guidelines on compliance function in banks were issued to all SCBs (excluding RRBs) for implementation within six months. Banks were advised that as compliance function was one of the key elements in banks' corporate governance structure, it had to be adequately enabled and made sufficiently independent. • All SCBs (excluding RRBs) 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, they were advised to adopt the correct accounting methodology while finalising their financial statements, including the statements for the year ended March 31, 2007. • All SCBs (excluding RRBs) were advised that they were 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 collateralised borrowing and lending obligation (CBLO) with CCIL; and (iv) demand and time liabilities in respect of their Offshore Banking Units (OBUs).
	24	• All SCBs (excluding RRBs) were advised that the interest rate ceilings on FCNR (B) deposits and NR(E)RA deposits were reduced by 50 basis points.
	25	• All banks were advised to ensure that none of their bank branches/staff refused to accept lower denomination notes/coins. They were advised that stern action would be taken in the event of refusal/non-compliance by any staff member. Similar guidelines were issued to RRBs on May 10, 2007.
	27	• Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of the New Capital Adequacy Framework were finalised for implementation. • All SCBs were advised to monitor credit flow to minorities in 103 minority concentration districts (districts with at least 25 per cent minority population).
	30	• All SCBs (including RRBs) were advised to immediately dispense with the requirement of 'no dues' certificate from small and marginal farmers, share-croppers and the like for small loans up to Rs.50,000 and, instead, obtain self-declaration from the borrower. Furthermore, 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. • All agency banks were advised to provide an enabling environment and facilities to the customers for making government transactions electronically by providing ECS/EFT facilities. • Revised guidelines on lending to priority sector were issued to SCBs (excluding RRBs). • Select banks were advised that the GoI had clarified that in cases where the depositor had expired before the maturity of the deposits and the nominee/legal heir approached the bank for closure of the deposit account, the nominee/legal heir was entitled to the benefit of saving bank rate of interest for the period from the date of death of the depositor to the date of closure of the account under the Senior Citizens Savings Scheme (SCSS), 2004.
May	3	• All commercial banks (excluding RRBs) 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 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. • All RRBs were permitted to take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to specified guidelines.
	7	• All commercial banks (excluding RRBs) 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. Similar guidelines were issued to RRBs on May 15, 2007.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	7	• All SCBs (excluding RRBs) were advised to scale up their financial inclusion efforts by utilising appropriate technology. Banks were also advised 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. Similar guidelines were issued to RRBs on May 21, 2007.
	8	• All RRBs and their sponsor banks were advised that the exemption from mark to market norms in respect of their investments in SLR securities was extended by one more year, *i.e.*, for the financial year 2007-08. Accordingly, RRBs could classify their entire investment portfolio of SLR securities under HTM 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	• All SCBs (excluding RRBs and LABs) were permitted to extend funded/non-funded credit facilities to wholly-owned step-down subsidiaries of subsidiaries of Indian companies (where the holding by the Indian company was more than 51 per cent) abroad within the existing prudential limits and some additional safeguards.
	14	• All RRBs were advised to ensure that no money transaction of the company/ies, declared as “defaulted companies” by the Hon’ble Patna High Court were allowed in their banks. Accordingly, all branches should be immediately advised in this regard and compliance of the order reported.
	16	• All SCBs were advised that regarding purchase/sale of NPAs, 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.
	17	• ‘The Bharat Overseas Bank Ltd’ was excluded from the Second Schedule to the RBI Act 1934 with effect from April 1, 2007.
	21	• Clarifications on Agency Commission - Public Provident Fund Scheme, 1968 (PPF) and SCSS, 2004 issued.
	24	• The Banking Ombudsman Scheme, 2006 was amended and the Reserve Bank directed all commercial banks and RRBs to comply with the amended Banking Ombudsman Scheme, 2006. • All SCBs (excluding RRBs) were permitted to: (i) deliver cash/draft at the doorstep of the individual customers also (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	• All SCBs (excluding RRBs) were advised that concessions/credit relaxations to borrowers/customers in Jammu and Kashmir would continue to be operative for a further period of one year, *i.e.*, up to March 31, 2008. • AD category-1 banks were allowed to permit BPO companies to make remittances towards the cost of equipment to be imported and installed at their overseas sites.
	29	• All SCBs (excluding RRBs) were advised that the Government of India had allocated a target of 375,690 to States/Union Territories (UTs) under the Prime Minister's *Rozgar Yojana* (PMRY) for the year 2007-08.
	31	• Select banks were advised that tax was required to be deducted at source on the interest exceeding Rs.10,000 payable during the financial year on 8 per cent Savings (Taxable) Bonds, 2003 with effect from June 1, 2007. • Guidelines were issued for commodity hedging for domestic transactions (select metals) and commodity hedging for domestic purchases - aviation turbine fuel (ATF) to AD category-1 banks.
June	6	• All nationalised banks and associate banks of SBI were advised that the remuneration payable to the statutory central and branch auditors of public sector banks from the year 2006-07 were revised.
	8	• Select banks were informed that the GoI had allowed regularisation of multiple accounts opened by depositors (under the SCSS–2004), subject to conditions.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
June	13	• All SCBs (excluding RRBs) were advised that the limit of loans under the DRI scheme was raised from Rs.6,500 to Rs.15,000 and that of housing loan under the scheme, from Rs.5,000 to Rs.20,000 per beneficiary.
	15	• With a view to encouraging RRBs to open branches in hitherto uncovered districts, the concerned Empowered Committees for RRBs were given discretion in respect of certain conditions stipulated for opening of branches by 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, subject to the condition that the project to be financed was in the area of operation of the RRB concerned and guidance and appraisal of the project was provided by its sponsor bank.
	21	• Draft guidelines on prudential guidelines on restructuring/ rescheduling of dues by banks issued to all SCBs (excluding RRBs and LABs)
	22	• All RRBs were allowed to set up service branches/central processing centres/back offices exclusively to attend to back office functions and other functions incidental to their banking business.
	26	• Guidelines on stress testing were issued to all commercial banks (excluding RRBs and LABs).
	28	• All RRBs were permitted 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. • All SCBs (excluding RRBs) were permitted to undertake Pension Fund Management (PFM) through their subsidiaries set up for the purpose, subject to their satisfying the eligibility criteria prescribed by the PFRDA for pension fund managers. Banks desiring to undertake PFM were advised to obtain prior approval of the Reserve Bank.
July	3	• In view the complaints from credit card subscribers and the observations of the High Court, Delhi, the TRAI framed the Telecom Unsolicited Commercial Communications (UCC) Regulations 2007 for curbing UCC. Accordingly, commercial banks (excluding RRBs) were advised to implement certain instructions.
	11	• All SCBs were advised that the Government 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 a subsidy of Rs.378 crore out of the 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.
	13	• All SCBs (excluding RRBs) were advised that the Government had decided to provide interest subvention of 2 per cent per annum to all SCBs in respect of rupee export credit to the specified categories of exporters – textiles (including handlooms), RMG, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys and all exporters from the SME sector.
	16	• All SCBs were advised that the Government had added 18 districts to the list of minority concentrated districts, taking the total number to 121. Banks were to specially monitor the credit flow to minorities in these 121 districts thereby ensuring that the minority communities received an equitable portion of the credit within the overall target of the priority sector.
	25	• All nationalised banks and associate banks of SBI were advised about fee in respect of tax audit for public sector banks from the year 2006-07.
	31	• All commercial banks (excluding RRBs and LABs) were informed that the SEBI had permitted FIMMDA to set up its reporting platform for corporate bonds. It was also mandated to aggregate the trades reported on its platform as well as those reported on the BSE and the NSE with appropriate value addition. Banks were required to report their secondary market transactions in corporate bonds in OTC market on FIMMDA's reporting platform with effect from September 1, 2007.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
July	31	• All SCBs (excluding RRBs) were advised that the ceiling of Rs.3,000 crore on daily reverse repo under the LAF would be withdrawn with effect from August 6, 2007. The SLAF, introduced on November 28, 2005 and conducted between 3.00-3.45 p.m. on a daily basis would be withdrawn with effect from August 6, 2007. The Reserve Bank would continue to conduct LAF operations between 9.30-10.30 a.m. as a single LAF window. • All SCBs were advised that the CRR would be increased by 50 basis points to 7.0 per cent with effect from the fortnight beginning August 4, 2007.
August	3	• All SCBs (excluding RRBs and LABs) were advised that (i) in cases where negotiation of bills drawn under Letter of Credit (LC) was restricted to a particular bank, and the beneficiary of the LC was not a constituent of that bank, the bank concerned could negotiate such an LC, subject to the condition that the proceeds would be remitted to the regular banker of the beneficiary. However, the prohibition regarding negotiation of unrestricted LCs of non-constituents would continue to be in force; and (ii) the banks could 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 would continue to be in force.
	9	• In view of the fact that the priority sector guidelines were revised with effect from April 30, 2007, all SCBs (excluding RRBs) were advised to furnish the data in the existing formats of special returns I, II and III as on the last reporting Friday of June 2007. However, loans granted from April 30, 2007 to June 22, 2007 could be classified on the basis of revised guidelines on priority sector advances.
	13	• All RRBs were advised that they could extend, with the approval of their Boards, direct finance up to Rs.20 lakh to the housing sector, 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 discontinue furnishing of statement on housing finance disbursement that were required to be submitted on a quarterly basis indicating details of disbursement made by them towards housing finance. • All SCBs (excluding RRBs) were advised to invariably furnish a copy of the loan agreement to all borrowers at the time of sanction/disbursement of loans. • Revised guidelines on lending to priority sector were issued to all RRBs. • AD category-1 banks were allowed to grant rupee loans to NRI employees of Indian companies for acquiring shares of the companies under the ESOP scheme.
	23	• All SCBs (excluding RRBs and LABs) were informed that the CCIL had developed a reporting platform for OTC interest rate derivatives, which would capture the transactions in OTC IRS/FRA. The platform would be operationalised by August 30, 2007. All banks were required to report all their IRS/FRA trades on the reporting platform within 30 minutes from the deal time. Client trades were not to be reported. Banks should ensure that details of all the outstanding IRS/FRA contracts (excluding the client trades) were migrated to the reporting platform by September 15, 2007. Detailed operational guidelines in this regard would be made available by the CCIL.
September	3	• All SCBs (excluding RRBs) were advised to take necessary steps for strengthening the branch level committees with greater involvement of customers. It was desirable that branch level committees included customers too. Further as senior citizens formed an important constituency in banks, a senior citizen should preferably be included therein. • All SCBs (excluding RRBs) were advised that the reporting formats for data on priority sector lending were revised in view of the revision of guidelines on lending to priority sector.
	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 would be required to obtain necessary licence from the concerned regional office of the Reserve Bank.
	7	• All SCBs were advised that the name of "The Sangli Bank Ltd." was excluded from the Second Schedule to the RBI Act, 1934.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
September	10	• All public sector banks were advised that in consultation with the Government, it was decided to withdraw five 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.
	12	• Lead banks in Jammu and Kashmir State were informed that the assignment of lead bank responsibility to State Bank of India and the Jammu and Kashmir Bank Ltd, in respect of eight newly created districts, was regularised.
	13	• All RRBs were advised that they could convert their satellite offices into full-fledged branches after obtaining concurrence from the Empowered Committee on RRBs. They should also obtain the necessary licence from the regional office concerned of the Reserve Bank.
	17	• All commercial banks were advised to ensure that all the branches of their bank meticulously adhered to the instructions issued by the Reserve Bank on November 17, 2006 for extension of home loans.
	21	• All RRBs were advised that since the restrictive provisions of service area approach had been dispensed with, some of the provisions relating to shifting of branches in rural and semi-urban areas and merger of loss making branches, *etc*., were modified.
	26	• AD category-1 banks were informed that the limit under the Liberalised Remittance Scheme for Resident Individuals had been enhanced from US$ 1,00,000 to US$ 2,00,000.
October	4	• All commercial banks (excluding RRBs) were advised that while selling NPAs, they should work out the NPV of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should generally not be lower than the NPV arrived at in the manner described above.
	6	• All SCBs (excluding RRBs) were advised that the Rupee Export Credit Interest Rates Scheme was extended up to March 31, 2008 and was made applicable to solvent extracted de-oiled cake and plastics and linoleum sectors also. • AD category-1 banks were informed that, in consultation with the Government of India, it had been decided to permit all exporters to earn interest on EEFC accounts to the extent of outstanding balances of US$ 1 million per exporter. This would be a purely temporary measure and valid up to October 31, 2008 and would be subject to further review.
	9	• All RRBs were advised that the application for accepting NRO/NRE/FCNR deposits by those RRBs which had negative net worth but earned net profits for the last three years, could be examined by the Empowered Committee on a case to case basis from the supervisory comfort angle and could be recommended to the Reserve Bank. • All RRBs were advised that the Empowered Committee could, taking into account the local conditions and the financials of a bank, permit a RRB to open a controlling office, even if it did not have 75 branches.
	18	• All RRBs were advised that they could apply for currency chest facility to the Reserve Bank subject to compliance with eligibility norms.
	23	• All SCBs were advised that the name of 'Lord Krishna Bank Ltd' was excluded from the Second Schedule to the RBI Act, 1934.
	24	• All commercial banks (excluding RRBs) were advised that the guidelines on ALM System were amended: (a) banks should adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days) 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 should be compiled on best available data coverage, in due consideration of non-availability of a fully networked environment. Banks should, 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; and (d) banks should undertake dynamic liquidity management and should prepare the statement of structural liquidity on a daily basis. The statement of structural liquidity could, however, be reported to the Reserve Bank, once a month, as on the third Wednesday of every month.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
October	25	• All SCBs (excluding RRBs) were advised to discontinue the deposit schemes launched by them which had lock-in periods not in conformity with Reserve Bank's instructions. Similar instructions were issued to RRBs on November 29, 2007.
	29	• All commercial banks (excluding foreign banks, RRBs and LABs) were allowed a wider choice of instruments for raising Tier 1 and Upper Tier 2 capital by issuing preference shares such as PNCPS, PCPS, RNCPS and RCPS, subject to guidelines.
	30	• All SCBs (excluding RRBs) were advised that following a review of the liquidity situation, it was decided to increase the CRR of SCBs by 50 basis points to 7.5 per cent of their NDTL with effect from the fortnight beginning November 10, 2007. Similar circular was also issued for RRBs on October 31, 2007. • All SCBs were advised that the name of 'UTI Bank Ltd' was changed to 'Axis Bank Ltd' in the Second Schedule to the RBI Act, 1934 with effect from July 30, 2007.
November	1	• All nationalised banks were advised that the Reserve Bank had laid down specific 'fit and proper' criteria to be fulfilled by the persons elected as directors on the boards of the nationalised banks under the provisions of Section 9(3)(i) of Banking Companies (Acquisition and Transfer of undertakings) Act 1970/80.
	6	• All commercial banks (excluding RRBs) were advised that at the time of financing projects banks generally adopted one of the following methodologies as far as determining the level of promoters' equity was concerned: (i) promoters brought their entire contribution upfront before the bank started disbursing its commitment; (ii) promoters brought certain percentage of their equity (40 per cent-50 per cent) upfront and balance was brought in stages; and (iii) promoters agreed, *ab initio*, to bring in equity funds proportionately as the banks financed the debt portion. The Reserve Bank observed that the last method had greater equity funding risk. To contain this risk, banks were advised to have a clear policy regarding the DER and to ensure that the infusion of equity/fund by promoters should be such that the stipulated level of DER was maintained at all times. Further they were advised to adopt funding sequences so that possibility of equity funding by banks was obviated. • AD category-1 banks were issued guidelines to permit domestic oil marketing and refining companies to hedge their commodity price risk to the extent of 50 per cent of their inventory based on the volumes in the quarter preceding the previous quarter.
	7	• AD category-1 banks were informed that the limit for direct receipt of import bills/documents had been enhanced from US$ 1,00,000 to US$ 3,00,000 in the case of import of rough diamonds.
	8	• SBI and its associates, all nationalised banks and certain private sector banks were advised that the rate of interest on delayed remittances and double/excess reimbursement would remain unchanged at 8 per cent (*i.e.*, bank rate + 2 per cent) till further instructions.
	14	• Associate banks of SBI were advised that the Reserve Bank had laid down specific 'fit and proper' criteria to be fulfilled by the persons elected as directors on the boards of associate banks of SBI under the provisions of Section 25(1)(d) of State Bank of India (Subsidiary Banks) Act, 1959 (as amended in 2007).
	15	• Procedural guidelines for access criteria for clearing houses at MICR centres were issued. The guidelines were to come into force from January 1, 2008.
	22	• All RRBs were advised to rely upon the Guardianship Certificate issued either by the District Court under Mental Health Act or by the Local Level Committees under the above Act for the purpose of opening/operating bank accounts for disabled persons with autism, cerebral palsy, mental retardation and multiple disabilities. RRBs should also ensure that their branches gave proper guidance so that the parents/relatives of the disabled persons did not face any difficulty in this regard.
	29	• All RRBs were advised that before launching new domestic deposit mobilisation scheme with the approval of their respective Boards, they should ensure that the provisions of Reserve Bank's directives on interest rates on deposits, premature withdrawal of term deposits, sanction of loans/advances against term deposits, *etc.*, issued from time to time, were strictly adhered to. Any violation in this regard would be viewed seriously and would attract penalty under the Banking Regulation Act, 1949.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
November	30	• All commercial banks (excluding RRBs and LABs) were advised that the definition of 'infrastructure lending' had been expanded to include the credit facilities sanctioned by banks and select AIFIs for projects involving laying down and/or maintenance of gas/crude oil/petroleum pipelines, in view of the importance of pipelines in the industrial development of the country. • All SCBs (excluding RRBs) were advised to invariably ensure that once a case was filed before a Court/ DRT/BIFR, any settlement arrived at with the borrower was subject to obtaining a consent decree from the Court/DRT/BIFR concerned. • All SCBs (excluding RRBs) were advised that the additional subvention of 2 per cent (in addition to the 2 per cent already offered earlier) in pre-shipment and post-shipment rupee export credit was extended to leather and leather manufactures, marine products, all categories of textiles under the existing scheme including RMG and carpets but excluding man-made fibre and handicrafts sectors. Banks should charge interest rates not exceeding BPLR minus 6.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount in respect of the above mentioned sectors. The dispensation was to be valid from November 1, 2007 to March 31, 2008.
December	6	• All SCBs (excluding RRBs and local area banks) were allowed to invest in unrated bonds of companies engaged in infrastructure activities within the ceiling of 10 per cent for unlisted non-SLR securities to encourage the flow of credit to infrastructure sector.
	12	• All SCBs were advised that all loans granted by commercial banks/sponsor banks to RRBs for on-lending to agriculture and allied activities sector could be classified as indirect finance to agriculture in the books of commercial banks/sponsor banks. Consequently, the amount lent by RRBs out of funds borrowed from commercial banks/sponsor banks, could not be classified by the RRBs as part of their priority sector advances. The RRBs should not include such lending as part of their bank credit for the purpose of computing achievement level under priority sector lending.
	14	• All SCBs (excluding RRBs) were issued instructions regarding loans extended by them to mutual funds and IPCs issued to various stock exchanges at the request of mutual funds for their secondary market purchases. • The lead bank responsibility in Chikkaballapura and Ramanagara districts of Karnataka was assigned to Canara Bank and Corporation Bank, respectively.
	20	• All SCBs (excluding RRBs) were advised to take note of issues relating to corporate social responsibility, sustainable development and non-financial reporting and consider putting in place a suitable and appropriate plan of action towards helping the cause of sustainable development with the approval of their boards.
	28	• All RRBs were advised to disclose the level of their CRAR as on March 31, 2008 in their balance sheets and thereafter every year as 'notes on accounts' to their balance sheets.
2008		
January	8	• In terms of Section 17 (2) read with Section 51 of the Banking Regulation Act, 1949, where a banking company appropriates any sum or sums from the reserve fund, it shall, within twenty one days from the dates of such appropriation report the fact to the Reserve Bank explaining the circumstances relating to such appropriation. In order to ensure that such recourse to drawing down the reserve fund was done prudently and was not in violation of any of the regulatory prescriptions, all RRBs were advised to take prior approval from the Reserve Bank before any appropriation was made from the statutory reserve or any other reserve. Guidelines were also issued relating to disclosures in balance sheet regarding the drawdown of such reserves.
	15	• The lead bank responsibility of Ariyalur district of Tamil Nadu was assigned to SBI.
	17	• All SCBs (excluding RRBs) were advised that education loans would be classified as non-consumer credit for the purpose of capital adequacy norms. Accordingly, the risk weight applicable to education loans would be 100 per cent and 75 per cent under Basel I and Basel II frameworks, respectively.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
February	18	• In terms of KYC guidelines, banks were earlier advised that customer identification meant identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information to their satisfaction. An indicative list of the nature and type of documents/information that could be relied upon for customer identification was also given. It was observed that some banks treated this indicative list as exhaustive list and as a result a section of public was denied access to banking services. All SCBs (excluding RRBs) were advised to take a review of their extant internal instructions in this regard. They were also advised to carry out the review of risk categorisation of customers at a periodicity of not less than once in six months. The periodicity of updation of customer identification data including photograph should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories. Banks were also advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links. Similar guidelines were issued to RRBs on February 27, 2008.
	19	• In view of loss of income suffered due to culling of birds as well as steep fall in the demand for poultry products and their prices, guidelines on relief measures to poultry industry were issued to all SCBs.
March	3	• A revision was effected in the guidelines on managing risks and code of conduct in outsourcing of financial services by banks and all SCBs (excluding RRBs) were advised that if a complainant did not get a satisfactory response from the bank within 30 days from the date of his lodging the complaint, he would have the option to approach the office of the concerned Banking Ombudsman for redressal of his grievance/s.
	4	• Prudential norms for issuance of LoCs by banks regarding their subsidiaries were issued to all commercial banks (excluding RRBs).
	10	• With a view to ensuring that the customer was able to access any ATM installed in the country free of charge through equitable co-operative initiative by banks, all SCBs were directed to allow their customers to use bank's own ATM for any purpose for free; to use any other bank's ATMs for balance enquiries for free. Furthermore, for use of other bank's ATMs for cash withdrawals, no bank should increase the charges prevailing as on December 23, 2007 and those charging more than Rs.20 per transaction should reduce the charge to a maximum of Rs.20 per transaction by March 31, 2008 and should be made free with effect from April 1, 2009. • All commercial banks were advised that with effect from April 1, 2008, all payment transactions of Rs.1 crore and above between the Reserve Bank regulated entities such as banks/PDs and NBFCs were required to be routed through electronic payment mechanism. Furthermore, all payments of Rs.1 crore and above in the Reserve Bank regulated markets such as money market, Government securities market and foreign exchange market would also be routed through electronic payment mechanism with effect from April 1, 2008.
	26	• Guidelines on Pillar 2 or the SRP under the New Capital Adequacy Framework were issued to all commercial banks (excluding RRBs and LABs).
	27	• The lead bank responsibility in Tapi district of Gujarat was assigned to Bank of Baroda.
	31	• All commercial banks (excluding RRBs and LABs) were advised that certain amendments were made to the New Capital Adequacy Framework with immediate effect.
April	1	• The lead bank responsibility in Pratapgarh district of Rajasthan was assigned to Bank of Baroda.
	9	• All commercial banks (excluding RRBs) were advised that the frequency of supervisory reporting of the structural liquidity position shall be fortnightly, with effect from April 1, 2008, to be submitted on the seventh day from the reporting date *i.e.* the first and third Wednesday of every month to the Reserve Bank.
	10	• All SCBs (excluding RRBs) were advised that the income criteria for availing loans under the DRI scheme were revised. Accordingly, borrowers with annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas would be eligible to avail the facility.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
April	10	• SBI and its associates, all nationalised banks and select private sector banks were advised that electronic payment of tax by certain categories of tax payers was mandatory with effect from April 1, 2008.
	15	• All SCBs were advised to meet the entire credit requirements of SHG members as envisaged in the Union Budget for the year 2008-09. • Guidelines on new self employment scheme for rehabilitation of manual scavengers were issued to all public sector banks (excluding RRBs).
	16	• AD category-1 banks were informed that the limit for direct receipt of import bills/documents had been enhanced from US$ 1,00,000 to US$ 3,00,000 in the case of import of rough precious and semi-precious stones by non-status holder exporters.
	17	• The Reserve Bank advised that the matter concerning accounting procedure to be followed for transfer of accounts under the SCSS, from one agency bank to another agency bank/post office was examined by the Ministry of Finance, and the Ministry conveyed its approval for adopting the same procedure for inter agency bank/post office transfer of accounts under SCSS as was being followed for the PPF scheme, subject to the payment of transfer fee as applicable under the relevant rules of the captioned scheme. Accordingly, the Reserve Bank notified an illustrative list of procedures to be followed in this regard.
	21	• All SCBs (excluding RRBs) were advised that the CRR would be increased in two stages of 25 basis points each to 7.75 per cent with effect from the fortnight beginning April 26, 2008 and to 8.00 per cent with effect from the fortnight beginning May 10, 2008. Similar guidelines were issued to RRBs on April 22, 2008.
	22	• All public sector banks were advised that with a view to reducing the burden on boards of banks on account of the calendar of reviews to be undertaken by them and to ensure that the calendar reflected present day concerns, the calendar items were revised. The revised schedule would be brought into force with effect from June 1, 2008. If for any particular reason it was not possible to place the memorandum as per the calendar before the board in the month that it was due, a note should be put up to the board giving reasons for the delay and when the review was proposed to be placed before the board.
	24	• In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, it was felt that the adverse publicity would result in serious reputational risk for the banking sector as a whole. Against this background, the Reserve Bank issued detailed guidelines regarding the policy, practice and procedure involved in the engagement of recovery agents by all SCBs (excluding RRBs). • It was decided to permit banks (including RRBs and LABs) to engage retired bank employees, ex-servicemen and retired government employees as BCs with immediate effect, in addition to the entities already permitted, subject to appropriate due diligence. While appointing such individuals as BCs, banks were advised to ensure that these individuals were permanent residents of the area in which they proposed to operate as BCs and also institute additional safeguards as were considered appropriate to minimise agency risk.
	29	• All SCBs (excluding RRBs) were advised that the CRR would be increased by 25 basis points to 8.25 per cent with effect from the fortnight beginning May 24, 2008. Similar instructions were issued to RRBs on April 30, 2008.
May	2	• All SCBs (excluding RRBs) were advised to ensure that a suitable mechanism existed for receiving and addressing complaints from customers/constituents with specific emphasis on resolving such complaints fairly and expeditiously. • All SCBs (excluding RRBs) were advised to formulate a policy which would enable them to settle the claims of a missing person. Similar guidelines were issued to RRBs on September 12, 2008.
	6	• All SCBs were advised to classify 100 per cent of the credit outstanding under GCCs and overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under priority sector.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
May	6	• All domestic SCBs (excluding RRBs) were advised that any shortfall in lending to weaker sections would also be taken into account for the purpose of allocating amounts to them for contribution to RIDF maintained or funds with other FIs with effect from April 2009. • The lead bank responsibility in Ramgarh and Khunti districts of Jharkhand was assigned to Bank of India.
	8	• All SCBs (excluding RRBs and LABs) were advised that in view of the representations made in regard to delays in completion of infrastructure projects for legal and other extraneous reasons, the asset classification norms for infrastructure projects under implementation were modified with effect from March 31, 2008. The revised norms stipulated that in case of infrastructure projects, financed by the bank after May 28, 2002, 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 two years (as against the earlier norm of one year) after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard.
	14	• All commercial banks (excluding RRBs and LABs) were advised that there was change in risk weight for 'claims secured by residential property'. For loans with LTV ratio less than equal to 75 per cent, the risk weight was reduced to 50 per cent if the sanctioned loan amount was up to Rs.30 lakh and 75 per cent if the amount exceeded Rs.30 lakh. The risk weight was retained at 100 per cent for loans with LTV ratio more than 75 per cent.
	22	• In terms of obligations of banks under the Prevention of Money Laundering Act, 2002, all SCBs (excluding RRBs) were advised to prepare a profile for each customer based on risk categorisation. The need for periodical review of risk categorisation was also emphasised. It was reiterated that banks, as a part of transaction monitoring mechanism, were required to put in place an appropriate software application to throw alerts when the transactions were inconsistent with risk categorisation and the updated profile of customers. Further, a reporting mechanism for attempted banking transactions and also for transactions involving counterfeit currency report was also introduced. Similar guidelines were issued to RRBs on June 18, 2008. • All RRBs were advised that they could sell loan assets held by them under the priority sector categories in excess of their priority sector lending target of 60 per cent.
	23	• The Finance Minister in his Budget Speech (2008-09) had announced the Debt Waiver and Debt Relief Scheme for farmers. A detailed scheme in this regard was notified for implementation by all SCBs, besides RRBs and co-operative credit institutions. All SCBs (including LABs) were advised that the implementation of the Agricultural Debt Waiver and Debt Relief Scheme should be completed by June 30, 2008.
	29	• AD category-1 banks were informed that the policy related to ECBs was reviewed and some aspects of the policy including the all-in-cost ceilings and those for borrowers from the infrastructure sector were modified.
June	2	• AD category-1 banks were informed that entities in the service sector *viz.*, hotels, hospitals and software companies could avail ECB up to US$ 100 million, per financial year, for the purpose of import of capital goods under the approval route.
	4	• All SCBs (excluding RRBs) were advised to ensure that all the banking facilities including cheque book facility including third party cheques, ATMs, net banking, locker, retail loans, credit card, *etc.*, were invariably offered to the visually challenged without any discrimination. Banks were also advised to instruct their branches to render all possible assistance to the visually challenged for availing various banking facilities. Similar guidelines were issued to RRBs on July 23, 2008.
	9	• All private sector banks were advised that they should adhere to the revised calendar of reviews that was prescribed for public sector banks to the extent possible. The revised schedule would come into effect from July 1, 2008
	11	• All SCBs (excluding RRBs) were advised that the repo rate would be increased by 25 basis points to 8.0 per cent with effect from June 12, 2008.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
June	20	• All commercial banks were advised that the threshold for mandatorily routing through the electronic payment systems all payment transactions between the Reserve bank regulated entities in the Reserve Bank regulated markets would be reduced to Rs.10 lakh with effect from August 1, 2008.
	24	• All SCBs (excluding RRBs) were advised that the repo rate would be increased by 50 basis points to 8.5 per cent with effect from June 25, 2008.
	26	• All SCBs were advised that the CRR would be increased by 50 basis points in two stages to 8.5 per cent and 8.75 per cent with effect from the fortnights beginning July 5, 2008 and July 19, 2008, respectively.
July	14	• All public sector banks were advised that the Government would provide interest subvention of 2 per cent per annum to public sector banks in respect of short-term production credit up to Rs.3 lakh provided to farmers. This 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 became overdue *i.e.*, March 31, 2009 for *Kharif* and June 30, 2009 for *Rabi*, respectively, whichever was earlier.
	23	• Instructions were issued to all SCBs (excluding RRBs) on the issue of unsolicited credit cards and provision of insurance cover to credit card holders.
	29	• All SCBs (excluding RRBs) were advised that the repo rate would be increased by 50 basis points to 9.0 per cent effective from July 30, 2008.
	30	• All SCBs (excluding RRBs) were advised that the CRR would be increased by 25 basis points to 9.0 per cent with effect from the fortnight beginning August 30, 2008. Similar notification was issued to RRBs on July 31, 2008.
	31	• All SCBs (excluding RRBs) were advised that for fine-tuning the management of bank reserves on the last day of the maintenance period, it was decided to introduce a SLAF on reporting Fridays, with effect from August 1, 2008. SLAF would be conducted between 4.00-4.30 p.m. and the auction results would be announced by 5.00 p.m.
August	1	• All SCBs (excluding RRBs) were advised that the Government had decided to bring to a close the scheme that provided interest rate subvention to exporters from specified sectors with effect from September 30, 2008. Banks were asked to bring this to the notice of their exporter clients covered under the scheme, so that the exporters got adequate time to make necessary adjustments.
	4	• AD category-1 banks were informed that the temporary measure under which all exporters were permitted to earn interest on EEFC accounts to the extent of outstanding balances of US$ 1 million per exporter had been reviewed in consultation with the Government of India and it was decided to withdraw the facility from November 1, 2008. Accordingly, with effect from November 1, 2008, all EEFC accounts would be permitted to be opened and maintained in the form of non-interest bearing current accounts.
	5	• All SCBs (excluding RRBs) were advised that the eligibility income criteria of Rs.24,000 for urban areas under the DRI scheme was applicable to semi-urban areas also.
	6	• The Reserve Bank issued directives (finalised in consultation with SEBI) covering the framework for the trading of currency futures in recognised exchanges. • All SCBs (excluding RRBs) were advised about the eligibility criteria to become trading/clearing members of SEBI-approved exchanges.
	8	• Final guidelines on prudential norms for off-balance sheet exposure of banks were issued to all SCBs (excluding LABs and RRBs).
	18	• The lead bank responsibility in Alirajpur and Singrauli districts of Madhya Pradesh was assigned to Bank of Baroda and Union Bank of India, respectively.
	22	• All SCBs (excluding RRBs) were issued detailed instructions for dealing with inoperative accounts. Banks were asked to consider launching a special drive for finding the whereabouts of the customers/ legal heirs in respect of existing accounts which had been transferred to the separate ledger of ‘inoperative accounts’.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
August	22	• All SCBs (excluding RRBs) were issued detailed instructions regarding display of information through comprehensive notice boards.
	26	• All SCBs were advised that they could accept an affidavit submitted by landless labourers, share croppers, tenant farmers and oral lessees giving occupational status (*i.e.*, details of land tilled/crops grown) for loans up to Rs.50,000. Banks could also encourage the joint liability group/SHG mode of lending for such persons. However, banks should go through their procedures of identification as per KYC norms, appraisal and usual pre-sanction checks before extending finance.
	27	• All SCBs (including RRBs and LABs) were advised that companies registered under Section 25 of the Companies Act, 1956, could be employed as BCs provided that the companies were stand-alone entities or Section 25 companies in which NBFCs, banks, telecom companies and other corporate entities or their holding companies did not have equity holdings in excess of 10 per cent. Further, while engaging Section 25 companies as BCs, banks would have to strictly adhere to the distance criterion of 15 kms/ 5 kms, as applicable, between the place of business of the BC and the branch.
	28	• All SCBs (excluding RRBs) were advised that banking by definition meant acceptance of deposits of money from the public for the purpose of lending and investment. As such, banks could not design any product which was not in tune with the basic tenets of banking. Further, incorporating such clauses in terms and conditions which restricted deposit of cash over the counters also amounted to an unfair practice. Banks were therefore advised to ensure that their branches invariably accepted cash over the counters from all their customers who desired to deposit cash at the counters. Further, they were also advised to refrain from incorporating clauses in the terms and conditions which restricted deposit of cash over the counters. • All SCBs were advised that each bank could select one rain-fed district for introduction, on a pilot basis, of a new product for financing crop production whereby: (a) 80 per cent of the crop loan requirement of individual borrowers could be released through a short-term production loan in conformity with the extant norms/practices; and (b) the remaining 20 per cent representing the 'core component' (expenses for land preparation, pre-sowing operations *etc*., besides self-labour/consumption) could be sanctioned as a 'clean credit limit' to ensure year-round liquidity.
September	4	• All SCBs (including LABs) were advised that procedures for reimbursement of claims and audit of claims under the Agricultural Debt Waiver and Debt Relief Scheme, 2008 had been modified.
	8	• All SCBs were advised that the name of the "Industrial Development Bank of India Limited" had been changed to "IDBI Bank Limited" in the Second Schedule to the RBI Act, 1934 with effect from May 7, 2008.
	12	• All SCBs (excluding RRBs) were advised to adopt the format devised by the Reserve Bank for display of information relating to interest rates and service charges which would enable the customer to obtain the desired information at a quick glance. Banks should also ensure that only the latest updated information in the above format was placed on their websites and the same was easily accessible from the home page of their website.
	16	• All SCBs (excluding RRBs) were advised that the SLAF would be conducted on a daily basis with effect from September 17, 2008. • All SCBs were advised that from September 17, 2008, as a temporary measure and till further review, they could avail additional liquidity support under the LAF to the extent of up to one per cent of their NDTL. It was also advised that for any shortfall in maintenance of SLR arising out of availment of this additional liquidity support under LAF, banks could apply with a request not to demand payment of the penal interest thereon.
	16	• All SCBs (excluding RRBs) were advised that interest rates on NRE rupee deposits and FCNR(B) deposits were raised by 50 basis points to LIBOR/SWAP rates plus 50 basis points and LIBOR/SWAP rates minus 25 basis points, respectively, with effect from close of business on September 16, 2008. Similar instructions were issued to RRBs on September 18, 2008.
	17	• It was reiterated to all commercial banks (excluding RRBs) that they should ensure that they employ only those DMAs/DSAs who are registered as telemarketers with the DoT. Further, any employment of telemarketers who are not registered with DoT would be treated as a violation of Hon'ble Supreme Court's directive by banks.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
September	19	• All SCBs (excluding RRBs and LABs) were advised to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks through a set of measures prescribed by the Reserve Bank.
	22	• All SCBs were advised about the access criteria for national payment systems. • AD category-1 banks were informed that the policy related to ECBs was reviewed and some aspects of the policy including the all-in-cost ceilings and those for borrowers from the infrastructure sector were modified.
	23	• AD category-1 banks were informed that the "Issue of Foreign Currency Exchangeable Bonds (FCEB) Scheme, 2008", had been notified by the Government of India, Ministry of Finance, Department of Economic Affairs vide Notification G.S.R.89(E) dated February 15, 2008. Accordingly, it was decided to operationalise the scheme in order to facilitate the issue of FCEB by Indian companies.
	29	• All SCBs were advised that the name of "Centurion Bank of Punjab Ltd" was excluded from the Second Schedule to the RBI Act, 1934.
October	8	• Operating guidelines for banks regarding mobile banking transactions were issued to all SCBs.
	10	• All SCBs were advised that the CRR was to be reduced by 150 basis points to 7.5 per cent with effect from the fortnight beginning October 11, 2008.
	13	• Issues regarding asset classification status of overdue payments in respect of derivative transactions and re-structuring of derivative contracts were examined and guidelines issued to all commercial banks (excluding RRBs and LABs).
	14	• All SCBs (excluding RRBs) were advised that the Reserve Bank would conduct a special fixed rate repo at 9 per cent per annum against eligible securities for a notified amount of Rs.20,000 crore on October 14, 2008, with a view to enabling banks to meet the liquidity requirements of mutual funds. The reversal would take place on October 29, 2008.
	15	• All SCBs were advised that interest rates on NRE rupee deposits and FCNR(B) deposits were raised by 50 basis points to LIBOR/SWAP rates plus 100 basis points and LIBOR/SWAP rates plus 25 basis points, respectively, with effect from close of business on October 15, 2008. • Scheme for temporary liquidity support to scheduled banks and NABARD for financing agricultural operations was announced. • All SCBs were advised that, as a temporary measure, banks could avail additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their NDTL. This additional liquidity support would terminate 14 days from the closure of the special term repo facility for mutual funds that was announced on October 14, 2008. • All SCBs were advised that the CRR was further reduced by 100 basis points to 6.50 per cent with effect from the fortnight that began October 11, 2008. • All SCBs (excluding RRBs) were advised that the special fixed rate term repo under LAF would be conducted every day until further notice up to a cumulative amount of Rs.20,000 crore for the same purpose. Accordingly, the residual amount would be notified every day till further notice. • With a view to providing greater flexibility to AD category - I banks in seeking access to overseas funds, they were allowed to henceforth borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US$ 10 million (or its equivalent), whichever is higher, as against the existing limit of 25 per cent (excluding borrowings for financing of export credit in foreign currency and capital instruments).
	20	• All SCBs (excluding RRBs) were advised that the repo rate was cut by 100 basis points to 8.0 per cent with immediate effect.
	22	• AD category-1 banks were informed that some aspects of the ECB policy including the end-use for telecom sector, the limit for per borrower per financial year for rupee/foreign currency expenditure for permissible end-uses under the automatic route and the all-in-cost ceilings for ECBs of various maturities had been modified.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
October	27	• All SCBs (excluding RRBs) were advised that the validity of interest rates on rupee export credit would be in force up to April 30, 2009. • AD category-1 banks were informed that the all-in-cost ceiling for trade credits with maturity up to one year and between one and three years has been revised to 200 basis points above 6-month LIBOR.
	29	• All SCBs (excluding RRBs and LABs) were advised that the principle of borrower-wise asset classification to treat all other funded facilities granted to a client as NPA would apply only to the overdues arising from forward contracts and plain vanilla swaps and options.
		B) Co-operative Banks
2007		
April	4	• StCBs advised to increase cash reserve ratio (CRR) by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, *i.e.*, 6.25 per cent and 6.5 per cent effective from the fortnights beginning from April 14, 2007 and April 28, 2007, respectively. 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.
	5	• UCBs advised to increase cash reserve ratio (CRR) by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, *i.e.*, 6.25 per cent and 6.5 per cent effective from the fortnights beginning from April 14, 2007 and April 28, 2007, respectively. 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.
	9	• StCBs were advised to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them.
	12	• 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.
	17	• UCBs were advised to ensure that cheques/drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them.
	18	• UCBs were advised that with the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and its notification on October 2, 2006, the definition of micro, small and medium enterprises engaged in manufacturing/production or providing/rendering of services was modified and required to be implemented by the banks along with other policy measures. Banks' lending to medium enterprises would not be included for the purpose of reckoning under the priority sector. The boards of banks could review the existing guidelines/instructions and formulate a comprehensive and liberal policy in respect of loans to micro, small and medium sectors and adopt the same at the earliest.
	19	• 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.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
April	24	• 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 Reserve Bank Act, 1934; (ii) Transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India. (CCIL).
	24	• 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 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 at 6.25 per cent and 6.5 per cent effective from the fortnights beginning from April 14, 2007 and April 28, 2007, respectively. 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.
	26	• 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 April 2007, for US dollar of corresponding maturities. The interest rates as determined above for three years will also be applicable in case the maturity period exceeds three years and if renewed after their present maturity period.
	30	• 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 125 per cent. • UCBs were advised that relaxed prudential guidelines on income recognition, asset classification and provisioning norms were extended by one year.
May	4	• All primary UCBs were advised that risk weight for capital adequacy purpose 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. The reduced risk weights would be reviewed after one year keeping in view the default experience and other relevant factors. • 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.
	7	• UCBs registered in States that had entered into MoUs with the Reserve Bank or registered under the Multi State Co-operative Societies Act, 2002 were permitted to undertake insurance agency business as corporate agents without risk participation, provided that the UCB had a minimum net worth of Rs.10 crore and had not been classified as Grade III or IV bank.
	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, were not levied by them on loans and advances. • StCBs/DCCBs were advised to scale up their financial inclusion efforts by utilising appropriate technology. Banks were also advised 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.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
May	18	• 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	• UCBs were advised that the Banking Ombudsman Scheme, 2006 had been amended and all scheduled primary co-operative banks were directed to comply with the amended Scheme.
	25	• Guidelines on KYC Norms/AML Standards/CFT – Wire Transfers were issued to all primary UCBs. Similar guidelines were issued to StCBs and DCCBs on May 18, 2007.
June	1	• 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 to be prepared at fortnightly intervals starting with the last reporting Friday of June 2007 *i.e.* June 22, 2007 and that of Interest Rate Sensitivity should be prepared on a monthly basis as on last reporting Friday of the month starting with the month of June 2007. Banks were further advised to designate and authorize one or two senior official/s who would be responsible for the information furnished therein.
	4	• All primary urban co-operative banks registered in States that have entered into a Memorandum of Understanding (MoU) with 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 complying with certain norms. Though UCBs were not permitted to accept NRO deposits and were required to close these accounts in a given time frame, the revised guidelines indicate that UCBs may maintain NRO accounts, arising from their re-designation as such, upon the account holders becoming non resident. Opening of fresh NRO accounts would not be permitted. Further no fresh credits barring periodical credit of interest would be allowed in these accounts. However, these restrictions would not be applicable to UCBs holding Authorised Dealer Category-I licence.
	22	• 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	4	• UCBs were urged to scale up their financial inclusion efforts by utilising appropriate technology. Banks were advised to take care to ensure that the solutions developed for the purpose are highly secure, amenable to audit, and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. • The eligibility criteria for opening new branches/extension counters have been relaxed. All primary urban co-operative banks satisfying the relaxed criteria would be eligible for additional branches/ extension counters not exceeding 10 per cent of their existing branch network, over a period of two years. All primary urban co-operative banks are required to obtain prior authorisation for opening extension counters.
	13	• UCBs were advised that they were prohibited from extending any fund based or non-fund based credit facilities whether secured or unsecured to stockbrokers and commodity brokers. • UCBs were advised that the matter of amortisation 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 amortised over a period of five years in equal instalments; (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 amortised over a period of five years in equal instalments; 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.
	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 of the Reserve Bank, 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

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
		designated bank in favour of the agent which, at present, is equivalent to three 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.
July	31	• All scheduled primary urban co-operative banks were advised to increase the cash reserve ratio (CRR) by 50 basis points and maintain it to the level of 7.00 per cent of total demand and time liabilities with effect from the fortnight beginning August 4, 2007.
August	14	• 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 Government of India notification, it was 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 would release subsidy of Rs.378 crore out of the Sugar Development Fund and the banks had 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 was utilised for making cane payments.
	28	• UCBs were advised that the Reserve Bank had 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 was of the same or lower population group as the existing centre, *eg.*, a branch at a 'D' centre could be shifted to another 'D' centre only; (ii) a branch located in an under-banked district can be shifted to another centre in an under-banked district only; and (iii) the shifting should be beneficial to the bank in terms of cost and business.
	30	• UCBs were advised 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 on 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	• UCBs were advised to ensure that loan facilities were utilised by borrowers for the purpose sanctioned. Banks should therefore have a mechanism for proper monitoring of the end-use of funds. Wherever diversion was observed, they should take appropriate action against the borrowers concerned and the steps needed to protect the bank's interest. UCBs could put in place more stringent safeguards, especially, where accounts showed signs of turning into NPAs. In such cases UCBs could strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds were 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 were 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 should take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security.
	18	• UCBs were advised not to insist upon induction of two professional directors on the boards of Salary Earners Banks. • Guidelines were issued to all UCBs with a view to allowing them greater flexibility in making non-SLR investments.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
September	19	• UCBs were advised that when a UCB had availed a loan from a DCCB/StCB with which it was maintaining deposits, the amount of loan availed from the DCCB/StCB would be deducted from the deposits irrespective of whether lien had been marked on such deposits or not, for the purpose of computation of SLR. UCBs were given a period of six months to comply with the SLR requirements in case of shortfall, if any, arising from the above instructions.
November	1	• All scheduled UCBs were informed about the decision to increase cash reserve ratio (CRR) by 50 basis points to 7.50 per cent of their demand and time liabilities with effect from the fortnight beginning November 10, 2007.
	12	• UCBs were advised to desist from writing anything whatsoever on the banknotes. They were also advised to endeavour to educate their staff, customers and members of public, in this regard.
	14	• StCBs/DCCBs were advised that before launching new domestic deposit mobilisation scheme with the approval of their respective boards, they should ensure that the provisions of the Reserve Bank's directives on interest rates on deposits, premature withdrawal of term deposits, sanction of loans/ advances against term deposits, *etc.*, issued from time to time, were strictly adhered to. Any violation in this regard would be viewed seriously and could attract penalty under the Banking Regulation Act, 1949 (AACS).
	15	• UCBs were advised that the schemes with lock-in periods and some other restrictive features, which have been floated by some banks were not in conformity with the provisions of the Reserve Bank's directives on interest rates on deposits, premature withdrawal of term deposits, sanction of loans and advances against term deposits, *etc.* issued from time to time. These types of schemes were advised to discontinue.
	16	• UCBs were permitted to lay down policies with the approval of their board for sanction of gold loans with bullet repayment option subject to satisfying certain guidelines. It was also clarified that crop loans sanctioned against the collateral security of gold/gold ornaments would continue to be governed by the extant IRAC norms for such loans.
	20	• StCBs/DCCBs were advised to rely upon the Guardianship Certificate issued either by the district court under the Mental Health Act or by the local level committees under the above Act for the purpose of opening/operating bank accounts for disabled persons with autism, cerebral palsy, mental retardation and multiple disabilities (Similar instructions were issued to UCBs also).
	30	• It was decided to bring down the priority sector lending target for UCBs to 40 per cent of the adjusted bank credit (ABC) (total loan and advances plus investments made by UCBs in non-SLR bonds) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher, as on March 31 of the previous year.
December	4	• StCBs/DCCBs were previously outside the capital to risk weighted assets ratio (CRAR) framework. In order to assess their capital structure in the context of financial stability of the whole system, StCBs/ DCCBs were advised to disclose their CRAR as on March 31, 2008 and thereafter every year as 'Notes on Accounts' to their Balance Sheets.
2008		
January	23	• A Working Group (WG) was constituted for examining prescription of guidelines for access to various payment systems. The Working Group has recommended that membership to clearing houses at magnetic ink character recognition (MICR) centres be confined to licenced banks meeting certain criteria. Further, the WG has recommended that the entities which are presently members of clearing houses at MICR centres but ineligible to be members as per the proposed access criteria, would have to conform to the prescribed norms within one year failing which membership would be downgraded to that of a sub-member. The WG has recommended that such banks may be barred with immediate effect, from sponsoring any sub-members.
	29	• UCBs were advised not to classify 'education loans' as consumer credit for the purpose of capital adequacy norms. Accordingly the risk weight applicable to education loans would be 100 per cent.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
February	25	• In terms of Know Your Customer (KYC) guidelines, UCBs were earlier advised that customer identification meant identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information to their satisfaction. An indicative list of the nature and type of documents/information that could be relied upon for customer identification was also given. It was observed that some banks treated this indicative list as exhaustive list and as a result a section of public was denied access to banking services. UCBs were advised to take a review of their extant internal instructions in this regard. UCBs were also advised to carry out a review of risk categorisation of customers at a periodicity of not less than once in six months. The periodicity of the updation of customer identification data including photograph should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk category customers. UCBs were also advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links.
	29	• As per extant instructions, UCBs should normally refrain from sanctioning loans to builders/contractors. However, where contractors undertake comparatively small construction work on their own, UCBs may consider extending financial assistance to them against hypothecation of construction material, provided such loans and advances are in accordance with the bye-laws of the banks and instructions/directives issued by the Reserve Bank from time to time. Valuing the land for the purpose of security, on the basis of discounted value of property after it is developed, less the cost of development is not in conformity with established norms. In this connection it was clarified to UCBs that they should not extend fund based/non-fund based facilities to builders/contractors for acquisition of land even as a part of a housing project. Further, where land is accepted as collateral, valuation of such land should be at current market price only.
March	3	• In view of the instances of outbreak of avian influenza (bird flu) in some areas of the country and consequent loss of income on account of culling of birds for poultry units financed by the banks, UCBs were advised to consider extending certain facilities to them: (i) principal and interest due on working capital loans as also installments and interest on term loans which have fallen due for payment on or after the onset of bird flu, *i.e.* December 31, 2007 and remaining unpaid amount may be converted into term loans. The converted loans may be recovered in instalments based on projected future inflows over a period up to three years with an initial moratorium of up to one year (the first year of repayment may be fixed after the expiry of moratorium period); (ii) the remaining portion of term loans may be rescheduled similarly with a moratorium period up to one year depending upon the cash flow generating capacity of the unit; (iii) the reschedulement/conversion may be completed on or before April 30, 2008; (iv) the rescheduled/converted loans may be treated as current dues; (v) after conversion as above, the borrower will be eligible for fresh need-based finance; (vi) the relief measures as above may be extended to all accounts of poultry industry, which were classified as standard accounts as on December 31, 2007.
	7	• The definition of Tier I UCBs was amended. As per the new definition, the following three categories of UCBs are to be treated as Tier I banks. (i) Unit banks *i.e.*, UCBs having a single branch/head office and UCBs with deposits below Rs.100 crore, whose branches are located in a single district; (ii) UCBs with deposits below Rs.100 crore and having branches in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank; and (iii) Banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district. Tier II banks are all other banks. The deposit base of Rs.100 crore will be determined on the basis of average of fortnightly NDTL in the financial year concerned and that of advances on the basis of fortnightly average in the financial year concerned.
	10	• Co-operative banks were advised that with effect from April 1, 2008, all payment transactions of Rs.1 crore and above between the Reserve Bank regulated entities such as banks/primary dealers and NBFCs were required to be routed through electronic payment mechanism. Furthermore, all payments of Rs.1 crore and above in the Reserve Bank regulated markets such as money market, Government securities market and foreign exchange market could also be routed through electronic payment mechanism with effect from April 1, 2008.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
March	12	• In case of UCBs, both use of own ATMs for any purpose and for the use of other bank ATMs for balance enquiries, the customer would not be levied any charge under any head and for use of other bank ATMs for cash withdrawals, charge of Rs.20 would be levied which was all inclusive and no other charges would be levied under any other head irrespective of the amount of withdrwal. The service charges for cash withdrawal with the use of credit cards and cash withdrawal in an ATM located abroad may be determined by the banks themselves.
April	2	• For Tier I UCBs, the 180 day loan delinquency norm for NPAs was extended by one year *i.e.*, up to March 31, 2009 and the 12 month period for classification of a sub-standard asset in doubtful category would be effective from April 1, 2009 instead of April 1, 2008.
	15	• Scheduled UCBs were advised to formulate a comprehensive and transparent policy covering immediate credit of local/outstation cheques, time-frame for collection of local/outstation instruments and interest payment for delayed collection, taking into account their technological capabilities, systems and processes adopted for clearing arrangements and other internal arrangements for collection through correspondents. They were also advised to review their existing arrangements and capabilities and work out a scheme for reduction in collection period. The interests of small depositors should be fully protected. The policy should also clearly lay down the liability of the UCBs by way of interest payments due to delay for non-compliance with the standards set by the UCBs themselves and should be integrated with the deposit policy formulation by the UCB in line with the IBA's policy. Compensation by way of interest payment, where necessary, should be made without any claim from the customer. It should also be ensured that the customers are, in no way, worse off than earlier.
	21	• UCBs, were advised to include at all times, at least two professional directors on their boards with suitable banking experience (at middle/senior management level) or with relevant professional qualifications, *i.e.*, C.A. with bank accounting/auditing experience. The scope of professional directors prescribed therein was reviewed and it was decided to enlarge the ambit of 'professional directors' to include persons with professional qualification in the fields of law, accountancy or finance. UCBs were advised to initiate steps to amend the bye-laws of their banks accordingly and ensure compliance with the above requirements.
	22	• Scheduled UCBs were advised to increase cash reserve ratio (CRR) by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, *i.e.*, 7.75 per cent and 8.00 per cent effective from fortnights beginning from April 26, 2008 and May 10, 2008, respectively.
	30	• On a review of the liquidity situation it was decided to increase cash reserve ratio (CRR) of scheduled UCBs to 8.25 per cent from 8 per cent of their net demand and time liabilities (NDTL) with effect from fortnight beginning from May 24, 2008.
May	2	• All UCBs with requisite infrastructure related to INFINET, together with a board resolution seeking the membership in it would be granted membership of INFINET. Subject to the above parameters, unlicensed UCBs could also be permitted to avail of INFINET membership, so long as their application for license has not been rejected by Reserve Bank. The membership would not in any way entitle unlicensed UCBs to claim a banking license at a later date and their application for license would be examined independently on its merits.
	12	• All UCBs were advised to formulate a policy for settlement of claims of missing persons after considering the legal opinion and taking into account the facts and circumstances of each case. Further, keeping in view the imperative need to avoid inconvenience and undue hardship to the common person, UCBs were also advised that keeping in view the risk management systems, they should fix a threshold limit, upto which claims in respect of missing persons could be settled without insisting on production of any document other than (i) FIR and the non-traceable report issued by police authorities and (ii) letter of indemnity.
	13	• All StCBs and DCCBs were directed to allow customers to use bank's own ATM for any purpose for free and also to use any other bank's ATMs for balance enquiries for free. Furthermore, banks were also instructed to bring down the charge for withdrawal of cash for non-customers to Rs.20 with immediate effect and make it free with effect from April 1, 2009.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
May	15	• It has been decided to permit Tier II UCBs to extend individual housing loans up to a maximum of Rs.50 lakh from earlier ceiling of Rs.25 lakh per beneficiary of a dwelling unit subject to extant prudential exposure limits. • UCBs other than those classified in grade III and IV and registered in States that have entered into MoU with the Reserve Bank or under Multi State Co-operative Societies Act, 2002, were permitted to undertake insurance business as corporate agent without risk participation without the prior approval of the Reserve Bank. The minimum net worth criteria earlier applicable was dispensed with for such banks.
	23	• As per the budget speech for 2008-09 by the Hon'ble Finance Minister, a debt waiver and debt relief scheme for farmers was notified by the Government of India. UCBs were advised to take necessary action towards implementation of the scheme and complete it by June 30, 2008.
	26	• As announced in the Annual Policy Statement for the year 2008-09, the eligibility norms for opening up of on-site ATMs were liberalised. Accordingly, UCBs that were registered in states which had entered into MoU with the Reserve Bank or were registered under the Multi-State Co-operative Societies Act, 2002 and classified in Grades other than Grade III and IV, could set up on-site ATMs without prior approval of the Reserve Bank. • Keeping in view the nature of membership and loan profile of the salary earner banks (SEBs) and representations made by the banks and their federations, it was decided that the Salary Earners' Banks in Tier II may provide for standard assets in respect of personal loans at the rate of 0.4 per cent instead of the existing level of two per cent. Provisioning requirement in respect of loans and advances qualifying as capital market exposure, commercial real estate loans and loans and advances to systemically important NBFCs – ND would however continue to be two per cent for such banks. • Existing *mahila* UCBs which conform to the extant entry point norms for general category banks, were permitted to enroll male members up to a limit of 25 per cent of their total regular membership, subject to compliance by the banks with their respective bye-laws.
June	2	• As per the operative instructions issued for smooth implementation of the Agricultural Debt Waiver and Debt Relief Scheme, 2008 UCBs were advised that one time consolidated claims for the bank as a whole could be submitted by them through their head office by September 30, 2008, to the respective regional offices of the Reserve Bank. Guidelines regarding procedure for reimbursement of claims, data maintenance, monitoring of progress in implementation, procedure for audit of the claims were also issued.
	4	• It has been observed that, over the years, the Government of India has, from time to time, issued several special securities which do not qualify for the purpose of complying with the SLR requirements of StCBs/ DCCBs. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread. Currently, the guidelines issued by FIMMDA regarding the valuation of such non-SLR securities provide that such securities be valued by applying a mark-up of 50 basis points (bps) above the corresponding yield on Government of India securities. The issue of valuation of such special securities has since been examined. It has been decided that, for the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities. This amendment would come into force from the financial year 2008-09.
	12	• UCBs were advised to ensure that all banking facilities such as cheque book facility including third party cheques, ATM facility, net banking facility, locker facility, retail loans, credit cards *etc.*, are invariably offered to the visually challenged persons without any discrimination.
	16	• The branch licensing norms have been liberalised. Approvals for branch expansion including off-site ATMs in respect of well managed and financially sound UCBs in the States that have signed MoUs and those registered under the Multi-State Coop Societies Act, 2002, will henceforth be considered, based on their Annual Business Plans, subject to certain conditions. • It was decided to enhance the limit of Rs.20 lakh to Rs.30 lakh in respect of bank loans for housing in terms of applicability of risk weights for capital adequacy purposes. Accordingly, such loans will carry a risk weight of 50 per cent.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
June	17	• Certain additional instructions for smooth implementation of the Agricultural Debt Waiver and Debt Relief Scheme, 2008 were issued to UCBs. A format for undertaking to be given by 'other farmers' eligible for one time settlement (OTS) relief was forwarded to UCBs. They were advised to issue a certificate to small and marginal farmers upon waiver of the eligible amount to the effect that the loan has been waived and specifically mention the eligible amount so waived under the scheme and take acknowledgement from the farmers. A certificate should also be issued to 'other farmers' upon granting OTS relief, to the effect that the loan account has been settled to the satisfaction of the lending institution and specifically mention the eligible amount and the amount paid by the farmer. Formats of such certificates were forwarded to the UCBs.
	24	• The definition of willful defaulters was extended to include units that have defaulted in meeting their payment/repayment obligation to the lender and have also disposed of or removed the movable fixed assets or immovable property given by them for the purpose of securing a term loan, without the knowledge of the bank/lender.
	26	• All scheduled primary urban co-operative banks were advised that it was decided to increase cash reserve ratio (CRR) by 50 basis points to 8.75 per cent of their net demand and time liabilities (NDTL) in two stages, *i.e.*, 8.50 per cent and 8.75 per cent effective from the fortnights beginning from July 5, 2008 and July 19, 2008, respectively.
	30	• The reporting formats for priority sector lending by UCBs were revised. Accordingly, the UCBs were advised that data under the revised formats could be submitted to the regional office concerned of the Reserve Bank on a yearly basis within 15 days of close of the financial year to which it pertained. UCBs were advised to submit the first set of returns by April 15, 2009.
July	2	• As a part of transaction monitoring mechanism, UCBs are required to put in place an appropriate software application to through alerts when the transactions are inconsistent with risk categorisation and updated profile of customers. They were also advised to initiate urgent steps to ensure electronic filing of cash transaction report (CTR) and suspicious transaction report (STR) to FIU-IND. Further, UCBs were advised to arrange to file the data of non-computerised branches into an electronic file with the help of the editable electronic utilities of CTR/STR as made available by FIU–IND on their website (http://fiuindia.gov.in). It was further clarified that cash transaction reporting by branches to their Principal Officer should be submitted on a monthly basis and the principal officer, in turn, should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule, *i.e.*, by 15th of the succeeding month. It was reiterated that the cut-off limit of Rs.10 lakh for reporting in CTR should be applicable to integrally connected cash transactions also. UCBs were also advised that the customers should not be tipped off on the STRs filed by them with FIU-IND. UCBs should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amounts of transaction. UCBs should submit STRs, if they have reasonable grounds to believe that the transaction involves proceeds of crime, irrespective of the amount of transaction and/or threshold limit envisaged for predicate offences in part B of schedule of Prevention of Money Laundering Act, 2002. UCBs were advised to create awareness about KYC/AML among their staff and for generating alerts for suspicious transactions, they may consider the indicative list of suspicious activities contained in Annex E of the 'IBA's Guidance Note for banks, 2005.
	3	• UCBs were advised that in terms of Agricultural Debt Waiver and Debt Relief Scheme, 2008, the Government of India had clarified that: "If the loan is for poultry farming or sheep rearing or piggery or a cattle farm and part of the loan amount is used for sheds, pens, fences *etc.*, the entire composite loan amount would be reckoned for calculating 'eligible amount' as defined in the scheme. If it is a standalone loan for putting up fencing or sheds, *etc*., these would not be covered". Accordingly the earlier circular in respect of the Scheme was modified.
	8	• The first meeting of the Working Group on Umbrella Organisations of UCBs and constitution of Revival Fund for UCBs was held at the Reserve Bank.
	9	• StCBs/DCCBs were advised to ensure that all the banking facilities such as cheque book facility including third party cheques, ATM facility, Net banking facility, locker facility, retail loans, credit cards, *etc.*, were invariably offered to the visually challenged without any discrimination. StCBs/DCCBs should also advise their branches to render all possible assistance to the visually challenged for availing of the various banking facilities.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
July	15	• In order to facilitate raising of capital funds (Tier 1 and Tier 2) UCBs were permitted to issue preference shares, *viz*., (i) perpetual non-cumulative preference shares (PNCPS), (ii) perpetual cumulative preference shares (PCPS), (iii) redeemable non-cumulative preference shares (RNCPS) and (iv) redeemable cumulative preference shares (RCPS). Further, UCBs were permitted to raise term deposits for a minimum period of not less than five years, which would be eligible to be treated as Tier 2 capital.
	31	• It was decided to increase the cash reserve ratio for scheduled primary (urban) co-operative banks by 25 basis points to 9.00 per cent of net demand and time liabilities (NDTL) with effect from the fortnight beginning August 30, 2008.
August	12	• UCBs were advised that fictitious lottery and money circulation schemes aimed at defrauding members of the public had come to light from time to time. It was clarified that remittances in any form towards participation in lottery schemes was prohibited under Foreign Exchange Management Act, 1999. Further, these restrictions were also applicable to remittances for participation in lottery-like schemes functioning under different names, such as money circulation scheme or remittances for the purpose of securing prize money/awards *etc*.
	28	• UCBs were advised to ensure that a suitable mechanism exists for receiving and addressing complaints from their customers with specific emphasis on resolving such complaints fairly and expeditiously. For this purpose, UCBs were advised to: (i) ensure that the complaint registers were kept at prominent places in their branches which would make it possible for the customers to enter their complaints; (ii) have a system of acknowledging the complaints where they were received; (iii) fix a time frame for resolving the complaints received at different levels; (iv) display the name, address, telephone number, e-mail address *etc*., of the official who can be contacted for redressal of complaints. In case of scheduled UCBs, complaints not redressed within one month should be reported to the nodal officer concerned under the Banking Ombudsman Scheme, who should be kept updated about the status of the complaint. Further, they should make the customers aware of his rights to approach the Banking Ombudsman concerned in case he is not satisfied with the bank's response and furnish details of Banking Ombudsman concerned to the complainant.
September	1	• UCBs were advised to consider launching special drive for finding the whereabouts of the customers/ legal heirs in respect of existing accounts which had been transferred to the separate ledger of 'in-operative accounts'. • In view of the increase in the amount of the unclaimed deposits with banks year after year and the inherent risk associated with such deposits, UCBs were advised to play a more pro-active role in finding the whereabouts of the account holders whose accounts have remained in-operative. They were further advised to make an annual review of accounts in which there are no operations for more than one year. UCBs should inform the customers in writing about it and ascertain the reasons for the same. In case of shifting of the customer from the locality, bank should ask for the details of the new bank accounts to which the balance in the existing account could be transferred. UCBs should trace the whereabouts of the customers or their legal heirs in case they are deceased, through their introducer or employer *etc*. Further, UCBs were advised not to charge for activation of in-operative account. UCBs were also advised to ensure that the amounts lying in in-operative accounts ledger are properly audited by the internal auditors/statutory auditors of the bank. Interests on savings accounts should be credited on regular basis whether the account is operative or not. If a matured fixed deposit is unpaid, the amount will attract savings bank rate of interest.
	5	• UCBs were advised certain modification of procedure for reimbursement of claims and audit of claims under the Agricultural Debt Waiver and Relief Scheme 2008. Claims are required to be filed for 'waiver' and 'relief' only after actually passing on the benefit to the beneficiaries. UCBs were advised to forward the 'Preliminary' claims to the concerned regional office of the Reserve Bank for release of first instalment under the scheme, latest by October 31, 2008 (for debt waiver) and by September 30, 2009 (for debt relief), respectively. Subsequently preliminary claims were to be subjected to sample check during the annual statutory audit exercise for the year 2009-10 (for debt relief) by the statutory auditors, who can be entrusted this job as a special assignment by banks. A representative sample covering at least 20% of branches and accounts are required to be covered by the statutory auditors, for certifying the correctness of the claims.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
September	9	• With a view to improving the quality of customer service in UCBs, scheduled urban co-operative banks were suggested to consider becoming members of banking codes and standards board of India (BCSBI).
	17	• Guidelines on liquidity risk management were issued to Tier I UCBs. They were also advised to prepare separate returns as on the last reporting friday of March/June/September/December and submit the same to the board within a month from the last reporting friday. The first such set of returns may be put to the board as on the last reporting friday of December 2008. Banks were advised to designate and authorise one or two senior official/s who would be responsible for the correct compilation and timely submission of these returns and would be fully responsible for the information furnished therein. • It was decided that in addition to scheduled UCBs for which guidelines are already in place, all other Tier II UCBs may also adopt Asset Liability Management(ALM) as per the guidelines forwarded to them. UCBs which have already adopted more sophisticated systems may ensure to finetune their current system to ensure compliance with the requirements of the ALM system suggested in the guidelines. To begin with UCBs should ensure coverage of at least 60% of their liabilities and assets. As for the remaining 40% of their assets and liabilities, banks may include the position based on their estimates. UCBs were advised to set interim targets so as to cover 100 per cent of their business by April 1, 2010. Once the system stabilizes, they should prepare to switch to more sophisticated techniques. To start with, the statement of structural liquidity should be prepared as on last reporting Friday of March/June/September/December and put up to ALCO(Asset-Liability Committee). It is the intention to put the reporting system on a fortnightly basis with effect from December 2008. Tolerance level for various maturities may be fixed by the bank's Top Management depending on the bank's asset-liability profile, extent of stable deposit base, the nature of cash flows *etc.* In respect of mismatches in cash flows, bank's managements should try to keep it at the minimum levels. The object of the Reserve Bank is to enforce the tolerance levels strictly with effect from April 1, 2010. UCBs were also advised that in the Statement of Interest Rate Sensitivity, only rupee assets, liabilities and off balance sheet positions should be reported. UCBs were expected to move over to monthly reporting system with effect from April 1, 2010. In order to enable the UCBs to monitor their liquidity on a dynamic basis over a time horizon spanning 1-90 days, an indicative format was prescribed. UCBs were advised that the first such ALM return should be put to the ALCO/Top Management as on the last reporting Friday of December 2008. • UCBs which are recognised as Authorised Dealers category I and II may participate in designated currency futures exchanges recognised by SEBI as clients only, for the purpose of hedging their underlying forex exposures. • UCBs were *inter alia* advised to follow a more granular ALM guidelines, *i.e.*, to split 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. The revised format will be effective from January 1, 2009.
	18	• UCBs have been advised to display the information related to interest rates and service charges, as per a given format in their premises as well as post it on their websites to enable customers obtain the desired information at a glance.
	19	• The interest rates on Non-Resident (External) Rupee (NRE) deposits have been revised with effect from September 16, 2008. Interest rate on Term Deposits (NRE) for 1-3 years maturity should not exceed the LIBOR/SWAP rates plus 50 basis points as on last working day of the month of August, 2008 for corresponding maturities. The interest rates as determined above for three year deposits will also be applicable in case the maturity period exceeds three years and will also be applicable to NRE deposits renewed after their existing maturity period. • Interest on all Foreign Currency Non-Resident (B) (FCNRB) deposits of all maturities shall be paid within the ceiling rate of LIBOR/SWAP rates minus 25 basis points for the respective currency as against LIBOR/SWAP rate minus 75 basis points with effect from September 16, 2008. • In terms of a Supreme Court Judgement, UCBs have been advised that excess amount realised from their borrowers, if any, towards interest tax by way of rounding off may be deposited with a trust created for the benefit of disadvantaged people, by the Ministry of Social Justice and Empowerment. It was decided to extend the simplified off-site surveillance (OSS) reporting system to all the remaining Tier I UCBs having deposits below Rs.50 crore. The system comprises a set of 5 returns of which 4 are required to be submitted at quarterly intervals while the fifth return on Bank Profile is an annual return. The annual return of the Bank Profile is to be prepared at March 31, every year and the other 4 quarterly

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
September		returns are to be prepared at the end of March, June, September and December of every year. UCBs are required to submit all these returns to concerned regional offices of the Reserve Bank within one month from the end of the quarter/year. This would come into effect from quarter ending December 31, 2008 and the time for submission of the first quarter returns would be 3 months upto March 31, 2009. • It was decided to extend the simplified OSS reporting system to all the remaining Tier II UCBs having deposits below Rs.50 crore. The system comprises of a set of 8 returns of which 7 are required to be submitted at quarterly intervals while the 8th return on Bank Profile is an annual return. The annual return of the Bank Profile is to be prepared at March 31, every year and the other 7 quarterly returns are to prepared at the end of March, June, September and December of every year. UCBs are required to submit all these returns to concerned regional offices of the Reserve Bank within one month from the end of the quarter/year. This would come into effect from quarter ending December 31, 2008.
	26	• UCBs were advised to review that their branches are operating from premises which have a subsisting and valid lease agreement, free of any dispute between the bank and the landlord of the premises in question. Banks were also advised to report the list of their branches/offices that are operating in premises in respect of which a dispute is pending with the landlord, to the Regional Director of the Reserve Bank concerned before October 15, 2008 as per the prescribed format.
	30	• As per extant instructions on treatment of deposits with DCCB/StCB as SLR, UCBs availing loan from DCCBs/StCBs with which the UCB maintains deposits, can deduct the amount of loan availed from the deposits irrespective of whether lien had been marked on such deposits or not, for the purpose of reckoning such deposits as SLR. In this connection, salary earners' co-operative banks were allowed extension of time upto March 31, 2009 for complying with the instructions.
October	7	• Scheduled primary (urban) co-operative banks were advised that cash reserve ratio (CRR) will be reduced by 50 basis points from 9.00 per cent to 8.50 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning October 11, 2008. • Scheduled State co-operative banks were advised that cash reserve ratio (CRR) will be reduced by 50 basis points from 9.00 per cent to 8.50 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning October 11, 2008.
	10	• On a review of the evolving liquidity situation in the context of global and domestic developments, scheduled primary (urban) co-operative banks were advised to reduce the cash reserve ratio (CRR) by 150 basis points from 9.00 per cent to 7.50 per cent of their net demand and time liabilities (NDTL) instead of the 50 basis points (from 9.00 per cent to 8.50 per cent) reduction with effect from the fortnight beginning October 11, 2008. • On a review of the evolving liquidity situation in the context of global and domestic developments, scheduled state co-operative banks were advised to reduce the CRR by 150 basis points from 9.00 per cent to 7.50 per cent of their net demand and time liabilities (NDTL) instead of 50 basis points (from 9.00 per cent to 8.50 per cent) reduction with effect from the fortnight beginning October 11, 2008.
	15	• All StCBs/DCCBs were advised 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 plus 100 basis points, as on the last working day of September, 2008 for US dollar of corresponding maturities. 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. • On a review of the evolving liquidity situation all scheduled State co-operative banks were advised to reduce the CRR by 100 basis points from 7.50 per cent to 6.50 per cent of their NDTL with effect from the current reporting fortnight beginning on October 11, 2008.
	16	• All UCBs were advised 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 plus 100 basis points, as on the last working day of September, 2008 for US dollar of corresponding maturities. 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.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2008		
October		• All UCBs were advised that in respect of FCNR (B) deposits of all maturities contracted effective from the close of business in India as on October 15, 2008 interest rates shall be paid within the ceiling rate of LIBOR/SWAP rates plus 25 basis points for the respective currency/corresponding maturities. On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency/maturity plus 25 basis points. For floating rate deposits, the interest reset period shall be six months. • On a review of the evolving liquidity situation all scheduled primary (urban) co-operative banks were advised to reduce the cash reserve ratio (CRR) by 100 basis points from 7.50 per cent to 6.50 per cent of their NDTL with effect from the reporting fortnight beginning on October 11, 2008.
		C) Financial Institutions (FIs)
2007		
April	20	• Comprehensive guidelines on derivatives were issued to all term-lending and refinancing institutions. The major requirements for undertaking any derivative transaction from the regulatory perspective were laid down. Guidelines also covered extant instructions relating to rupee interest rate derivatives.
May	16	• In partial modification of the earlier guidelines on purchase /sale of NPAs, all India term lending and refinance institutions were advised that regarding purchase/sale of NPAs, 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.
July	31	• Select all India FIs (NHB, NABARD, EXIM Bank, SIDBI, TFCI Ltd., IFCI Ltd., IIBI Ltd.) were informed that SEBI had permitted FIMMDA to set up its reporting platform for corporate bonds. It was also 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 from September 1, 2007. The select AIFIs were required to report their secondary market transactions in corporate bonds in the OTC market on FIMMDA's reporting platform with effect from September 1, 2007.
August	22	• All AIFIs were advised to invariably furnish a copy of the loan agreement alongwith a copy each of all enclosures quoted in the loan agreement to all borrowers at the time of sanction/disbursement of loans.
2008		
May	22	• In terms of earlier guidelines issued on 'KYC Norms' and 'AML Measures', FIs were required to prepare a profile for each customer based on risk categorisation. The need for periodical review of risk categorisation was also emphasised. It was reiterated that financial institutions, as a part of transaction monitoring mechanism, are required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorisation and updated profile of customers.
June	4	• It was observed that, over the years, the Government of India has, from time to time, issued several special securities which do not qualify for the purpose of complying with the SLR requirements of FIs. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread. The issue of valuation of such special securities was examined. It has been decided that, for the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities. This amendment would come into force from the financial year 2008-09.
		D) Non-Banking Financial Companies (NBFCs)
2007		
April	4	• NBFCs were advised to explicitly state in their advertisements issued in print/electronic media (including web-sites)/statement in lieu of advertisement, that the company is having a valid certificate of registration issued by the Reserve Bank. However, the Reserve Bank does not accept any responsibility or guarantee about 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	• The maximum interest rate payable on public deposits by NBFCs/miscellaneous non-banking companies (chit fund companies) (excluding RNBCs) revised to 12.5 per cent per annum. The new rate of interest would be applicable to fresh public deposits and renewals of matured public deposits.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
April	25	• The securitisation companies/reconstruction companies registered with the Reserve Bank were advised to submit quarterly statement in the formats SCRC 1 (statement on assets acquired, securitised and reconstructed) and SCRC 2 (statement on assets acquired, securitised 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	• NBFCs - ND-SI advised to put in place a system for submission of an annual statement of capital funds, risk asset ratio *etc*., as at end-March every year in form NBS-7. The first such return was to be submitted for the year ending March 31, 2007. The return was to be submitted within a period of three months from the close of the financial year, annually.
May	8	• Deposit taking NBFCs with deposit size of Rs.20 crore and above and NBFCs-ND-SI were advised to frame their internal guidelines on corporate governance which, *inter alia*, may include constitution of audit committee, nomination committee and risk management committee. They were also advised to follow disclosure and transparency practices and instructions on connected lending.
	16	• In partial modification of the earlier guidelines, all NBFCs (including RNBCs) were advised that regarding purchase/sale of NPAs, 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.
	24	• In view of several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs, they were 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 Reserve Bank. NBFCs were advised to keep in view the guidelines on Fair Practices Code about transparency in respect of terms and conditions of the loan.
	28	• Guidelines were issued to all registered Securitisation Companies/ Reconstruction Companies on declaration of net asset value of Security Receipts issued by them.
July	2	• Updated guidelines and directions together with guidance notes as on June 30, 2007 were issued to Securitisation Companies and Reconstruction Companies.
	11	• Guidelines on Corporate Governance were issued to all NBFCs-D with deposit size of Rs.20 crore and above and all NBFCs-ND-SI vide circular dated May 8, 2007. In view of the suggestions received from various NBFCs / association of NBFCs, the instructions relating to connected lending were kept in abeyance till final evaluation of the suggestions and modifications.
September	4	• All deposits taking NBFCs were advised that a copy of FMR-1 where the amount involved in the fraud was Rs.25 lakh and above should also be submitted to the regional office of the Reserve Bank under whose jurisdiction the registered office of the NBFC falls.
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 alongwith 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 alongwith a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction/ disbursement of loans.
November	22	• The Ministry of Corporate Affairs regulates Mutual Benefit Financial Companies (Notified Nidhis) and Mutual Benefit Companies (Potential Nidhis) comprehensively since 2001. Accordingly reflecting this status, the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 as applicable to Mutual Benefit Financial Companies were updated and such companies were exempted from the provisions of the said directions. However, if the application of any MBC (Potential Nidhis) for grant of Nidhi status was rejected by the Government of India under the provisions of the Companies Act 1956, the provisions of the said Directions as applicable to NBFCs would apply to such companies.

Appendix: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2007		
November	26	• 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 in this regard, the Telecom Regulatory Authority of India (TRAI) has framed the Telecom Unsolicited Commercial Communications Regulations 2007 for curbing unsolicited commercial communications (UCC). NBFCs were advised to implement the instructions issued in this regard.
December	14	• RNBCs were advised that keeping in view the interest of the depositors it was decided that, where an RNBC failed to repay the deposits alongwith interest on maturity on the claim made by the depositor, it would be liable to pay interest in the manner prescribed in the directions.
2008		
January	15	• With prior approval of Central Government, the Reserve Bank notified mortgage guarantee companies as non-banking financial companies. Further, mortgage guarantee companies were exempted from the provisions of Section 45-IA (requirement of registration), Section 45-IB (maintenance of liquid assets) and Section 45-IC (creation and transfer to Reserve Fund a certain percentage of the net profit) of the RBI Act.
February	15	• Guidelines on registration and operations of mortgage guarantee companies and prudential norms and investment directions as applicable to them were issued.
March	5	• The securitisation companies/reconstruction companies registered with the Reserve Bank were advised to furnish a copy of audited balance sheets along with the directors report/auditors report every year within one month from the date of annual general body meeting, in which the audited results are adopted, starting with the balance sheet as on March 31, 2008. • Deposit taking NBFCs (including RNBCs) were advised that cases of 'negligence and cash shortage' and ‘irregularities in foreign exchange transactions’ were to be reported as fraud if the intention to cheat/ defraud was suspected/proved. However certain cases where fraudulent intention is not suspected/ proved at the time of detection, will be treated as fraud and reported. These include, cases of cash shortages more than Rs.10 thousand and cases of cash shortages more than Rs.5 thousand if detected by management/auditor/inspecting officer and not reported on the occurance by the persons handling cash.
April	22	• In order to enable the investors to make informed investment decisions in the security receipts (SRs), the disclosure in respect of underlying basket of assets required to be made by Securitisation Companies/ Reconstruction Companies in the offer documents as above, include disclosure in respect of the date of acquisition of the assets, valuation of the assets and the interest of SCs/RCs in such assets at the time of issue of SRs.
May	27	• Indirect access to the NDS-OM was extended to other segments of investors, such as, other non-deposit taking NBFCs, corporates and foreign institutional investors (FIIs). These entities were allowed to place orders on NDS-OM through direct NDS-OM members *viz*., banks and PDs using the CSGL route.
June	2	• A system of 'Multi Modal Settlements' (MMS) in Government securities market to facilitate the settlement of Government security transactions undertaken by the non-bank/non-PD NDS members. Under this arrangement, the funds leg of the transactions would be settled through the fund accounts maintained by these entities with select commercial banks chosen as 'designated settlement banks' (DSB).
	17	• In order to ensure a measured movement towards strengthening the financials of all deposit taking NBFCs by increasing their net owned fund (NoF) to a minimum of Rs.200 lakh, NBFCs-D having a minimum NoF of less than Rs.200 lakh were advised to freeze their deposits at the level currently held by them. Further AFCs having minimum investment grade credit rating and CRAR of 12 per cent are required to bring down their public deposits to a level that is 1.5 times their NoF while all other companies may bring down their public deposits upto the revised ceiling prescribed.
July	31	• NBFCs were advised that the balance in deferred tax liability (DTL) account would not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose as it was not an eligible item of capital. Further, deferred tax asset (DTA) would be treated as an intangible asset and should be deducted from Tier 1 capital.

Appendix: Chronology of Major Policy Developments *(Concluded)*

Announcement Date		Measures
2008		
August	1	• NBFCs-ND-SI were advised that they would be required to achieve 12 per cent CRAR by March 31, 2009 and 15 per cent CRAR by March 31, 2010. A few modifications were made in their disclosure and ALM reporting norms as well.
	14	• All deposit taking NBFCs were advised that they could report frauds perpetrated in their subsidiaries and affiliates/joint ventures. Such frauds should, however, not be included in the report on outstanding frauds and the quarterly progress reports. They were further advised that in respect of frauds in borrowal accounts additional information under FMR-1 as prescribed may be furnished.
September	15	• NBFCs (excluding RNBCs) were advised that the erstwhile equipment leasing/hire purchase NBFCs should, duly supported by Statutory Auditor's Certificate as on March 31, 2008, approach the regional office concerned for their appropriate reclassification latest by December 31, 2008. Those NBFCs which did not opt for the reclassification by the prescribed date would be deemed to be loan companies.
	24	• It was decided to call for basic information from non-deposit taking NBFCs with asset size of Rs.50 crore and above but less than Rs.100 crore at quarterly intervals. The first such returns for the quarter ended September 2008 could be submitted by first week of December 2008. The quarterly return as at end of each quarter could be filed online with the regional office of the Department of Non-Banking Supervision in whose jurisdiction the company was registered, within a period of one month from the close of the quarter.
October	29	• Taking into consideration, the need for enhanced funds for increasing business and meeting regulatory requirements, it was decided that NBFCs-ND-SI may augment their capital funds by issue of Perpetual Debt Instruments (PDI) subject to certain conditions.
	31	• As a temporary measure, it was decided to permit NBFCs-ND-SI to raise short-term foreign currency borrowings, under the approval route, subject to certain conditions pertaing to eligibility of borrower and lenders, end-use of funds, maturity *etc*.
		E) Primary Dealers (PDs)
2007		
April	20	• Comprehensive guidelines on derivatives were issued to PDs. The major requirements for undertaking any derivative transaction from the regulatory perspective were laid down. Guidelines also covered extant instructions relating to rupee interest rate derivatives.
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.
August	23	• All PDs were advised that the CCIL had developed a reporting platform for OTC Interest Rate Derivatives, which would capture the transactions in OTC interest rate derivatives (IRS/FRA). All PDs were required to report all their IRS/FRA trades on the reporting platform within 30 minutes from the deal time. Client trades were not to be reported. PDs should also ensure that details of all the outstanding IRS/FRA contracts (excluding the client trades) were migrated to the reporting platform by September 15, 2007.
November	14	• All PDs in Government Securities market and scheduled commercial banks undertaking PD business departmentally were advised that the scheme of underwriting commitment and liquidity support has been revised. It was accordingly decided that the minimum bidding requirement for each PD in the additional competitive underwriting (ACU) auction would henceforth be equal to the amount of minimum underwriting commitment (MUC) announced by the Reserve Bank.
2008		
January	1	• The cover leg of when-issued (WI) transactions was permitted to be undertaken even outside the NDS-OM platform, *i.e.*, through telephone market.
October	20	• The fixed repo rate under the Liquidity Adjustment Facility (LAF) was reduced by 100 basis points from 9.0 per cent to 8.0 per cent with immediate effect. Accordingly, the special term repo and the repo under the second LAF would be conducted at the revised rate of 8.0 per cent with effect from October 20, 2008.

Appendix Table III.1(A) : Consolidated Balance Sheet of Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

Items	Public Sector Banks*				Nationalised Banks				State Bank Group			
	2007		2008		2007		2008		2007		2008	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent 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	12,416.31	0.51	13,064.66	0.43	10,656.16	0.70	10,773.93	0.57	1,035.80	0.13	1,565.97	0.15
2. Reserve and Surplus	1,23,214.08	5.05	1,61,787.74	5.35	73,733.01	4.82	93,550.59	4.98	41,905.56	5.20	60,139.95	5.95
3. Deposits	19,94,199.57	81.72	24,53,867.68	81.19	13,17,369.93	86.07	16,06,995.05	85.46	6,33,475.60	78.61	7,73,874.65	76.53
3.1 Demand Deposits	2,35,401.27	9.65	2,83,321.97	9.37	1,28,777.70	8.41	1,55,858.57	8.29	99,634.96	12.36	1,20,194.95	11.89
3.2 Savings Bank Deposits	5,18,471.05	21.25	5,95,733.73	19.71	3,42,354.26	22.37	3,86,277.18	20.54	1,72,082.37	21.36	2,04,635.03	20.24
3.3 Term Deposits	12,40,327.25	50.83	15,74,811.98	52.11	8,46,237.97	55.29	10,64,859.30	56.63	3,61,758.27	44.89	4,49,044.66	44.41
4. Borrowings	1,21,772.60	4.99	1,51,146.76	5.00	31,045.30	2.03	47,943.36	2.55	48,322.92	6.00	64,590.85	6.39
5. Other Liabilities and Provisions	1,88,563.37	7.73	2,42,370.37	8.02	97,727.05	6.39	1,21,111.14	6.44	81,055.27	10.06	1,10,997.34	10.98
Total Liabilities	**24,40,165.92**	**100.00**	**30,22,237.21**	**100.00**	**15,30,531.44**	**100.00**	**18,80,374.07**	**100.00**	**8,05,795.15**	**100.00**	**10,11,168.75**	**100.00**
Assets												
1. Cash and Balances with RBI	1,42,211.48	5.83	2,29,679.09	7.60	91,977.73	6.01	1,48,270.51	7.89	44,827.28	5.56	74,713.74	7.39
2. Balances with Banks and Money at Call and Short Notice	94,396.77	3.87	64,439.68	2.13	63,834.50	4.17	43,306.82	2.30	29,057.65	3.61	19,068.92	1.89
3. Investments	6,64,855.89	27.25	7,99,028.64	26.44	4,27,305.90	27.92	5,02,402.45	26.72	2,11,874.68	26.29	2,63,823.26	26.09
3.1 In Government Securities (a+b)	5,38,374.89	22.06	6,48,847.47	21.47	3,44,728.68	22.52	4,16,780.28	22.16	1,77,454.82	22.02	2,08,763.78	20.65
a. In India	5,34,953.25	21.92	6,43,429.70	21.29	3,41,874.76	22.34	4,11,756.74	21.90	1,76,887.11	21.95	2,08,369.55	20.61
b. Outside India	3,421.64	0.14	5,417.77	0.18	2,853.93	0.19	5,023.54	0.27	567.72	0.07	394.23	0.04
3.2 In Other Approved Securities	12,338.56	0.51	10,274.09	0.34	8,228.05	0.54	7,003.36	0.37	4,093.27	0.51	3,260.11	0.32
3.3 In Non-Approved Securities	1,14,142.43	4.68	1,39,907.08	4.63	74,349.17	4.86	78,618.81	4.18	30,326.59	3.76	51,799.37	5.12
4. Loans and Advances	14,40,146.49	59.02	17,97,504.19	59.48	8,95,405.99	58.50	11,21,569.13	59.65	4,82,269.67	59.85	5,93,722.37	58.72
4.1 Bills Purchased and Discounted	92,695.50	3.80	1,07,782.87	3.57	53,314.39	3.48	60,859.81	3.24	37,086.93	4.60	44,280.01	4.38
4.2 Cash Credits, Overdrafts, *etc.*	5,56,956.43	22.82	6,92,473.00	22.91	3,70,782.69	24.23	4,62,470.32	24.59	1,80,696.10	22.42	2,21,770.59	21.93
4.3 Term Loans	7,90,494.56	32.40	9,97,248.31	33.00	4,71,308.92	30.79	5,98,239.00	31.81	2,64,486.65	32.82	3,27,671.77	32.41
5. Fixed Assets	20,195.16	0.83	28,796.89	0.95	13,455.22	0.88	21,440.05	1.14	3,961.58	0.49	4,590.85	0.45
6. Other Assets	78,360.13	3.21	1,02,788.73	3.40	38,552.10	2.52	43,385.10	2.31	33,804.30	4.20	55,249.60	5.46
Total Assets	**24,40,165.92**	**100.00**	**30,22,237.21**	**100.00**	**15,30,531.44**	**100.00**	**18,80,374.07**	**100.00**	**8,05,795.15**	**100.00**	**10,11,168.75**	**100.00**

* Includes IDBI Bank Ltd.

Appendix Table III.1 (B): Consolidated Balance Sheet of Private Sector Banks

(As at end-March)

(Amount in Rs. crore)

Items	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	2007		2008		2007		2008		2007		2008	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent 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	4,143.73	0.56	4,613.25	0.49	1,062.89	0.66	1,082.53	0.56	3,080.84	0.53	3,530.72	0.47
2. Reserve and Surplus	46,328.98	6.22	86,760.93	9.23	9,673.54	6.02	14,232.25	7.32	36,655.44	6.27	72,528.68	9.73
3. Deposits	5,51,987.06	74.05	6,75,073.39	71.80	1,38,249.13	86.10	1,65,629.17	85.13	4,13,737.94	70.74	5,09,444.22	68.33
3.1. Demand Deposits	73,340.02	9.84	99,533.73	10.59	14,033.46	8.74	17,313.40	8.90	59,306.56	10.14	82,220.33	11.03
3.2. Savings Bank Deposits	91,341.76	12.25	1,22,064.41	12.98	25,701.68	16.01	29,869.30	15.35	65,640.08	11.22	92,195.11	12.37
3.3. Term Deposits	3,87,305.29	51.96	4,53,475.25	48.23	98,513.99	61.36	1,18,446.47	60.88	2,88,791.30	49.38	3,35,028.78	44.93
4. Borrowings	70,131.42	9.41	87,841.26	9.34	3,219.52	2.01	3,477.19	1.79	66,911.89	11.44	84,364.08	11.32
5. Other Liabilities and Provisions	72,812.60	9.77	85,861.12	9.13	8,356.84	5.20	10,134.32	5.21	64,455.76	11.02	75,726.80	10.16
Total Liabilities	**7,45,403.79**	**100.00**	**9,40,149.95**	**100.00**	**1,60,561.92**	**100.00**	**1,94,555.46**	**100.00**	**5,84,841.87**	**100.00**	**7,45,594.49**	**100.00**
Assets												
1. Cash and Balances with RBI	40,909.47	5.49	71,307.14	7.58	8,895.69	5.54	15,512.49	7.97	32,013.78	5.47	55,794.65	7.48
2. Balances with Banks and Money at Call and Short Notice	37,293.48	5.00	25,951.74	2.76	9,074.66	5.65	7,242.53	3.72	28,218.82	4.83	18,709.20	2.51
3. Investments	2,14,654.74	28.80	2,78,215.25	29.59	43,646.60	27.18	53,717.10	27.61	1,71,008.14	29.24	2,24,498.16	30.11
3.1 In Government Securities (a+b)	1,59,851.48	21.44	1,94,025.06	20.64	35,105.33	21.86	42,132.62	21.66	1,24,746.15	21.33	1,51,892.44	20.37
a. In India	1,59,549.45	21.40	1,93,884.80	20.62	35,105.33	21.86	42,132.62	21.66	1,24,444.12	21.28	1,51,752.19	20.35
b. Outside India	302.03	0.04	140.25	0.01	-	-	-	-	302.03	0.05	140.25	0.02
3.2 In Other Approved Securities	340.51	0.05	280.55	0.03	308.59	0.19	244.81	0.13	31.92	0.01	35.74	-
3.3 In Non-Approved Securities	54,462.75	7.31	83,909.64	8.93	8,232.68	5.13	11,339.67	5.83	46,230.07	7.90	72,569.97	9.73
4. Loans and Advances	4,14,751.28	55.64	5,18,402.42	55.14	92,886.76	57.85	1,11,669.83	57.40	3,21,864.53	55.03	4,06,732.60	54.55
4.1 Bills Purchased and Discounted	20,053.36	2.69	27,441.47	2.92	5,132.64	3.20	7,028.19	3.61	14,920.72	2.55	20,413.28	2.74
4.2 Cash Credits, Overdrafts, *etc.*	1,03,082.07	13.83	1,30,607.15	13.89	41,391.88	25.78	49,781.32	25.59	61,690.19	10.55	80,825.83	10.84
4.3 Term Loans	2,91,615.86	39.12	3,60,353.80	38.33	46,362.24	28.87	54,860.32	28.20	2,45,253.62	41.94	3,05,493.48	40.97
5. Fixed Assets	8,166.82	1.10	9,629.86	1.02	1,603.25	1.00	2,023.16	1.04	6,563.57	1.12	7,606.70	1.02
6. Other Assets	29,628.00	3.97	36,643.53	3.90	4,454.96	2.77	4,390.35	2.26	25,173.04	4.30	32,253.18	4.33
Total Assets	**7,45,403.79**	**100.00**	**9,40,149.95**	**100.00**	**1,60,561.92**	**100.00**	**1,94,555.46**	**100.00**	**5,84,841.87**	**100.00**	**7,45,594.49**	**100.00**

Appendix Table III. I (C) : Consolidated Balance Sheet of Foreign Banks in India

(As at end-March)

(Amount in Rs. crore)

Item	2007		2008	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	12,999.36	4.74	22,222.70	6.10
2. Reserve and Surplus	20,076.09	7.32	27,109.18	7.45
3. Deposits	1,50,749.89	54.94	1,91,113.78	52.49
3.1. Demand Deposits	46,154.61	16.82	59,200.04	16.26
3.2. Savings Bank Deposits	21,839.14	7.96	26,253.54	7.21
3.3. Term Deposits	82,756.13	30.16	1,05,660.20	29.02
4. Borrowings	51,106.06	18.63	58,361.92	16.03
5. Other Liabilities and Provisions	39,460.73	14.38	65,291.62	17.93
Total Liabilities	**2,74,392.14**	**100.00**	**3,64,099.21**	**100.00**
Assets				
1. Cash and Balances with RBI	12,144.71	4.43	22,011.26	6.05
2. Balances with Banks and Money at Call and Short Notice	26,612.28	9.70	19,934.97	5.48
3. Investments	71,471.30	26.05	98,910.19	27.17
3.1 In Government Securities(a+b)	56,220.11	20.49	82,926.65	22.78
a. In India	56,220.11	20.49	82,926.65	22.78
b. Outside India	-	-	-	-
3.2 In Other Approved Securities	84.99	0.03	33.22	0.01
3.3 In Non-Approved Securities	15,166.20	5.53	15,950.32	4.38
4. Loans and Advances	1,26,338.57	46.04	1,61,132.63	44.26
4.1 Bills Purchased and Discounted	11,543.78	4.21	15,759.64	4.33
4.2 Cash Credits, Overdrafts,*etc.*	49,764.54	18.14	66,583.83	18.29
4.3 Term Loans	65,030.26	23.70	78,789.16	21.64
5. Fixed Assets	3,000.85	1.09	3,968.69	1.09
6. Other Assets	34,824.43	12.69	58,141.47	15.97
Total Assets	**2,74,392.14**	**100.00**	**3,64,099.21**	**100.00**

- : Nil/Negligible.

Source : Balance Sheets of respective banks.

Appendix Table III.2: Issue of Certificates of Deposit by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Outstanding (Rs. crore)	Range of Discount Rate (Per cent) @	Fortnight ended	Total Outstanding (Rs. crore)	Range of Discount Rate (Per cent) @
1	2	3	4	5	6
2007			**2008**		
January 5	68,928	8.26-9.25	January 4	1,27,154	6.87-9.82
January 19	70,149	8.00-9.55	January 18	1,29,123	7.90-9.21
February 2	70,727	8.41-9.80	February 1	1,32,395	7.90-9.85
February 16	72,795	9.40-10.83	February 14	1,35,097	6.83-9.75
March 2	77,971	9.90-11.30	February 29	1,39,160	9.22-10.27
March 16	92,468	10.30-11.25	March 14	1,43,714	7.00-10.48
March 30	93,272	10.23-11.90	March 28	1,47,792	9.00-10.75
April 13	93,808	9.50-11.50	April 11	1,49,986	8.00-9.72
April 27	95,980	9.40-11.50	April 25	1,50,865	7.70-9.96
May 11	97,292	10.05-11.50	May 9	1,53,410	7.75-10.20
May 25	99,715	7.00-10.82	May 23	1,56,780	8.00-10.20
June 8	99,287	6.13-10.95	June 6	1,59,696	8.60-10.20
June 22	98,337	7.00-10.20	June 20	1,63,143	8.62-9.79
July 6	1,02,992	6.25-9.69	July 4	1,64,557	8.30-10.60
July 20	1,05,317	5.50-10.82	July 18	1,64,892	8.92-10.95
August 3	1,03,750	6.05-10.75	August 1	1,63,546	8.92-11.05
August 17	1,06,350	6.87-8.91	August 15	1,66,996	8.92.11.11
August 31	1,09,224	6.87-10.75	August 29	1,71,966	10.00-11.57
September 14	1,13,892	6.87-10.00	September 12	1,78,280	8.92-12.00
September 28	1,18,481	6.87-10.00	September 26	1,75,522	8.92-12.35
October 12	1,22,142	6.87-10.00			
October 26	1,24,232	6.85-10.00			
November 9	1,25,653	6.87-9.00			
November 23	1,27,143	6.87-9.03			
December 7	1,25,327	8.05-9.25			
December 21	1,23,466	8.05-10.00			

@ Effective discount rate range per annum.

Appendix Table III.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Sector	Outstanding as on March 31, 2006	Outstanding as on March 31, 2007	Outstanding as on March 28, 2008	Variation 2006-07	Variation 2007-08
	1	2	3	4	5	6
I.	**Gross Bank Credit (II + III)**	**14,45,531**	**18,48,166**	**22,47,437**	**4,02,635**	**3,99,271**
II.	**Food Credit**	**40,691**	**46,927**	**44,399**	**6,236**	**-2,528**
III.	**Non-Food Gross Bank Credit (1 to 4)**	**14,04,840**	**18,01,239**	**22,03,038**	**3,96,399**	**4,01,799**
		(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
	1. Agriculture and Allied Activities	**1,73,972**	**2,30,398**	**2,73,658**	**56,426**	**43,260**
		(12.4)	**(12.8)**	**(12.4)**	**(14.2)**	**(10.8)**
	2. Industry (Small, Medium and Large)	**5,50,444**	**6,97,334**	**8,71,900**	**1,46,890**	**1,74,566**
		(39.2)	**(38.7)**	**(39.6)**	**(37.1)**	**(43.4)**
	3. Services	**3,20,177**	**4,16,773**	**5,46,516**	**96,596**	**1,29,743**
		(22.8)	**(23.1)**	**(24.8)**	**(24.4)**	**(32.3)**
	3.1 Transport Operators	17,341	26,519	37,447	9,178	10,928
		(1.2)	(1.5)	(1.7)	(2.3)	(2.7)
	3.2 Computer Software	3,637	5,156	8,163	1,519	3,007
		(0.3)	(0.3)	(0.4)	(0.4)	(0.7)
	3.3 Tourism and Hotels and Restaurants	7,734	9,759	12,165	2,025	2,406
		(0.6)	(0.5)	(0.6)	(0.5)	(0.6)
	3.4 Shipping	4,358	6,860	7,509	2,502	649
		(0.3)	(0.4)	(0.3)	(0.6)	(0.2)
	3.5 Professional and Other Services	15,283	23,926	29,756	8,643	5,830
		(1.1)	(1.3)	(1.4)	(2.2)	(1.5)
	3.6 Trade	83,535	1,06,612	1,22,297	23,077	15,685
		(5.9)	(5.9)	(5.6)	(5.8)	(3.9)
	3.6.1 Wholesale Trade	39,691	50,113	54,585	10,422	4,472
	(other than food procurement)	(2.8)	(2.8)	(2.5)	(2.6)	(1.1)
	3.6.2 Retail Trade	43,844	56,499	67,712	12,655	11,213
		(3.1)	(3.1)	(3.1)	(3.2)	(2.8)
	3.7 Real Estate Loans	26,723	45,206	62,276	18,483	17,070
		(1.9)	(2.5)	(2.8)	(4.7)	(4.2)
	3.8 Non-Banking Financial Companies	34,305	49,027	75,301	14,722	26,274
		(2.4)	(2.7)	(3.4)	(3.7)	(6.5)
	3.9 All Others	1,27,261	1,43,708	1,91,602	16,447	47,894
		(9.1)	(8.0)	(8.7)	(4.1)	(11.9)
	4. Personal Loans	**3,60,248**	**4,56,734**	**5,05,390**	**96,486**	**48,656**
		(25.6)	**(25.4)**	**(22.9)**	**(24.3)**	**(12.1)**
	4.1 Consumer Durables	7,106	9,189	8,663	2,083	-526
		(0.5)	(0.5)	(0.4)	(0.5)	-(0.1)
	4.2 Housing	1,85,203	2,30,994	2,55,653	45,791	24,659
		(13.2)	(12.8)	(11.6)	(11.6)	(6.1)
	4.3 Advances against Fixed Deposits	34,417	40,239	45,031	5,822	4,792
	(including FCNR (B), NRNR Deposits, *etc.*)	(2.4)	(2.2)	(2.0)	(1.5)	(1.2)
	4.4 Advances to individuals against share, bonds, *etc.*	5,227	4,854	4,865	-373	11
		(0.4)	(0.3)	(0.2)	-(0.1)	(0.0)
	4.5 Credit Card Outstandings	9,086	13,416	19,259	4,330	5,843
		(0.6)	(0.7)	(0.9)	(1.1)	(1.5)
	4.6 Education	9,962	15,209	20,547	5,247	5,338
		(0.7)	(0.8)	(0.9)	(1.3)	(1.3)
	4.7 Other Personal Loans	1,09,247	1,42,833	1,56,723	33,586	13,890
		(7.8)	(7.9)	(7.1)	(8.5)	(3.5)
	Memo:					
	5. Priority Sector	**5,10,738**	**6,34,142**	**7,38,686**	**1,23,404**	1,04,544
		(36.4)	**(35.2)**	**(33.5)**	**(31.1)**	**(26.0)**
	5.1 Agriculture & Allied Activities	1,73,972	2,30,398	2,73,658	56,426	43,260
		(12.4)	(12.8)	(12.4)	(14.2)	(10.8)
	5.2 SSI	91,212	1,17,880	1,55,804	26,668	37,924
		(6.5)	(6.5)	(7.1)	(6.7)	(9.4)
	5.3 Housing	1,33,200	1,60,345	1,82,646	27,145	22,301
		(9.5)	(8.9)	(8.3)	(6.8)	(5.6)

Note : 1 Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks. Data include the figures of Bharat Overseas Bank, which was merged with Indian Overseas Bank on March 31, 2007.

2 Grossbank credit data include bills rediscounted with Reserve Bank, Exim Bank, other financial institutions and inter-bank participations.

3 Figures in parentheses represent 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 2005	March 2006	March 2007	March 2008@	June 1969	March 2005	March 2006	March 2007	March 2008@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	202	238	251	283	162	1,09,917	1,55,220	2,02,614	2,48,685
						(5.4)	(15.3)	(15.3)	(15.4)	(17.4)
i) Direct	1.6	195	221	237	279	40	83,038	1,12,126	1,44,372	1,76,135
						(1.3)	(11.6)	(11.0)	(11.0)	(12.9)
ii) Indirect	0.1	7	17	14	4	122	26,879	43,093	58,242	72,550
						(4.0)	(3.7)	(4.2)	(4.4)	(5.3)
II. Small-scale industries	0.5	14	17	17	-	257	68,000	82,434	1,02,550	-
						(8.5)	(9.5)	(8.1)	(7.8)	-
II (A) Small Enterprise#	-	-	-	-	39	-	-	-	-	1,48,651
								(10.9)		
III. Other priority sector advances	0.4	89	92	111	-	22	1,25,114	1,63,756	2,06,661	-
						(0.7)	(17.4)	(16.1)	(15.7)	-
IV. Retail Trade*	-	-	-	-	35	-	-	-	-	40,740
								(3.0)		
V. Micro - Credit*	-	-	-	-	8	-	-	-	-	3,136
								(0.2)		
VI. Education*	-	-	-	-	13	-	-	-	-	19,844
								(1.5)		
VII. Housing*	-	-	-	-	34	-	-	-	-	1,47,626
								(10.8)		
VIII. Total priority sector advances *	2.6	314	358	389	412	441	3,07,046	4,09,748	5,21,376	6,08,963
						(14.6)	(42.8)	(40.3)	(39.7)	(44.6)
IX. Net Bank Credit	-	-	-	-	-	3,016	7,17,419	10,17,656	13,13,840	-
IX (A) Adjusted Net Bank Credit	-	-	-	-	-	-	-	-	-	13,64,268

@ : Provisional

: The new guidelines on priority sector advances take into account the revised definition of small and micro enterprises as per the Micro,Small and Medium Enterprises Development Act ,2006.

* : In terms of revised guidelines on lending to priority sector, broad categories of advances under priority sector include agriculture, small enterprises sector, retail trade, microcredit, education and housing.

Note : Figures in parantheses represent percetages to net bank credit. Since 2007-08, these figures represent percentage to adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher.

Source : Data furnished by respective banks.

Appendix Table III.5: Advances of Public Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2008)

(Amount in Rs. crore)

Sr. No.	Name of theBank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		Total Priority Sector Advances	
		Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher	Amount	Per cent to ANBC or credit equivalent of OBE, whichever is higher
	1	2	3	4	5	6	7	8	9	10	11
	Public Sector Banks	**1,76,135.06**	**12.9**	**72,550.20**	**5.3**	**2,48,685.26**	**17.4**	**1,26,934.80**	**9.3**	**6,08,962.89**	**44.6**
	Nationalised Banks	**1,12,058.76**	**12.3**	**54,068.99**	**5.9**	**1,66,127.75**	**18.2**	**83,725.52**	**9.2**	**4,09,391.43**	**27.2**
1.	Allahabad Bank	6,571.30	15.9	2,574.37	6.2	9,145.67	20.4	4,455.49	10.8	18,774.40	45.5
2.	Andhra Bank	5,683.93	20.1	472.49	1.7	6,156.42	21.8	3,317.00	11.8	13,297.56	47.1
3.	Bank of Baroda	8,271.01	12.3	4,997.92	7.4	13,268.93	16.8	6,030.12	9.0	31,681.26	47.1
4.	Bank of India	9,299.00	14.0	3,829.00	5.8	13,128.00	18.5	8,458.00	12.7	32,826.56	49.3
5.	Bank of Maharashtra	2,547.39	10.9	2,293.62	9.8	4,841.01	15.4	1,683.00	7.2	11,146.61	47.5
6.	Canara Bank	12,916.00	13.2	5,080.00	5.2	17,996.00	17.7	7,528.00	7.7	43,202.00	44.2
7.	Central Bank of India	6,877.43	13.1	4,226.63	8.1	11,104.06	17.6	8,636.12	16.5	25,230.06	48.1
8.	Corporation Bank	1,638.35	5.5	1,891.44	6.3	3,529.79	10.0	1,680.62	5.6	13,070.83	43.6
9.	Dena Bank	1,905.14	10.2	859.50	4.6	2,764.64	14.7	1,171.97	6.3	8,095.75	43.3
10.	Indian Bank	5,164.42	18.3	1,050.45	3.7	6,214.87	22.1	3,677.90	13.1	14,965.14	53.1
11.	Indian Overseas Bank	6,391.35	14.4	2,297.55	5.2	8,688.90	18.9	5,154.62	11.6	20,303.13	45.9
12.	Oriental Bank of Commerce	3,438.03	7.8	3,153.97	7.2	6,592.00	12.3	2,295.51	5.2	18,463.79	41.8
13.	Punjab National Bank	14,212.67	14.4	5,733.53	5.8	19,946.40	18.9	11,403.49	11.6	43,412.23	44.1
14.	Punjab & Sind Bank	1,594.47	13.4	843.75	7.1	2,438.22	17.9	1,056.10	8.8	6,045.00	50.6
15.	Syndicate Bank	7,341.88	15.7	1,989.93	4.3	9,331.81	19.9	4,847.02	10.3	21,841.49	46.6
16.	Union Bank of India	7,727.15	12.7	3,665.72	6.0	11,392.87	17.2	4,530.83	7.4	29,803.12	48.8
17.	United Bank of India	1,964.00	8.7	1,208.00	5.3	3,172.00	13.2	2,210.00	9.8	10,041.00	44.4
18.	UCO Bank	5,083.00	11.7	2,865.00	6.6	7,948.00	16.2	3,838.00	8.8	20,452.00	47.0
19.	Vijaya Bank	2,075.04	8.4	1,867.12	7.6	3,942.16	12.9	1,527.26	6.2	11,506.31	46.3
20.	IDBI Bank Ltd.	1,357.00	2.2	3,169.00	5.0	4,526.00	6.7	217.57	0.4	15,233.19	24.2
	State Bank Group	**64,076.30**	**14.2**	**18,481.21**	**4.1**	**82,557.51**	**18.3**	**43,209.28**	**9.6**	**1,99,571.46**	**44.4**
21.	State Bank of India	42,755.00	14.1	13,677.00	4.5	56,432.00	18.6	28,467.00	9.4	1,33,202.00	43.8
22.	State Bank of Bikaner & Jaipur	3,669.70	17.7	919.88	4.4	4,589.58	22.1	2,387.88	11.5	10,372.76	49.9
23.	State Bank of Hyderabad	4,347.77	15.3	799.94	2.8	5,147.71	18.1	3,409.92	12.0	12,727.31	44.8
24.	State Bank of Indore	2,264.48	14.6	753.99	4.9	3,018.47	19.1	1,879.12	12.1	7,753.49	50.1
25.	State Bank of Mysore	2,427.67	15.1	483.69	3.0	2,911.36	18.1	1,772.41	11.0	6,959.93	43.4
26.	State Bank of Patiala	3,620.00	12.5	953.71	3.3	4,573.71	15.7	2,916.95	10.0	11,656.30	40.1
27.	State Bank of Saurashtra	1,957.80	17.4	236.96	2.1	2,194.76	19.5	665.00	5.9	4,874.76	43.4
28.	State Bank of Travancore	3,033.88	12.1	656.04	2.6	3,689.92	14.7	1,711.00	6.8	12,024.91	48.0

Notes : 1. Data are provisional.
2. ANBC - Adjusted Net Bank Credit.
3. Priority sector lending target/sub-targets are linked to adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.
4. Indirect agriculture is reckoned up to 4.5 per cent of ANBC for calculation of percentage for 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 2008)

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 Bank 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 Bank Ltd.

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.6: Advances to the Priority Sectors by Private Sector Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2006		March 2007		March 2008@	
	Amount	Percentage of ANBC	Amount	Percentage of ANBC	Amount	Percentage of ANBC
1	2	3	4	5	6	7
Priority Sector Advances #	1,06,586	42.8	1,44,549	42.9	1,63,223	47.5
of which :						
I. Agriculture	36,712	13.6	52,034	12.7	57,702	15.4
II. Small-scale industries	10,421	4.2	13,136	3.9	-	-
III. Small Enterprises *	-	-	-	-	46,069	13.4
IV. Other priority sectors	57,777	23.2	76,919	22.9	-	-
V. Retail Trade	-	-	-	-	8,065	2.4
VI. Micro Credit	-	-	-	-	3,883	1.2
VII. Education	-	-	-	-	509	0.2
VIII. Housing	-	-	-	-	46,990	14.0

@ : Data are provisional.

: In terms of revised guidelines on lending to priority sector, broad categories of advances under priority sector include agriculture,small enterprises sector, retail trade, microcredit, education and housing.

* : The new guidelines on priority sector advances take into account the revised definition of small and micro enterprises as per the Micro,Small and Medium Enterprises Development Act, 2006.

Note : 1. Indirect agriculture is reckoned upto 4.5 per cent of ANBC for calculation of percentage for agriculture.

2. Priority sector lending target/sub-targets are linked to adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

Source : Data furnished by banks.

Appendix Table III.7: Advances of Private Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2008)

(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 ANBC	Amount	Per cent to ANBC	Amount	Per cent to ANBC	Amount	Per cent to ANBC	Amount	Per cent to ANBC
	1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks	**37,349.49**	**10.88**	**20,352.59**	**5.93**	**57,702.08**	**15.38**	**7,227.76**	**2.10**	**1,63,222.59**	**47.53**
1.	Axis Bank Ltd.	3,413.67	9.91	1,550.09	4.50	4,963.76	14.41	700.84	2.03	16,825.56	48.85
2.	Bank of Rajasthan Ltd.	116.28	2.00	1,053.29	18.12	1,169.57	6.50	82.45	1.42	2,324.34	39.99
3.	Catholic Syrian Bank Ltd.	451.72	15.67	324.43	11.25	776.15	20.17	46.99	1.63	1,602.38	55.59
4.	Centurion Bank of Punjab Ltd.	1,566.26	12.58	927.35	7.45	2,493.61	17.08	29.84	0.24	5,727.17	45.99
5.	City Union Bank Ltd.	219.15	6.48	101.57	3.01	320.72	9.49	61.92	1.83	1,513.67	44.79
6.	Development Credit Bank Ltd.	398.08	14.42	326.05	11.81	724.13	18.92	104.55	3.79	1,611.01	58.35
7.	Dhanalakshmi Bank Ltd.	277.50	14.58	190.62	10.02	468.12	19.08	148.13	7.78	975.08	51.24
8.	Federal Bank Ltd.	1,831.37	12.29	566.57	3.80	2,397.94	16.09	1,349.23	9.06	9,194.42	61.71
9.	Yes Bank Ltd.	993.43	15.79	359.02	5.71	1,352.45	20.29	-	-	2,636.89	41.92
10.	HDFC Bank Ltd.	4,853.06	10.24	3,169.16	6.69	8,022.22	14.74	1,088.00	2.30	19,510.21	41.17
11.	ICICI Bank Ltd.	15,949.60	12.51	8,909.83	6.99	24,859.43	17.01	921.46	0.72	64,150.30	50.33
12.	IndusInd Bank Ltd.	940.90	8.49	117.83	1.06	1,058.73	9.55	34.68	0.31	4,996.67	45.08
13.	ING Vysya Bank Ltd.	513.28	4.30	470.94	3.95	984.22	8.25	315.71	2.65	5,022.62	42.13
14.	Jammu & Kashmir Bank Ltd.	490.89	3.30	333.59	2.24	824.48	5.53	898.69	6.03	5,240.91	35.18
15.	Karnataka Bank Ltd.	429.97	4.38	444.07	4.53	874.04	8.88	125.60	1.26	4,061.81	41.41
16.	Karur Vysya Bank Ltd.	953.20	13.25	306.72	4.26	1,259.92	17.52	342.52	4.76	3,189.53	44.34
17.	Kotak Mahindra Bank Ltd.	1,349.59	12.26	565.27	5.14	1,914.86	16.76	-	-	6,025.32	54.76
18.	Lakshmi Vilas Bank Ltd.	580.38	16.06	57.13	1.58	637.51	17.65	250.02	6.92	1,488.19	41.19
19.	Nainital Bank Ltd.	134.84	16.96	24.76	3.11	159.60	20.07	65.20	8.20	530.60	66.74
20.	Ratnakar Bank Ltd.	64.75	11.59	43.57	7.80	108.32	16.09	13.44	2.41	280.68	50.26
21.	SBI Commercial & International Bank Ltd.	3.00	0.88	45.70	13.44	48.70	5.38	-	-	154.31	45.38
22.	South Indian Bank Ltd.	1,219.18	14.67	269.87	3.25	1,489.05	17.92	373.14	4.49	3,816.72	45.94
23.	Tamilnad Mercantile Bank Ltd.	599.39	14.29	195.16	4.65	794.55	18.79	275.35	6.56	2,344.20	55.88

Notes : 1) Data are provisional.

2) Priority sector lending target/sub-targets are linked to adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

3) Indirect agriculture is reckoned up to 4.5 per cent of ANBC or credit equivalent amount of off-balance sheet exposures,whichever is higher, for computation of achievement in lending to agriculture sector.

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 2008)

Sr. No.	Name of the Bank	Overall	Agriculture	Weaker Sections
	1	2	3	4
	Private Sector Banks	√		
1.	Axis Bank Ltd.	√		
2.	Bank of Rajasthan Ltd.			
3.	Catholic Syrian Bank Ltd.	√	√	
4.	Centurion Bank of Punjab Ltd.	√		
5.	City Union Bank Ltd.	√		
6.	Development Credit Bank Ltd.	√	√	
7.	Dhanalakshmi Bank Ltd.	√	√	
8.	Federal Bank Ltd.	√		
9.	Yes Bank Ltd.	√	√	
10.	HDFC Bank Ltd.	√		
11.	ICICI Bank Ltd.	√		
12.	IndusInd Bank Ltd.	√		
13.	ING Vysya Bank Ltd.	√		
14.	Jammu & Kashmir Bank Ltd.			
15.	Karnataka Bank Ltd.	√		
16.	Karur Vysya Bank Ltd.	√		
17.	Kotak Mahindra Bank Ltd.	√		
18.	Lakshmi Vilas Bank Ltd.	√		
19.	Nainital Bank Ltd.	√	√	
20.	Ratnakar Bank Ltd.	√		
21.	SBI Commercial & International Bank Ltd.	√		
22.	South Indian Bank Ltd.	√		
23.	Tamilnad Mercantile Bank Ltd.	√	√	

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.8 : Advances to the Priority Sector by Foreign Banks

(As on the last reporting Friday)

(Amount in Rs.crore)

Sector	March-2006		March-2007		March-2008 @	
	Amount	Percentage of ANBC	Amount	Percentage of ANBC	Amount	Percentage of ANBC
1	2	3	4	5	6	7
Priority Sector Advances	30,439	34.4	37,831	33.4	50,301	39.5
of which :						
I. Export Credit	17,326	19.6	20,711	18.3	29,007	22.8
II. Small-Scale Industries*	8,430	9.5	11,637	10.3	15,489	12.2

@ : Provisional.

* : In terms of revised guidelines on lending to priority sector , broad category of advances under priority sector sector include agriculture, micro and small enterprises, retail trade, micro-credit, education and housing.

Note : Priority sector lending target/sub-targets are linked to adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

Source : Data furnished by banks.

Appendix Table III.8A: Advances of Foreign Banks to Micro and Small Enterprises (MSE) and Export sectors

(As on the last reporting Friday of March 2008)

(Amount in Rs.crore)

Sr. No.	Name of the Bank	MSE Advances		Export Credit		Total Priority Sector advances	
		Amount	Per cent to ANBC	Amount	Per cent to ANBC	Amount	Per cent to ANBC
	1	2	3	4	5	6	7
	Foreign Banks	**15,489.12**	**12.2**	**29,006.81**	**22.8**	**50,300.75**	**39.5**
1.	ABN Amro Bank	2,422.61	13.1	5,917.07	32.0	7,645.07	41.4
2.	Abu Dhabi Commercial Bank	7.54	3.1	7.02	2.9	28.69	11.9
3.	Antwerp Diamond Bank	95.58	20.2	472.45	99.8	472.45	99.8
4.	AB Bank	4.85	18.9	2.69	10.5	7.66	29.8
5.	Bank International Indonesia	-	-	-	-	-	-
6.	Bank of America	295.00	10.1	883.00	30.3	1,178.00	40.4
7.	Bank of Bahrain and Kuwait	29.38	17.2	17.69	10.2	56.09	32.8
8.	Bank of Ceylon	11.82	20.2	22.15	37.9	33.98	58.1
9.	Bank of Nova Scotia	304.16	10.2	1,461.94	49.2	1,934.95	65.2
10.	Bank of Tokyo-Mitsubishi	95.74	6.0	432.61	27.2	603.35	38.0
11.	Barclays Bank PLC	367.11	63.5	437.46	75.7	1,225.12	211.9
12.	BNP Paribas	454.21	19.1	374.61	15.7	851.01	35.8
13.	China Trust Commercial Bank	15.44	13.0	18.92	16.0	40.36	34.0
14.	Calyon Bank	245.00	15.3	307.20	19.2	602.20	37.7
15.	Citi Bank	3,483.39	10.6	6,732.44	20.5	11,770.60	35.8
16.	Deutsche Bank	587.61	11.9	1,616.98	32.6	2,240.68	45.2
17.	DBS Bank	304.53	24.8	767.07	62.4	1,072.60	87.2
18.	HSBC Ltd.	3,105.59	13.3	4,595.98	19.6	9,346.94	39.9
19.	JP Morgan Chase Bank	98.92	11.7	392.14	46.5	491.06	58.2
20.	Krung Thai Bank	6.99	75.7	0.29	3.1	6.99	75.7
21.	Mashreqbank	0.78	2.0	39.16	99.8	39.94	101.8
22.	Mizuho Corporate Bank	151.44	23.4	92.02	15.1	293.10	45.2
23.	Oman International Bank	-	-	-	-	-	-
24.	Shinhan Bank	36.45	26.8	42.09	30.9	115.54	84.8
25.	Societe Generale	65.00	16.9	79.73	20.7	144.73	37.6
26.	Sonali Bank	1.08	32.4	4.53	136.0	5.61	168.5
27.	Standard Chartered Bank	3,285.40	10.6	4,267.84	13.8	10,044.60	32.4
28.	State Bank of Mauritius	13.50	6.4	15.93	7.6	49.43	23.5

- : Nil/Negligible.

Note : 1) Data are provisional.

2) Priority sector lending target/sub-targets are linked to adjusted net bank credit or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from April 30, 2007.

Source : Data furnished by respective banks.

Appendix Table III.8 B: Targets Achieved by Foreign Banks under the Priority Sector

(As on the last reporting Friday of March 2008)

Sr.No.	Name of the bank	Overall	Micro and Small Enterprises Advances	Export Credit
	1	2	3	4
	Foreign Banks	**√**	**√**	**√**
1.	AB Bank		√	
2.	ABN Amro Bank	√	√	√
3.	Abu Dhabi Commercial Bank			
4.	Antwerp Diamond Bank	√	√	√
5.	Bank International Indonesia			
6.	Bank of America	√	√	√
7.	Bank of Bahrain and Kuwait	√	√	
8.	Bank of Ceylon	√	√	√
9.	Bank of Nova Scotia	√	√	√
10.	Bank of Tokyo-Mitsubishi UFJ	√		√
11.	Barclays Bank PLC	√	√	√
12.	BNP Paribas	√	√	√
13.	China Trust Commercial Banks	√	√	√
14.	Calyon Bank	√	√	√
15.	Citi Bank	√	√	√
16.	Deutsche Bank	√	√	√
17.	DBS Bank	√	√	√
18.	HSBC Ltd.	√	√	√
19.	JP Morgan Chase Bank	√	√	√
20.	Krung Thai Bank	√	√	
21.	Mashreqbank	√		√
22.	Mizuho Corporate Bank	√	√	√
23.	Shinhan Bank	√	√	√
24.	Societe Generale	√	√	√
25.	Sonali Bank	√	√	√
26.	Standard Chartered Bank	√	√	√
27.	State Bank of Mauritius			

√ : Indicates meeting the respective norm for priority sector.

Appendix Table III.9: Industry-wise Deployment of Gross Bank Credit

(Rs. crore)

Sr. No.	Industry	Outstanding as on			Variation	
		March 31, 2006	March 31, 2007	March 31, 2008	2006-07	2007-08
	1	2	3	4	5	6
	Industry (Small, Medium and Large)	**5,50,444**	**6,97,334**	**8,71,900**	**1,46,890**	**1,74,566**
1.	Mining and Quarrying (Including Coal)	4,146	7,704	10,616	3,558	2,912
2.	Food Processing	30,946	39,999	50,221	9,053	10,222
	of which:					
	Sugar	8,776	11,551	16,726	2,775	5,175
	Edible Oils and Vanaspati	5,077	6,111	7,191	1,034	1,080
	Tea	1,851	2,340	2,334	489	-6
	Others	15,243	19,997	23,970	4,754	3,973
3.	Beverage & Tobacco	4,002	4,774	5,641	772	867
4.	Textiles	58,472	78,971	95,935	20,499	16,964
	of which:					
	Cotton Textiles	29,781	38,051	47,337	8,270	9,286
	Jute Textiles	1,053	967	1,055	-86	88
	Man Made Textiles	3,062	4,178	4,681	1,116	503
	Other Textiles	24,577	35,775	42,862	11,198	7,087
5.	Leather & Leather Products	4,486	4,774	5,750	288	976
6.	Wood and Wood Products	1,497	2,887	3,060	1,390	173
7.	Paper and Paper Products	9,148	11,588	13,622	2,440	2,034
8.	Petroleum, Coal Products and Nuclear Fuels	25,150	35,886	41,738	10,736	5,852
9.	Chemicals and Chemical Products	48,638	55,774	64,391	7,136	8,617
	of which:					
	Fertiliser	10,569	9,837	9,251	-732	-586
	Drugs & Pharmaceuticals	16,273	18,584	23,286	2,311	4,702
	Petro Chemicals	6,965	8,316	9,516	1,351	1,200
	Others	14,830	19,037	22,338	4,207	3,301
10.	Rubber, Plastic & their Products	7,250	9,250	10,410	2,000	1,160
11.	Glass and Glass Ware	1,817	2,564	2,759	747	195
12.	Cement and Cement Products	7,799	9,389	14,210	1,590	4,821
13.	Basic Metals and Metal Products	65,896	83,870	1,04,719	17,974	20,849
	of which:					
	Iron and Steel.	50,991	63,877	80,790	12,886	16,913
	Other Metal and Metal Products	14,905	19,993	23,929	5,088	3,936
14.	All Engineering	34,878	44,026	52,442	9,148	8,416
	of which:					
	Electronics	11,004	13,511	16,024	2,507	2,513
	Others	23,875	30,515	36,418	6,640	5,903
15.	Vehicles, Vehicle Parts and Transport Equipments	18,628	20,922	29,152	2,294	8,230
16.	Gems and Jewellery	20,559	23,850	24,995	3,291	1,145
17.	Construction	13,303	19,970	28,298	6,667	8,328
18.	Infrastructure	1,12,853	1,42,975	2,02,296	30,122	59,321
	of which:					
	Power	60,157	72,816	93,899	12,659	21,083
	Telecomunications	18,455	19,446	37,121	991	17,675
	Roads & Ports	19,695	24,941	32,990	5,246	8,049
	Other Infrastructure	14,546	25,772	38,286	11,226	12,514
19.	Other Industries	80,975	98,161	1,11,645	17,186	13,484

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) 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

(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						
March	6,050.63	1,567.68	-	-	6,050.63	1,567.68
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
October	7,705.45	-	-	-	7,705.45	-
November	7,836.03	169.00	-	-	7,836.03	169.00
December	7,818.76	779.00	-	-	7,818.76	779.00
2008						
January	8,413.40	3,844.07	-	-	8,413.40	3,844.07
February	8,709.42	172.50	-	-	8,709.42	172.50
March	9,103.46	2,825.00	-	-	9,103.46	2,825.00
April	9,509.23	474.00	-	-	9,509.23	474.00
May	9,264.62	166.00	-	-	9,264.62	166.00
June	9,052.03	1,132.14	-	-	9,052.03	1,132.14
July	9,763.13	3,129.09	-	-	9,763.13	3,129.09
August	9,449.95	976.58	-	-	9,449.95	976.58
September	9,434.35	4,481.44	-		9,434.35	4,481.44

- : 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)

Sector	State Bank Group			Nationalised Banks			Other Public Sector Bank			Public Sector Banks		
	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	4,098.71 (0.85)	10,950.21 (1.84)	167.16	13,922.38 (1.55)	18,793.27 (1.68)	34.99	2,599.76 (4.16)	2,975.72 (3.62)	14.46	20,620.85 (1.43)	32,719.20 (1.82)	58.67
2. Real Estate @	62,325.21 (12.93)	85,767.82 (14.45)	37.55	1,43,631.99 (16.04)	1,73,635.13 (15.48)	20.89	13,797.60 (22.09)	15,730.61 (19.13)	14.01	2,19,784.80 (15.26)	2,75,133.56 (15.31)	25.18
3. Commodities	-	-	-	351.15 (0.04)	734.11 (0.07)	109.06	-	-	-	351.15 (0.02)	734.11 (0.04)	109.06
Total Advances to Sensitive Sectors	**66,453.92** **(13.78)**	**96,718.03** **(16.29)**	**45.54**	**1,57,905.52** **(17.64)**	**1,93,162.51** **(17.22)**	**22.33**	**16,397.36** **(26.25)**	**18,706.33** **(22.75)**	**14.08**	**2,40,756.80** **(16.72)**	**3,08,586.87** **(17.17)**	**28.17**

Sector	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	8,968.34 (2.79)	22,729.12 (5.59)	153.44	1,707.83 (1.84)	2,267.39 (2.03)	32.76	3,809.12 (3.02)	5,282.75 (3.28)	38.69	35,106.15 (1.77)	62,998.46 (2.54)	79.45
2. Real Estate @	1,04,092.80 (32.34)	1,16,002.43 (28.52)	11.44	15,566.40 (16.76)	18,427.15 (16.50)	18.38	33,430.26 (26.46)	37,195.17 (23.08)	11.26	3,72,874.26 (18.82)	4,46,758.31 (18.04)	19.81
3. Commodities	-	-	-	500.91 (0.54)	403.18 (0.36)	-19.51	10.36 (0.01)	100.53 (0.06)	870.37	862.42 (0.04)	1,237.82 (0.05)	43.53
Total Advances to Sensitive Sectors	**1,13,061.14** **(35.13)**	**1,38,731.55** **(34.11)**	**22.70**	**17,775.14** **(19.14)**	**21,097.72** **(18.89)**	**18.69**	**37,249.74** **(29.48)**	**42,578.45** **(26.42)**	**14.31**	**4,08,842.82** **(20.64)**	**5,10,994.59** **(20.63)**	**24.99**

- : Nil / Negligible.
\# : Exposure to capital market is inclusive of both investments and advances.
@ : Exposure to real estate sector is inclusive of both direct and indirect lending.
Note : Figures in parentheses 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	Outstand-ing as on March 28, 2008	Variations							
		Financial year				April-September			
		2006-07		2007-08		2007-08		2008-09	
		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)	**31,40,004**	**4,94,699**	**24.1**	**5,95,531**	**23.4**	**2,67,184**	**10.5**	**2,39,539**	**7.6**
C.I.1 Demand Deposits	5,24,310	65,091	17.9	94,579	22.0	15,873	3.7	-27,637	-5.3
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	26,15,695	4,29,609	25.5	5,00,952	23.7	2,51,310	11.9	2,67,176	10.2
C.I.2.1 Short-term Time Deposits	11,77,063	1,93,324	25.5	2,25,429	23.7	1,13,090	11.9	1,20,229	10.2
C.I.2.1.1 Certificates of Deposits (CDs)	1,66,642	52,943	119.0	69,200	71.0	21,268	21.8	1,703	1.0
C.I.2.2 Long-term Time Deposits	14,38,632	2,36,285	25.5	2,75,524	23.7	1,38,221	11.9	1,46,947	10.2
C.II Call/Term Funding from Financial Institutions	**1,06,504**	**2,692**	**3.2**	**20,668**	**24.1**	**2,772**	**3.2**	**3391**	**3.2**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**35,07,759**	**5,01,718**	**21.2**	**6,41,799**	**22.4**	**2,40,279**	8.4	1,77,557	5.1
S.I.1 Credit to the Government	9,58,661	75,316	10.7	1,82,603	23.5	1,19,031	15.3	9,871	1.0
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	25,49,097	4,26,402	25.6	4,59,196	22.0	1,21,247	5.8	1,67,686	6.6
S.I.2.1 Bank Credit	23,61,914	4,24,112	28.1	4,30,724	22.3	1,06,290	5.5	1,80,554	7.6
S.I.2.1.1 Non-food Credit	23,17,515	4,18,282	28.5	4,32,846	23.0	1,15,802	6.1	1,79,777	7.8
S.I.2.2 Net Credit to Primary Dealers	3,521	-1,570	-35.9	721	25.8	497	17.8	-2,296	-65.2
S.I.2.3 Investments in Other Approved Securities	13,053	-1,255	-7.5	-2,405	-15.6	-1,394	-9.0	5,655	43.3
S.I.2.4 Other Investments (in non-SLR Securities)	1,70,609	5,114	3.8	30,155	21.5	15,853	11.3	-16,226	-9.5
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-70,196**	**5,004**	**-11.0**	**-29,585**	**72.8**	**-13,766**	33.9	-24,406	34.8
S.II.1 Foreign Currency Assets	31,189	15,260	35.1	-27,564	-46.9	-18,246	-31.1	-5,339	-17.1
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	56,935	8,185	13.8	-10,525	-15.6	-5,382	-8.0	5,660	9.9
S.II.3 Overseas Foreign Currency Borrowings	44,451	2,071	6.9	12,546	39.3	902	2.8	13,407	30.2
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**2,71,166**	**51,497**	**37.2**	**81,050**	**42.6**	**82,477**	**43.4**	**63,689**	**23.5**
S.III.1 Balances with the RBI	2,57,122	53,161	41.8	76,900	42.7	74,347	41.3	61,179	23.8
S.III.2 Cash in Hand	18,044	3,093	23.7	1,905	11.8	1,949	12.1	4,604	25.5
S.III.3 Loans and Advances from the RBI	4,000	4,757	319.8	-2,245	-35.9	-6,181	-99.0	2,094	52.4
S.IV Capital Account	**2,72,622**	**25,074**	**14.1**	**69,821**	**34.4**	**50,997**	**25.1**	**49,096**	**18.0**
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,89,598**	**35,754**	**24.4**	**7,244**	**4.0**	**-11,964**	**-6.6**	**-75,186**	**-39.7**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	2,53,905	51,383	32.3	43,576	20.7	16,806	8.0	-17,448	-6.9
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	10,797	-11,239	-44.7	-3,105	-22.3	5,622	40.4	-7,341	-68.0

- : Nil/Negligible.

Note : 1. Data are provisional.

2. Time deposits and broad money reflect the impact of redemption of India Millenium Deposits (IMDs), since December 29, 2005.

Appendix Table III.13: Credit – Deposit Ratio
(as at end-March)

(Rs. crore)

Bank Group/Banks	2007	2008	Bank Group/Banks	2007	2008
1	2	3	4	5	6
Scheduled Commercial Banks	**73.5**	**74.6**	Nainital Bank	53.7	55.6
Public Sector Banks	**72.2**	**73.3**	Ratnakar Bank	60.5	53.2
Nationalised Banks	**68.0**	**69.8**	SBI Commercial and International Bank	67.4	68.7
Allahabad Bank	69.3	69.4	Sangli Bank	15.5	–
Andhra Bank	67.3	69.3	South Indian Bank	64.7	69.0
Bank of Baroda	66.9	70.2	Tamilnad Mercantile Bank	67.2	69.5
Bank of India	71.0	75.6	**New Private Sector Banks**	**77.8**	**79.8**
Bank of Maharashtra	67.6	70.1	Axis Bank	62.7	68.1
Canara Bank	69.2	69.6	Centurion Bank of Punjab	75.5	74.2
Central Bank of India	62.6	66.2	Development Credit Bank	60.2	67.0
Corporation Bank	70.7	70.7	HDFC Bank	68.7	62.9
Dena Bank	66.1	67.8	ICICI Bank	85.0	92.3
Indian Bank	61.7	65.3	IndusInd Bank	62.8	67.2
Indian Overseas Bank	68.5	71.7	Kotak Mahindra Bank	99.3	94.7
Oriental Bank of Commerce	69.0	70.1	Yes Bank	76.5	71.0
Punjab National Bank	60.8	73.9	**Foreign Banks**	**83.8**	**84.3**
Punjab and Sind Bank	69.1	71.8	AB Bank Ltd.	134.7	84.2
Syndicate Bank	65.7	67.3	ABN Amro Bank	114.9	107.8
UCO Bank	72.4	68.9	Abu Dhabi Commercial Bank	42.9	39.2
Union Bank of India	73.2	71.6	American Express Bank	59.8	–
United Bank of India	59.6	59.3	Antwerp Diamond Bank	697.0	597.8
Vijaya Bank	64.4	66.1	BNP Paribas	111.6	116.6
State Bank Group	**76.1**	76.7	Bank International Indonesia	5.9	0.0
State Bank of Bikaner and Jaipur	72.1	73.5	Bank of America	107.3	82.4
State Bank of Hyderabad	67.7	71.5	Bank of Bahrain & Kuwait	46.9	70.9
State Bank of India	77.5	77.6	Bank of Ceylon	47.3	55.9
State Bank of Indore	76.8	73.8	Bank of Nova Scotia	142.8	127.1
State Bank of Mysore	74.8	76.6	Bank of Tokyo-Mitsubishi UFJ	165.4	173.9
State Bank of Patiala	73.4	74.9	Barclays Bank	17.1	110.6
State Bank of Saurashtra	70.1	75.7	Calyon Bank	129.5	159.7
State Bank of Travancore	79.5	79.6	Chinatrust Commercial Bank	112.7	139.8
Other Public Sector Bank			Citibank	86.8	83.2
IDBI Bank Ltd.	144.1	112.6	DBS Bank	32.1	46.4
Private Sector Banks	**75.1**	**76.8**	Deutsche Bank	70.9	65.1
Old Private Sector Banks	**67.2**	**67.4**	Hongkong & Shanghai Banking Corporation	66.5	70.3
Bank of Rajasthan	52.7	53.7	J P Morgan Chase Bank	48.0	32.0
Catholic Syrian Bank	63.4	62.3	Krung Thai Bank	21.2	11.0
City Union Bank	70.8	70.6	Mashreq Bank	93.1	130.3
Dhanalakshmi Bank	59.5	58.3	Mizuho Corporate Bank	528.4	191.6
Federal Bank	69.0	73.0	Oman International Bank	0.9	0.8
ING Vysya Bank	77.7	71.5	Shinhan Bank	65.6	93.4
Jammu & Kashmir Bank	67.8	66.0	Societe Generale	34.1	28.2
Karnataka Bank	68.1	63.7	Sonali Bank	11.9	32.6
Karur Vysya Bank	75.4	75.1	Standard Chartered Bank	88.1	90.2
Lakshmi Vilas Bank	72.0	68.7	State Bank of Mauritius	63.4	86.3
Lord Krishna Bank	54.4	-			

- : Nil/Negligible.

Source : Balance sheets of banks.

Appendix Table III.14: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in Rs. crore)

Item	State Bank Group			Nationalised Banks			Other Public Sector Bank			Public Sector Banks		
	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	2,58,766.23 (32.11)	4,15,355.84 (41.08)	60.51	3,36,460.59 (21.98)	5,40,423.57 (28.74)	60.62	17,708.91 (17.05)	30,294.04 (23.18)	71.07	6,12,935.74 (25.12)	9,86,073.45 (32.63)	60.88
2. Guarantees given	46,161.03 (5.73)	61,439.89 (6.08)	33.10	82,852.31 (5.41)	1,01,840.20 (5.42)	22.92	8,202.08 (7.90)	11,798.09 (9.03)	43.84	1,37,215.42 (5.62)	1,75,078.19 (5.79)	27.59
3. Acceptances, endorsements, *etc.*	3,05,235.97 (37.88)	4,67,993.43 (46.28)	53.32	1,32,667.13 (8.67)	1,68,913.18 (8.98)	27.32	82,616.84 (79.56)	59,114.28 (45.23)	-28.45	5,20,519.94 (21.33)	6,96,020.89 (23.03)	33.72
Contingent Liabilities	**6,10,163.23 (75.72)**	**9,44,789.16 (93.44)**	**54.84**	**5,51,980.03 (36.06)**	**8,11,176.96 (43.14)**	**46.96**	**1,08,527.82 (104.52)**	**1,01,206.41 (77.44)**	**-6.75**	**12,70,671.09 (52.07)**	**18,57,172.53 (61.45)**	**46.16**

Item	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation	2006-07	2007-08	Percentage Variation
1	14	15	16	17	18	19	20	21	22	23	24	25
1. Forward exchange contract	6,99,723.48 (119.64)	12,17,367.12 (163.27)	73.98	50,491.66 (31.45)	85,454.28 (43.92)	69.24	42,21,527.54 (1,538.50)	85,82,283.60 (2357.13)	103.13	55,84,678.41 (161.41)	1,08,71,178.44 (251.27)	94.66
2. Guarantees given	41,489.53 (7.09)	65,571.27 (8.79)	58.04	6,613.16 (4.12)	9,272.30 (4.77)	40.21	33,261.25 (12.12)	45,583.95 (12.52)	37.05	2,18,579.35 (6.32)	2,95,505.70 (6.83)	35.19
3. Acceptances, endorsements, *etc.*	5,17,201.15 (88.43)	9,67,209.13 (129.72)	87.01	14,569.26 (9.07)	16,410.57 (8.43)	12.64	8,00,474.99 (291.73)	15,81,044.69 (434.23)	97.51	18,52,765.34 (53.55)	32,60,685.44 (75.37)	75.99
Contingent Liabilities	**12,58,414.15 (215.17)**	**22,50,147.68 (301.79)**	**78.81**	**71,674.08 (44.64)**	**1,11,137.14 (57.12)**	**55.06**	**50,55,263.78 (1,842.35)**	**1,02,08,912.24 (2,803.88)**	**101.95**	**76,56,023.11 (221.27)**	**1,44,27,369.59 (333.47)**	**88.44**

- : Nil/Negligible.

Note : Figures in parantheses 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

(Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income	
		2006-07	2007-08	2006-07	2007-08
	1	2	3	4	5
	Public Sector Banks	**3,349.53**	**8,082.09**	**2,153.56**	**2,967.79**
	Nationalised Banks	**2,184.73**	**4,691.69**	**1,581.82**	**1,948.28**
1.	Allahabad Bank	74.38	471.03	32.49	53.78
2.	Andhra Bank	55.71	119.18	32.27	33.41
3.	Bank of Baroda	136.16	532.20	239.28	278.79
4.	Bank of India	204.93	366.21	224.08	306.58
5.	Bank of Maharashtra	74.00	78.38	16.16	22.25
6.	Canara Bank	134.10	435.09	173.10	153.64
7.	Central Bank of India	136.22	153.99	43.10	48.42
8.	Corporation Bank	122.09	135.66	45.96	41.23
9.	Dena Bank	39.45	90.02	30.76	42.03
10.	Indian Bank	49.31	241.21	75.77	99.96
11.	Indian Overseas Bank	237.37	229.61	85.64	110.17
12.	Oriental Bank of Commerce	111.06	153.67	61.87	68.80
13.	Punjab & Sind Bank	17.35	17.51	23.49	30.01
14.	Punjab National Bank	372.87	441.93	176.72	211.39
15.	Syndicate Bank	140.69	336.31	45.26	67.26
16.	UCO Bank	53.99	210.34	33.36	49.99
17.	Union Bank of India	108.54	289.82	198.39	261.20
18.	United Bank of India	41.81	179.33	12.95	28.27
19.	Vijaya Bank	74.71	210.19	31.16	41.10
	State Bank Group	**831.10**	**2,222.87**	**526.01**	**932.33**
1.	State Bank of India	567.78	1,649.84	331.47	692.70
2.	State Bank of Bikaner & Jaipur	53.66	68.99	20.34	23.57
3.	State Bank of Hyderabad	84.54	169.25	68.39	68.41
4.	State Bank of Indore	24.79	67.36	20.11	18.83
5.	State Bank of Mysore	38.87	79.91	27.73	28.66
6.	State Bank of Patiala	37.29	94.92	32.73	33.15
7.	State Bank of Saurashtra	8.55	49.67	10.20	13.74
8.	State Bank of Travancore	15.62	42.93	15.04	53.28
	Other Public Sector Banks	**333.70**	**1,167.52**	**45.73**	**87.17**
1.	IDBI Bank Ltd.	333.70	1,167.52	45.73	87.17

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											
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	65,977.19 (1.91)	31,202.61 (0.90)	2,74,716.32 (7.94)	2,31,675.28 (6.70)	43,041.04 (1.24)	2,43,513.71 (7.04)	1,42,419.87 (4.12)	66,319.26 (1.92)	36,148.19 (1.04)	34,774.58 (1.01)	89,255.42 (2.58)
2007-08	83,664.88 (1.93)	42,725.86 (0.99)	3,68,885.74 (8.53)	3,09,570.26 (7.16)	59,315.48 (1.37)	3,26,159.88 (7.54)	2,08,000.75 (4.81)	77,220.11 (1.78)	39,805.96 (0.92)	40,939.02 (0.95)	1,01,569.51 (2.35)
Public Sector Banks											
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	42,654.92 (1.75)	20,152.18 (0.83)	1,87,869.34 (7.70)	1,64,184.92 (6.73)	23,684.42 (0.97)	1,67,717.16 (6.87)	1,01,959.90 (4.18)	43,254.52 (1.77)	27,802.87 (1.14)	22,502.74 (0.92)	62,225.02 (2.55)
2007-08	50,440.51 (1.67)	26,591.73 (0.88)	2,45,940.50 (8.14)	2,14,024.76 (7.08)	31,915.74 (1.06)	2,19,348.78 (7.26)	1,48,902.15 (4.93)	46,597.85 (1.54)	28,562.30 (0.95)	23,848.79 (0.79)	65,122.61 (2.15)
Nationalised Banks											
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	27,456.37 (1.79)	12,949.84 (0.85)	1,17,611.58 (7.68)	1,04,374.66 (6.82)	13,236.92 (0.86)	1,04,661.75 (6.84)	63,665.91 (4.16)	26,489.30 (1.73)	17,049.80 (1.11)	14,506.54 (0.95)	40,708.75 (2.66)
2007-08	31,663.48 (1.68)	16,856.47 (0.90)	1,54,038.75 (8.19)	1,35,576.21 (7.21)	18,462.53 (0.98)	1,37,182.28 (7.30)	93,728.91 (4.98)	28,646.36 (1.52)	17,883.47 (0.95)	14,807.01 (0.79)	41,847.30 (2.23)
State Bank Group											
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)	62,885.16 (7.80)	53,464.84 (6.64)	9,420.32 (1.17)	56,313.12 (6.99)	32,606.50 (4.05)	15,986.75 (1.98)	10,470.18 (1.30)	7,719.86 (0.96)	20,858.34 (2.59)
2007-08	17,443.92 (1.73)	9,005.80 (0.89)	82,245.45 (8.13)	70,427.71 (6.96)	11,817.74 (1.17)	73,239.65 (7.24)	47,808.82 (4.73)	16,992.71 (1.68)	10,294.23 (1.02)	8,438.12 (0.83)	22,618.88 (2.24)

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	2	3	4	5	6	7	8	9	10	11	12
Other Public Sector Banks											
2005-06	800.86	560.89	6,661.17	5,380.72	1,280.45	6,100.28	5,000.82	859.48	318.51	239.97	379.89
	(0.90)	(0.63)	(7.52)	(6.08)	(1.45)	(6.89)	(5.65)	(0.97)	(0.36)	(0.27)	(0.43)
2006-07	906.65	630.31	7,372.60	6,345.42	1,027.18	6,742.29	5,687.49	778.47	282.90	276.34	657.93
	(0.87)	(0.61)	(7.10)	(6.11)	(0.99)	(6.49)	(5.48)	(0.75)	(0.27)	(0.27)	(0.63)
2007-08	1,333.11	729.46	9,656.31	8,020.84	1,635.47	8,926.85	7,364.41	958.78	384.61	603.66	656.43
	(1.02)	(0.56)	(7.39)	(6.14)	(1.25)	(6.83)	(5.63)	(0.73)	(0.29)	(0.46)	(0.50)
Old Private Sector Banks											
2005-06	2,257.18	865.66	11,592.88	10,372.05	1,220.83	10,727.22	6,246.73	3,088.97	1,766.94	1,391.52	4,125.32
	(1.51)	(0.58)	(7.73)	(6.92)	(0.81)	(7.15)	(4.17)	(2.06)	(1.18)	(0.93)	(2.75)
2006-07	3,020.64	1,121.87	13,042.31	11,474.07	1,568.23	11,920.44	7,054.55	2,967.12	1,692.75	1,898.78	4,419.53
	(1.88)	(0.70)	(8.12)	(7.15)	(0.98)	(7.42)	(4.39)	(1.85)	(1.05)	(1.18)	(2.75)
2007-08	3,604.78	1,977.64	16,798.57	14,694.15	2,104.42	14,820.93	9,959.87	3,233.93	1,803.04	1,627.14	4,734.29
	(1.85)	(1.02)	(8.63)	(7.55)	(1.08)	(7.62)	(5.12)	(1.66)	(0.93)	(0.84)	(2.43)
New Private Sector Banks											
2005-06	7,510.89	4,108.85	31,721.02	24,850.58	6,870.44	27,612.17	15,260.73	8,949.41	2,310.45	3,402.03	9,589.85
	(1.78)	(0.97)	(7.52)	(5.89)	(1.63)	(6.55)	(3.62)	(2.12)	(0.55)	(0.81)	(2.27)
2006-07	10,682.16	5,343.40	48,837.10	38,092.46	10,744.64	43,493.70	25,801.93	12,353.01	3,571.46	5,338.76	12,290.53
	(1.83)	(0.91)	(8.35)	(6.51)	(1.84)	(7.44)	(4.41)	(2.11)	(0.61)	(0.91)	(2.10)
2007-08	15,631.63	7,544.26	71,199.92	56,434.66	14,765.26	63,655.66	38,534.87	17,033.41	5,310.00	8,087.38	17,899.79
	(2.10)	(1.01)	(9.55)	(7.57)	(1.98)	(8.54)	(5.17)	(2.28)	(0.71)	(1.08)	(2.40)
Foreign Banks											
2005-06	6,658.44	3,068.60	17,662.07	12,290.82	5,371.25	14,593.47	5,149.50	5,854.13	2,005.17	3,589.84	7,141.33
	(3.34)	(1.54)	(8.86)	(6.17)	(2.69)	(7.32)	(2.58)	(2.94)	(1.01)	(1.80)	(3.58)
2006-07	9,619.47	4,585.16	24,967.57	17,923.83	7,043.74	20,382.41	7,603.49	7,744.62	3,081.11	5,034.31	10,320.34
	(3.51)	(1.67)	(9.10)	(6.53)	(2.57)	(7.43)	(2.77)	(2.82)	(1.12)	(1.83)	(3.76)
2007-08	13,987.96	6,612.24	34,946.76	24,416.69	10,530.06	28,334.52	10,603.88	10,354.93	4,130.62	7,375.72	13,812.82
	(3.84)	(1.82)	(9.60)	(6.71)	(2.89)	(7.78)	(2.91)	(2.84)	(1.13)	(2.03)	(3.79)

Note : 1. The number of scheduled commercial banks in 2005-06, 2006-07 and 2007-08 were 85, 82 and 79 respecitvely.
2. The number of old private banks in 2005-06, 2006-07 and 2007-08 were 20, 17 and 15, respectively.
3. The number of new private banks in 2005-06, 2006-07 and 2007-08 were 8 in each year.
4. The number of foreign banks in 2005-06, 2006-07 and 2007-08 were 29, 29 and 28, respectively.
5. Figures in parentheses are percentages to total assets.
6. NII - Net Interest Income.
7. Scheduled commercial banks data for 2006-07 are as reported in the balance sheets for 2007-08 and hence may not tally with those reported in the Report on Trend and Progress of Banking in India, 2006-07, to the extent the figures of 2006-07 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**2,74,716.32 (100.00)**	**3,68,885.74 (100.00)**	**94,169.42**	**34.28**
i) Interest Income	2,31,675.28 (84.33)	3,09,570.26 (83.92)	77,894.98	33.62
of which: Interest on Advances	1,56,249.84	2,21,151.93	64,902.09	41.54
Income on Investments	65,294.93	79,050.61	13,755.68	21.07
ii) Other Income	43,041.04 (15.67)	59,315.48 (16.08)	16,274.45	37.81
of which: Commission & Brokerage	24,369.31	30,901.16	6,531.85	26.80
B. Expenditure (i+ii+iii)	**2,43,513.71 (100.00)**	**3,26,159.88 (100.00)**	**82,646.17**	**33.94**
i) Interest Expended	1,42,419.87 (58.49)	2,08,000.75 (63.77)	65,580.89	46.05
of which: Interest on Deposits	1,19,862.97	1,79,661.96	59,798.99	49.89
ii) Provisions and Contingencies	34,774.58 (14.28)	40,939.02 (12.55)	6,164.44	17.73
of which: Provision for NPAs	80.82	103.79	22.97	28.43
iii) Operating Expenses	66,319.26 (27.23)	77,220.11 (23.68)	10,900.85	16.44
of which : Wage Bill	36,148.19	39,805.96	3,657.78	10.12
C. Profit				
i) Operating Profit	**65,977.19**	**83,664.88**	**17,687.69**	**26.81**
ii) Net Profit	**31,202.61**	**42,725.86**	**11,523.25**	**36.93**
D. Net Interest Income/Margin	**89,255.42**	**1,01,569.51**	**12,314.09**	**13.80**
E. Total Assets	**34,59,961.85**	**43,26,486.37**	**8,66,524.52**	**25.04**

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,87,869.34** **(100.00)**	**2,45,940.50** **(100.00)**	**58,071.16**	**30.91**
i) Interest Income	1,64,184.92 (87.39)	2,14,024.76 (87.02)	49,839.84	30.36
of which: Interest on Advances	1,10,543.30	1,54,080.70	43,537.40	39.38
Income on Investments	47,117.69	54,089.23	6,971.54	14.80
ii) Other Income	23,684.42 (12.61)	31,915.74 (12.98)	8,231.32	34.75
of which: Commission & Brokerage	12,534.47	14,999.49	2,465.02	19.67
B. Expenditure (i+ii+iii)	**1,67,717.16** **(100.00)**	**2,19,348.78** **(100.00)**	**51,631.62**	**30.78**
i) Interest Expended	1,01,959.90 (60.79)	1,48,902.15 (67.88)	46,942.24	46.04
of which: Interest on Deposits	88,796.23	1,32,717.91	43,921.68	49.46
ii) Provisions and Contingencies	22,502.74 (13.42)	23,848.79 (10.87)	1,346.05	5.98
of which: Provision for NPAs	62.93	78.93	16.00	25.43
iii) Operating Expenses	43,254.52 (25.79)	46,597.85 (21.24)	3,343.33	7.73
of which : Wage Bill	27,802.87	28,562.30	759.43	2.73
C. Profit				
i) Operating Profit	**42,654.92**	**50,440.51**	**7,785.59**	**18.25**
ii) Net Profit	**20,152.18**	**26,591.73**	**6,439.54**	**31.95**
D. Net Interest Income/Margin	**62,225.02**	**65,122.61**	**2,897.60**	**4.66**
E. Total Assets	**24,40,165.92**	**30,22,237.21**	**5,82,071.29**	**23.85**

* : Includes IDBI Bank Ltd.

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,17,611.58 (100.00)**	**1,54,038.75 (100.00)**	**36427.16**	**30.97**
i) Interest Income	1,04,374.66 (88.75)	1,35,576.21 (88.01)	31,201.55	29.89
of which: Interest on Advances	69,153.88	96,217.67	27,063.78	39.14
Income on Investments	31,260.87	35,802.30	4,541.43	14.53
Interest on Recapitalisation Bonds	1,885.36	472.65	-1,412.71	-74.93
ii) Other Income	13,236.92 (11.25)	18,462.53 (11.99)	5,225.61	39.48
of which: Commission & Brokerage	5,607.33	6,724.73	1,117.41	19.93
B. Expenditure (i+ii+iii)	**1,04,661.75 (100.00)**	**1,37,182.28 (100.00)**	**32,520.53**	**31.07**
i) Interest Expended	63,665.91 (60.83)	93,728.91 (68.32)	30,063.00	47.22
of which: Interest on Deposits	58,542.94	87,328.64	28,785.70	49.17
ii) Provisions and Contingencies	14,506.54 (13.86)	14,807.01 (10.79)	300.48	2.07
of which: Provision for NPAs	4,369.87	5,390.33	1,020.46	23.35
iii) Operating Expenses	26,489.30 (25.31)	28,646.36 (20.88)	2,157.06	8.14
of which : Wage Bill	17,049.80	17,883.47	833.67	4.89
C. Profit				
i) Operating Profit	**27,456.37**	**31,663.48**	**4,207.11**	**15.32**
ii) Net Profit	**12,949.84**	**16,856.47**	**3,906.63**	**30.17**
D. Net Interest Income/Margin	**40,708.75**	**41,847.30**	**1,138.55**	**2.80**
E. Total Assets	**15,30,531.44**	**18,80,374.07**	**3,49,842.62**	**22.86**

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**62,885.16 (100.00)**	**82,245.45 (100.00)**	**19,360.29**	**30.79**
i) Interest Income	53,464.84 (85.02)	70,427.71 (85.63)	16,962.87	31.73
of which: Interest on Advances	36,147.51	51,354.29	15,206.79	42.07
Income on Investments	14,858.38	16,916.18	2,057.81	13.85
ii) Other Income	9,420.32 (14.98)	11,817.74 (14.37)	2,397.43	25.45
of which: Commission & Brokerage	6,661.30	7,925.77	1,264.47	18.98
B. Expenditure (i+ii+iii)	**56,313.12 (100.00)**	**73,239.65 (100.00)**	**16,926.53**	**30.06**
i) Interest Expended	32,606.50 (57.90)	47,808.82 (65.28)	15,202.32	46.62
of which: Interest on Deposits	28,259.94	41,588.00	13,328.05	47.16
ii) Provisions and Contingencies	7,719.86 (13.71)	8,438.12 (11.52)	718.25	9.30
of which: Provision for NPAs	1,783.88	2,369.44	585.56	32.83
iii) Operating Expenses	15,986.75 (28.39)	16,992.71 (23.20)	1,005.96	6.29
of which : Wage Bill	10,470.18	10,294.23	-175.95	-1.68
C. Profit				
i) Operating Profit	**14,291.90**	**17,443.92**	**3,152.02**	**22.05**
ii) Net Profit	**6,572.04**	**9,005.80**	**2,433.77**	**37.03**
D. Net Interest Income/Margin	**20,858.34**	**22,618.88**	**1,760.55**	**8.44**
E. Total Assets	**8,05,795.15**	**10,11,168.75**	**2,05,373.60**	**25.49**

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**13,042.31** **(100.00)**	**16,798.57** **(100.00)**	**3,756.26**	**28.80**
i) Interest Income	11,474.07 (87.98)	14,694.15 (87.47)	3,220.08	28.06
of which: Interest on Advances	7,948.24	10,705.88	2,757.64	34.69
Income on Investments	3,036.14	3,484.02	447.88	14.75
ii) Other Income	1,568.23 (12.02)	2,104.42 (12.53)	536.18	34.19
of which: Commission & Brokerage	697.57	824.02	126.45	18.13
B. Expenditure (i+ii+iii)	**11,920.44** **(100.00)**	**14,820.93** **(100.00)**	**2,900.49**	**24.33**
i) Interest Expended	7,054.55 (59.18)	9,959.87 (67.20)	2,905.32	41.18
of which: Interest on Deposits	6,725.59	9,474.09	2,748.50	40.87
ii) Provisions and Contingencies	1,898.78 (15.93)	1,627.14 (10.98)	-271.64	-14.31
of which: Provision for NPAs	433.68	334.25	-99.43	-22.93
iii) Operating Expenses	2,967.12 (24.89)	3,233.93 (21.82)	266.81	8.99
of which : Wage Bill	1,692.75	1,803.04	110.29	6.52
C. Profit				
i) Operating Profit	**3,020.64**	**3,604.78**	**584.14**	**19.34**
ii) Net Profit	**1,121.87**	**1,977.64**	**855.77**	**76.28**
D. Net Interest Income/Margin	**4,419.53**	**4,734.29**	**314.76**	**7.12**
E. Total Assets	**1,60,561.92**	**1,94,555.46**	**33,993.55**	**21.17**

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**48,837.10** **(100.00)**	**71,199.92** **(100.00)**	**22,362.81**	**45.79**
i) Interest Income	38,092.46 (78.00)	56,434.66 (79.26)	18,342.19	48.15
of which: Interest on Advances	26,813.41	40,653.84	13,840.42	51.62
Income on Investments	9,807.55	14,460.33	4,652.78	47.44
ii) Other Income	10,744.64 (22.00)	14,765.26 (20.74)	4,020.62	37.42
of which: Commission & Brokerage	7,187.99	9,720.85	2,532.86	35.24
B. Expenditure (i+ii+iii)	**43,493.70** **(100.00)**	**63,655.66** **(100.00)**	**20,161.95**	**46.36**
i) Interest Expended	25,801.93 (59.32)	38,534.87 (60.54)	12,732.93	49.35
of which: Interest on Deposits	19,594.46	30,191.09	10,596.64	54.08
ii) Provisions and Contingencies	5,338.76 (12.27)	8,087.38 (12.70)	2,748.61	51.48
of which: Provision for NPAs	984.14	1,443.55	459.41	46.68
iii) Operating Expenses	12,353.01 (28.40)	17,033.41 (26.76)	4,680.41	37.89
of which : Wage Bill	3,571.46	5,310.00	1,738.54	48.68
C. Profit				
i) Operating Profit	**10,682.16**	**15,631.63**	**4,949.48**	**46.33**
ii) Net Profit	**5,343.40**	**7,544.26**	**2,200.86**	**41.19**
D. Net Interest Income/Margin	**12,290.53**	**17,899.79**	**5,609.26**	**45.64**
E. Total Assets	**5,84,841.87**	**7,45,594.49**	**1,60,752.61**	**27.49**

Note : Figures in parentheses 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	2006-07	2007-08	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**24,967.57**	**34,946.76**	**9,979.19**	**39.97**
	(100.00)	**(100.00)**		
i) Interest Income	17,923.83	24,416.69	6,492.87	36.22
	(71.79)	(69.87)		
of which: Interest on Advances	10,944.88	15,711.51	4,766.63	43.55
Income on Investments	5,333.55	7,017.03	1,683.47	31.56
ii) Other Income	7,043.74	10,530.06	3,486.32	49.50
	(28.21)	(30.13)		
of which: Commission & Brokerage	3,949.28	5,356.80	1,407.52	35.64
B. Expenditure (i+ii+iii)	**20,382.41**	**28,334.52**	**7,952.11**	**39.01**
	(100.00)	**(100.00)**		
i) Interest Expended	7,603.49	10,603.88	3,000.39	39.46
	(37.30)	(37.42)		
of which: Interest on Deposits	4,746.70	7,278.87	2,532.17	53.35
ii) Provisions and Contingencies	5,034.31	7,375.72	2,341.41	46.51
	(24.70)	(26.03)		
of which: Provision for NPAs	371.28	708.32	337.04	90.78
iii) Operating Expenses	7,744.62	10,354.93	2,610.31	33.70
	(38.00)	(36.55)		
of which : Wage Bill	3,081.11	4,130.62	1,049.51	34.06
C. Profit				
i) Operating Profit	**9,619.47**	**13,987.96**	**4,368.49**	**45.41**
ii) Net Profit	**4,585.16**	**6,612.24**	**2,027.08**	**44.21**
D. Net Interest Income/Margin	**10,320.34**	**13,812.82**	**3,492.48**	**33.84**
E. Total Assets	**2,74,392.14**	**3,64,099.21**	**89,707.07**	**32.69**

Note : Figures in parentheses 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 2008)

(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
	Public Sector Banks										
	Nationalised Banks										
1.	Allahabad Bank	7.75	4.29	12.04	0.80	8.48	1.15	2.00	1.32	604.00	4.85
2.	Andhra Bank	8.54	3.07	11.61	0.15	8.61	1.17	2.12	1.16	626.53	4.30
3.	Bank of Baroda	7.63	5.28	12.91	0.47	7.63	1.32	1.96	0.89	710.00	3.94
4.	Bank of India	7.70	4.34	12.04	0.52	7.71	1.32	2.31	1.25	652.00	4.95
5.	Bank of Maharashtra	5.13	5.13	10.26	0.87	8.09	0.64	1.54	0.75	515.69	2.39
6.	Canara Bank	7.01	6.24	13.25	0.84	8.31	1.30	1.73	0.92	609.41	3.65
7.	Central Bank of India	5.42	5.00	10.42	1.45	7.92	0.78	1.26	0.54	400.99	1.56
8.	Corporation Bank	9.64	2.45	12.09	0.32	7.95	1.23	2.20	1.29	839.00	6.52
9.	Dena Bank	6.75	4.34	11.09	0.94	7.97	1.31	2.02	1.06	559.00	3.61
10.	Indian Bank	11.41	1.45	12.86	0.24	8.39	1.74	2.70	1.64	488.00	4.91
11.	Indian Overseas Bank	7.86	4.10	11.96	0.60	9.77	1.00	2.46	1.30	582.70	4.82
12.	Oriental Bank of Commerce	9.34	2.78	12.12	0.99	8.28	0.74	1.48	1.02	924.38	5.84
13.	Punjab & Sind Bank	8.04	3.53	11.57	0.37	8.79	1.12	2.12	1.49	466.87	4.24
14.	Punjab National Bank	8.52	4.44	12.96	0.64	8.01	1.12	2.25	1.15	504.52	3.66
15.	Syndicate Bank	6.62	4.60	11.22	0.97	8.17	0.92	1.52	0.88	586.02	3.18
16.	UCO Bank	5.05	5.04	10.09	1.98	8.16	0.97	1.20	0.52	580.00	1.76
17.	Union Bank of India	7.45	5.06	12.51	0.17	8.56	0.98	2.34	1.26	698.61	5.39
18.	United Bank of India	6.74	5.14	11.88	1.10	7.54	0.99	0.99	0.68	463.00	1.99
19.	Vijaya Bank	5.73	5.49	11.22	0.57	8.35	0.92	1.39	0.75	612.67	3.32
	State Bank Group										
20.	State Bank of India	8.48	4.16	12.64	1.78	7.32	1.30	1.96	1.01	456.00	3.73
21.	State Bank of Bikaner & Jaipur	6.95	5.56	12.51	0.83	8.46	1.31	1.83	0.87	445.45	2.73
22.	State Bank of Hyderabad	7.24	5.11	12.35	0.16	7.92	1.22	1.78	1.00	599.08	4.35
23.	State Bank of Indore	7.01	4.28	11.29	0.73	8.37	1.17	1.70	0.88	604.37	3.73
24.	State Bank of Mysore	6.54	5.19	11.73	0.43	8.45	1.43	1.92	1.08	495.00	3.28
25.	State Bank of Patiala	6.74	5.76	12.50	0.60	7.80	1.05	1.58	0.83	759.82	3.70
26.	State Bank of Saurashtra	8.06	4.28	12.34	0.91	8.41	1.12	0.96	0.28	396.00	0.74
27.	State Bank of Travancore	6.94	5.74	12.68	0.94	7.79	0.99	1.61	0.89	558.65	3.40
	Other Public Sector Bank										
28.	IDBI Bank Ltd.	7.42	4.53	11.95	1.30	7.18	1.46	1.19	0.67	1,809.17	8.86

Appendix Table III.18: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2008)

(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
	Private Sector Banks										
	Old Private Sector Banks										
1.	Bank of Rajasthan Ltd.	6.10	5.77	11.87	0.42	8.26	1.00	1.34	0.91	518.85	2.93
2.	Catholic Syrian Bank Ltd.	7.01	3.86	10.87	1.61	8.38	1.05	1.28	0.64	317.00	1.34
3.	City Union Bank Ltd.	11.15	1.33	12.48	0.98	9.43	1.34	2.85	1.60	420.57	4.69
4.	Dhanalakshmi Bank Ltd.	6.56	2.65	9.21	0.88	8.52	0.97	1.19	0.76	409.08	2.02
5.	Federal Bank Ltd.	19.09	3.37	22.46	0.23	9.15	1.44	2.89	1.34	640.00	5.30
6.	ING Vysya Bank Ltd.	6.82	3.38	10.20	0.79	7.91	1.97	1.45	0.74	547.28	2.68
7.	Jammu & Kashmir Bank Ltd.	12.14	0.66	12.80	1.07	8.36	0.84	2.23	1.09	596.00	5.00
8.	Karnataka Bank Ltd.	10.36	1.81	12.17	0.98	8.89	1.29	2.21	1.37	589.00	5.00
9.	Karur Vysya Bank Ltd.	12.11	0.47	12.58	0.18	8.88	1.22	2.41	1.63	604.00	5.82
10.	Lakshmi Vilas Bank Ltd.	10.53	2.20	12.73	1.55	8.17	1.33	1.45	0.41	453.00	1.22
11.	Nainital Bank Ltd.	11.00	1.32	12.32	-	9.38	0.42	2.83	1.67	366.00	4.00
12.	Ratnakar Bank Ltd.	48.29	0.86	49.15	0.99	8.29	0.67	2.62	1.31	310.09	3.13
13.	SBI Commercial and International Bank Ltd.	24.27	0.79	25.06	-	6.79	2.14	1.92	1.93	754.67	13.82
14.	South Indian Bank Ltd.	12.08	1.72	13.80	0.33	8.70	0.83	1.80	1.01	600.43	3.59
15.	Tamilnad Mercantile Bank Ltd.	14.70	0.65	15.35	0.38	9.64	1.46	2.79	1.58	541.99	5.31
	New Private Sector Banks										
16	Axis Bank	10.17	3.56	13.73	0.42	8.08	2.07	2.57	1.24	1,117.00	8.39
17	Centurion Bank of Punjab Ltd.	9.33	1.33	10.66	1.65	9.52	2.78	1.54	0.51	444.00	1.45
18.	Development Credit Bank Ltd.	11.82	1.56	13.38	0.66	8.94	2.53	1.71	0.60	454.00	2.00
19	HDFC Bank	10.30	3.30	13.60	0.47	8.42	1.90	3.13	1.32	506.00	4.97
20.	ICICI Bank	11.32	3.60	14.92	1.55	8.29	2.37	2.14	1.12	1,008.00	10.00
21.	IndusInd Bank Ltd.	6.70	5.21	11.91	2.27	8.63	1.16	0.88	0.34	1,062.67	2.62
22.	Kotak Mahindra Bank Ltd.	14.46	4.19	18.65	1.78	9.48	1.73	2.51	1.10	383.84	3.81
23.	Yes Bank Ltd.	8.50	5.10	13.60	0.09	10.09	2.73	2.36	1.54	683.12	6.35

Appendix Table III.18: Select Financial Parameters of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2008)

(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
	Foreign Banks in India										
1.	AB Bank	42.27	0.82	43.09	9.25	5.93	5.92	6.96	6.71	212.37	10.74
2.	ABN-AMRO Bank N.V.	7.24	5.68	12.92	0.85	8.46	1.79	2.55	0.78	1,070.26	7.66
3.	Abu Dhabi Commercial Bank Ltd.	50.65	1.06	51.71	-	8.85	4.00	5.55	3.96	1,772.97	78.29
4.	Antwerp Diamond Bank	36.75	0.34	37.09	-	6.18	1.17	2.90	1.63	2,618.95	53.54
5.	BNP Paribas	8.07	3.72	11.79	-	6.93	3.82	4.28	1.97	1,950.00	36.00
6.	Bank Internasional Indonesia	235.82	-	235.82	-	6.20	32.54	25.31	8.78	-	233.26
7.	Bank of America NA	10.93	1.21	12.14	-	7.22	5.00	7.68	3.76	2,483.54	102.08
8.	Bank of Bahrain & Kuwait B.S.C.	20.54	1.07	21.61	1.51	8.71	2.16	2.42	4.08	718.00	20.00
9.	Bank of Ceylon	54.77	1.09	55.86	4.01	6.22	1.98	4.98	2.24	483.00	15.00
10.	Bank of Nova Scotia	14.72	5.43	20.15	-	6.04	1.94	2.90	1.73	3,082.88	49.89
11.	Bank of Tokyo-Mitsubishi UFJ	26.36	0.51	26.87	-	8.00	1.60	5.57	2.40	2,613.45	60.50
12.	Barclays Bank PLC	20.81	0.30	21.11	42.00	10.12	9.21	2.85	0.10	942.33	50.00
13.	Calyon Bank	7.80	1.90	9.70	-	9.10	7.50	8.40	4.20	2,249.00	97.00
14.	Chinatrust Commercial Bank	22.07	0.65	22.72	-	7.99	0.90	1.49	1.63	845.00	13.00
15.	Citibank N.A.	11.24	0.76	12.00	1.23	7.40	3.04	4.86	4.33	1,763.78	37.73
16.	DBS Bank Ltd.	14.98	3.17	18.15	0.05	9.09	-0.48	1.71	0.86	1,416.58	28.27
17.	Deutsche Bank AG	13.09	0.49	13.58	0.22	7.85	5.52	4.71	1.56	1,616.74	27.54
18.	HSBC Ltd.	9.72	0.87	10.59	0.58	7.18	3.05	4.23	1.82	1,012.34	16.69
19.	JPMorgan Chase Bank	17.60	0.12	17.72	2.12	8.66	7.27	9.56	3.07	1,438.95	153.77
20.	Krung Thai Bank Public Co. Ltd.	109.03	1.08	110.11	-	7.42	0.81	3.47	1.90	812.81	18.04
21.	Mashreq Bank PSC	51.70	1.11	52.81	-	7.68	9.37	10.98	8.82	225.63	53.61
22.	Mizuho Corporate Bank Ltd.	27.55	0.25	27.80	-	7.13	1.87	5.78	1.96	1,589.56	25.03
23.	Oman International Bank S.A.O.G.	22.47	0.62	23.09	-	5.93	0.27	-1.09	3.15	484.99	19.91
24.	Shinhan Bank	48.10	0.56	48.66	-	7.52	0.87	4.02	1.86	1,709.81	34.59
25.	Societe Generale	26.49	0.13	26.62	-	7.32	1.40	1.23	1.33	1,459.10	33.90
26.	Sonali Bank	40.94	0.31	41.25	-	7.50	20.42	6.37	1.60	74.02	1.38
27.	Standard Chartered Bank	8.21	2.38	10.59	1.04	8.95	4.13	5.41	3.13	826.66	20.22
28.	State Bank of Mauritius Ltd.	37.85	3.28	41.13	-	7.73	1.19	2.20	1.12	1,491.00	17.00

- : 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**1.94**	**2.39**	**2.66**	**2.17**	**1.95**	**1.91**	**1.93**
	Public Sector Banks	**1.88**	**2.31**	**2.67**	**2.18**	**1.88**	**1.75**	**1.67**
	Nationalised Banks	**1.83**	**2.34**	**2.70**	**2.17**	**1.79**	**1.79**	**1.68**
1.	Allahabad Bank	1.65	1.84	2.52	2.07	1.85	1.63	1.78
2.	Andhra Bank	2.03	3.06	3.44	3.03	1.73	1.96	1.87
3.	Bank of Baroda	1.85	2.25	2.92	2.44	1.69	1.69	1.69
4.	Bank of India	2.02	2.66	2.64	1.54	1.52	1.69	2.07
5.	Bank of Maharashtra	1.93	2.09	2.10	1.66	1.17	1.57	1.40
6.	Canara Bank	2.30	2.43	2.88	2.34	1.92	1.75	1.64
7.	Central Bank of India	1.34	1.62	2.41	2.35	1.60	1.36	1.02
8.	Corporation Bank	2.64	3.24	3.11	3.03	2.35	2.16	1.88
9.	Dena Bank	1.78	2.45	3.21	1.59	2.26	2.02	1.78
10.	Indian Bank	1.01	1.67	2.05	2.18	1.88	2.42	2.35
11.	Indian Overseas Bank	1.74	1.93	2.80	2.95	2.27	1.90	1.97
12.	Oriental Bank of Commerce	2.84	3.42	3.74	2.28	2.02	1.75	1.34
13.	Punjab & Sind Bank	1.19	1.94	1.00	1.64	1.41	2.15	1.75
14.	Punjab National Bank	2.02	2.69	3.05	1.90	2.01	2.23	2.01
15.	Syndicate Bank	1.12	1.80	2.16	1.96	1.65	1.55	1.37
16.	UCO Bank	1.52	1.79	1.82	1.54	1.23	1.26	1.06
17.	Union Bank of India	1.96	2.55	2.54	2.17	1.65	1.95	2.08
18.	United Bank of India	1.04	2.29	2.37	2.37	1.94	1.70	0.86
19.	Vijaya Bank	1.56	2.27	3.60	2.73	2.01	1.64	1.18
	State Bank Group	**1.94**	**2.27**	**2.62**	**2.44**	**2.17**	**1.77**	**1.73**
20	State Bank of India	1.74	2.07	2.34	2.39	2.29	1.77	1.82
21.	State Bank of Bikaner & Jaipur	2.52	2.45	3.39	3.11	1.75	1.97	1.61
22.	State Bank of Hyderabad	2.71	2.90	3.31	2.04	1.81	2.05	1.61
23.	State Bank of Indore	3.48	3.70	4.08	2.08	1.88	1.59	1.54
24.	State Bank of Mysore	2.27	3.11	3.09	2.73	2.26	1.76	1.72
25.	State Bank of Patiala	3.25	3.47	3.73	2.71	1.78	1.66	1.32
26.	State Bank of Saurashtra	2.36	2.52	3.53	2.57	1.67	1.32	0.83
27.	State Bank of Travancore	1.95	2.39	2.92	2.78	2.11	1.87	1.61
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	0.44	0.90	0.87	1.02

Appendix Table III.19: Gross Profit/Loss as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**1.74**	**2.44**	**2.27**	**1.80**	**1.71**	**1.84**	**2.05**
	Old Private Sector Banks	**2.70**	**2.67**	**2.64**	**1.68**	**1.51**	**1.88**	**1.85**
1.	Bank of Rajasthan Ltd.	1.69	2.42	2.19	0.90	0.20	1.59	1.08
2.	Catholic Syrian Bank Ltd.	2.60	2.89	2.86	1.77	0.77	1.18	1.23
3.	City Union Bank Ltd.	2.92	3.06	3.69	2.34	2.64	2.45	2.47
4.	Dhanalakshmi Bank Ltd.	2.68	3.02	2.74	0.70	0.81	1.12	1.10
5.	Federal Bank Ltd.	3.01	2.88	2.89	2.38	2.19	2.44	2.44
6.	ING Vysya Bank Ltd.	1.91	2.11	1.98	0.65	0.61	1.17	1.20
7.	Jammu & Kashmir Bank Ltd.	3.14	3.30	2.96	1.51	1.62	1.94	1.99
8.	Karnataka Bank Ltd.	3.23	2.73	3.12	2.72	2.20	2.20	2.02
9.	Karur Vysya Bank Ltd.	3.17	3.20	3.02	2.53	2.54	2.47	2.11
10.	Lakshmi Vilas Bank Ltd.	2.72	2.50	2.27	1.35	0.81	1.26	1.38
11.	Lord Krishna Bank Ltd.	2.93	2.76	1.85	-0.04	0.04	0.14	-
12.	Nainital Bank Ltd.	1.77	1.51	2.41	2.01	2.11	2.25	2.48
13.	Ratnakar Bank Ltd.	3.69	2.74	1.70	1.10	1.33	0.56	2.28
14.	Sangli Bank Ltd.	1.51	1.11	1.41	0.28	-0.41	-2.24	-
15.	SBI Commercial & International Bank Ltd.	1.86	2.78	5.31	2.29	3.78	0.85	1.86
16.	South Indian Bank Ltd.	2.64	2.84	2.61	1.82	1.44	1.84	1.58
17.	Tamilnad Mercantile Bank Ltd.	2.82	2.87	3.34	3.10	3.18	3.26	2.53
	New Private Sector Banks	**1.22**	**2.31**	**2.08**	**1.85**	**1.78**	**1.83**	**2.10**
18.	Axis Bank	2.83	2.09	2.89	1.50	2.00	1.73	2.03
19.	Centurion Bank of Punjab Ltd.	0.35	0.64	0.34	0.67	1.52	1.46	1.31
20.	Development Credit Bank Ltd.	2.47	1.35	1.00	-0.09	-0.53	0.78	1.45
21.	HDFC Bank	2.29	2.33	2.38	2.61	2.69	2.81	2.83
22.	ICICI Bank	0.52	2.41	1.98	1.76	1.55	1.70	1.99
23.	IndusInd Bank Ltd.	2.47	3.28	2.95	2.57	1.06	0.82	0.84
24.	Kotak Mahindra Bank Ltd.	-	4.16	2.18	2.05	2.07	1.64	2.37
25.	Yes Bank Ltd.	-	-	-	-0.29	2.38	1.55	2.06

Appendix Table III.19: Gross Profit/Loss as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.10**	**3.20**	**3.68**	**2.98**	**3.34**	**3.51**	**3.84**
1.	AB Bank Ltd.	6.40	5.26	6.93	6.23	7.61	6.55	6.95
2.	ABN-AMRO Bank N.V.	3.68	3.13	3.38	2.87	2.47	3.64	2.50
3.	Abu Dhabi Commercial Bank Ltd.	0.90	0.69	0.70	0.26	0.57	1.38	7.04
4.	American Express Bank Ltd.	3.80	3.37	2.95	2.56	2.94	4.02	–
5.	Antwerp Diamond Bank	–	1.09	2.29	1.98	2.05	2.95	2.43
6.	Bank Internasional Indonesia	0.22	-2.93	0.04	-0.23	0.90	4.63	11.14
7.	Bank of America NA	3.56	2.71	2.34	2.86	4.80	5.60	6.54
8.	Bank of Bahrain & Kuwait B.S.C.	2.72	2.23	1.23	0.30	0.46	1.38	2.40
9.	Bank of Ceylon	5.49	2.58	2.98	3.63	4.17	4.24	5.55
10.	Bank of Nova Scotia	2.70	3.19	1.95	2.05	1.87	2.72	2.41
11.	Bank of Tokyo-Mitsubishi UFJ	3.04	3.19	8.05	5.70	2.27	3.63	4.25
12.	Barclays Bank PLC	4.51	8.42	15.15	12.61	11.69	4.98	1.36
13.	BNP Paribas	-0.60	0.06	1.18	1.92	2.11	3.29	3.74
14.	Calyon Bank	0.50	1.24	-0.27	-0.61	4.25	4.40	5.61
15.	Chinatrust Commercial Bank	4.20	4.23	4.58	2.33	1.84	1.02	1.29
16.	Citibank N.A.	3.97	3.44	4.17	3.47	3.47	3.29	4.67
17.	DBS Bank Ltd.	3.49	4.45	1.95	0.79	1.45	2.48	1.31
18.	Deutsche Bank AG	4.39	5.93	5.88	2.04	2.69	2.34	3.50
19.	HSBC Ltd.	2.50	2.25	3.04	3.39	3.41	3.50	3.87
20.	JPMorgan Chase Bank	8.29	5.19	3.75	6.84	4.60	4.06	6.16
21.	Krung Thai Bank Public Co. Ltd.	4.38	2.75	1.66	1.32	8.70	2.81	2.85
22.	Mashreq Bank PSC	3.26	4.01	1.84	1.26	5.43	8.34	9.95
23.	Mizuho Corporate Bank Ltd.	1.10	1.23	2.96	2.09	2.09	2.74	2.86
24.	Oman International Bank S.A.O.G.	-2.05	-1.34	-0.17	-0.10	-0.74	-0.33	-0.70
25.	Shinhan Bank	6.45	7.44	4.67	3.69	2.37	2.64	3.66
26.	Societe Generale	-0.05	0.58	2.61	1.27	1.91	1.51	1.18
27.	Sonali Bank	3.66	2.15	6.35	7.61	3.31	2.90	3.22
28.	Standard Chartered Bank	3.84	3.80	4.01	2.87	3.75	3.97	4.02
29.	State Bank of Mauritius Ltd.	4.56	4.12	5.22	2.41	2.65	2.27	2.31

- : 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**0.75**	**1.01**	**1.13**	**0.89**	**0.88**	**0.90**	**0.99**
	Public Sector Banks	**0.72**	**0.96**	**1.12**	**0.87**	**0.82**	**0.83**	**0.88**
	Nationalised Banks	**0.69**	**0.98**	**1.19**	**0.89**	**0.81**	**0.85**	**0.90**
1.	Allahabad Bank	0.32	0.59	1.34	1.20	1.28	1.11	1.18
2.	Andhra Bank	0.97	1.63	1.72	1.59	1.19	1.13	1.02
3.	Bank of Baroda	0.77	1.01	1.14	0.71	0.73	0.72	0.80
4.	Bank of India	0.73	1.12	1.19	0.36	0.62	0.79	1.12
5.	Bank of Maharashtra	0.68	0.89	0.95	0.54	0.16	0.70	0.68
6.	Canara Bank	1.03	1.24	1.35	1.01	1.01	0.86	0.87
7.	Central Bank of India	0.31	0.54	0.98	0.52	0.34	0.54	0.44
8.	Corporation Bank	1.31	1.58	1.73	1.19	1.10	1.02	1.10
9.	Dena Bank	0.06	0.57	1.04	0.25	0.27	0.64	0.93
10.	Indian Bank	0.11	0.53	1.04	0.93	1.06	1.35	1.43
11.	Indian Overseas Bank	0.65	1.01	1.08	1.28	1.32	1.23	1.18
12.	Oriental Bank of Commerce	0.99	1.34	1.67	1.34	0.95	0.79	0.39
13.	Punjab & Sind Bank	0.17	0.03	0.06	-0.45	0.57	1.00	1.24
14.	Punjab National Bank	0.77	0.98	1.08	1.12	0.99	0.95	1.03
15.	Syndicate Bank	0.79	1.00	0.92	0.77	0.88	0.80	0.79
16.	UCO Bank	0.52	0.59	0.99	0.63	0.32	0.42	0.46
17.	Union Bank of India	0.71	1.08	1.22	0.99	0.76	0.82	1.12
18.	United Bank of India	0.52	1.26	1.22	1.03	0.62	0.63	0.59
19.	Vijaya Bank	0.81	1.03	1.71	1.30	0.40	0.78	0.64
	State Bank Group	**0.77**	**0.91**	**1.02**	**0.91**	**0.86**	**0.82**	**0.89**
20.	State Bank of India	0.70	0.83	0.90	0.94	0.89	0.80	0.93
21.	State Bank of Bikaner & Jaipur	1.06	1.13	1.50	0.88	0.53	0.89	0.77
22.	State Bank of Hyderabad	1.02	1.15	1.24	0.72	1.05	1.03	0.90
23.	State Bank of Indore	1.27	1.76	1.73	0.79	0.67	0.77	0.80
24.	State Bank of Mysore	0.64	1.02	1.28	1.25	1.12	0.93	0.96
25.	State Bank of Patiala	1.34	1.51	1.60	0.91	0.74	0.77	0.70
26.	State Bank of Saurashtra	0.88	0.81	1.38	0.27	0.36	0.46	0.24
27.	State Bank of Travancore	0.73	0.90	1.02	0.86	0.81	0.86	0.88
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	–	0.38	0.63	0.61	0.56

Appendix Table III.20: Net Profit/Loss as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**0.66**	**1.00**	**0.95**	**0.83**	**0.87**	**0.87**	**1.01**
	Old Private Sector Banks	**1.08**	**1.17**	**1.20**	**0.33**	**0.58**	**0.70**	**1.02**
1.	Bank of Rajasthan Ltd.	0.84	1.12	0.82	0.38	0.15	0.91	0.73
2.	Catholic Syrian Bank Ltd.	1.07	1.17	1.31	0.24	0.13	0.36	0.61
3.	City Union Bank Ltd.	1.28	1.27	1.79	1.33	1.37	1.34	1.38
4.	Dhanalakshmi Bank Ltd.	0.53	0.71	0.71	-0.82	0.33	0.47	0.71
5.	Federal Bank Ltd.	0.81	0.86	0.90	0.54	1.09	1.17	1.13
6.	ING Vysya Bank Ltd.	0.64	0.75	0.45	-0.25	0.05	0.46	0.61
7.	Jammu & Kashmir Bank Ltd.	1.77	2.01	1.92	0.47	0.67	0.96	1.10
8.	Karnataka Bank Ltd.	1.17	1.19	1.26	1.17	1.18	1.09	1.25
9.	Karur Vysya Bank Ltd.	2.12	2.02	2.27	1.34	1.50	1.44	1.43
10.	Lakshmi Vilas Bank Ltd.	1.06	1.07	1.07	0.08	0.46	0.30	0.39
11.	Lord Krishna Bank Ltd.	1.14	1.24	1.01	-0.97	0.14	-0.61	-
12.	Nainital Bank Ltd.	0.87	0.99	1.43	1.08	0.92	1.04	1.32
13.	Ratnakar Bank Ltd.	1.00	1.30	1.04	-1.09	0.06	0.26	1.14
14.	Sangli Bank Ltd.	0.58	0.65	0.61	-1.48	-1.36	-18.87	-
15.	SBI Commercial & International Bank Ltd.	0.46	-1.45	3.67	-2.10	1.09	1.13	1.93
16.	South Indian Bank Ltd.	0.95	0.95	0.91	0.09	0.47	0.76	0.89
17.	Tamilnad Mercantile Bank Ltd.	1.29	1.35	1.59	1.47	1.66	1.49	1.43
	New Private Sector Banks	**0.44**	**0.90**	**0.83**	**1.05**	**0.97**	**0.91**	**1.01**
18.	Axis Bank Ltd.	0.93	0.98	1.15	0.89	0.98	0.90	0.98
19.	Centurion Bank of Punjab Ltd.	-2.26	-0.75	-2.96	0.54	0.77	0.66	0.44
20.	Development Credit Bank Ltd.	0.81	0.78	0.32	-3.50	-2.28	0.14	0.51
21.	HDFC Bank	1.25	1.27	1.20	1.29	1.18	1.25	1.19
22.	ICICI Bank	0.25	1.13	1.31	1.20	1.01	0.90	1.04
23.	IndusInd Bank Ltd.	0.50	0.91	1.74	1.35	0.21	0.33	0.32
24.	Kotak Mahindra Bank Ltd.	-	2.09	1.35	1.30	1.16	0.71	1.04
25.	Yes Bank Ltd.	-	-	-	-0.29	1.33	0.85	1.18

Appendix Table III.20: Net Profit/Loss as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**1.32**	**1.56**	**1.65**	**1.29**	**1.54**	**1.67**	**1.82**
1.	AB Bank Ltd.	2.82	2.73	4.08	3.61	4.26	3.33	3.65
2.	ABN-AMRO Bank N.V.	1.72	1.56	1.84	1.27	1.03	1.35	0.77
3.	Abu Dhabi Commercial Bank Ltd.	0.47	0.17	0.49	-2.57	0.66	0.24	5.02
4.	American Express Bank Ltd.	0.27	-0.90	-0.69	0.55	1.45	1.28	-
5.	Antwerp Diamond Bank	-	0.36	1.18	1.00	1.21	1.70	1.36
6.	Bank Internasional Indonesia	0.24	2.11	-0.22	-0.67	-0.98	4.72	8.78
7.	Bank of America NA	1.72	1.74	1.26	1.46	2.42	3.10	3.76
8.	Bank of Bahrain & Kuwait B.S.C.	1.25	1.06	0.12	-3.77	-1.51	-1.73	3.62
9.	Bank of Ceylon	0.02	0.27	0.36	1.19	0.25	1.25	2.33
10.	Bank of Nova Scotia	1.00	0.78	0.57	-0.35	0.86	1.72	1.44
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	4.08	3.27	6.96	0.93	0.02	2.11	2.40
12.	Barclays Bank PLC	1.78	2.87	9.37	6.68	6.49	2.92	0.05
13.	BNP Paribas	-0.94	-0.53	-0.44	0.50	0.51	1.51	1.72
14.	Calyon Bank	0.99	0.36	0.51	-0.84	4.06	2.71	2.78
15.	Chinatrust Commercial Bank	1.00	2.12	1.15	-7.68	-1.71	0.34	1.63
16.	Citibank N.A.	1.51	1.55	1.93	1.77	1.55	1.36	2.15
17.	DBS Bank Ltd.	2.02	2.01	-1.31	0.64	0.50	1.22	0.72
18.	Deutsche Bank AG	2.24	2.92	3.17	0.72	1.04	1.23	1.56
19.	HSBC Ltd.	0.87	0.72	1.55	1.21	1.37	1.54	1.57
20.	JPMorgan Chase Bank	3.18	3.10	2.34	3.58	2.53	1.71	3.07
21.	Krung Thai Bank Public Co. Ltd.	0.02	-0.72	1.38	0.03	5.37	1.53	1.56
22.	Mashreq Bank PSC	1.59	3.25	1.76	1.10	4.23	9.37	7.78
23.	Mizuho Corporate Bank Ltd.	-1.45	0.31	2.41	2.13	0.88	1.30	1.67
24.	Oman International Bank S.A.O.G.	-4.47	-1.83	-0.39	-3.14	-0.89	-0.62	2.01
25.	Shinhan Bank	3.42	2.47	2.21	2.07	1.35	1.20	1.86
26.	Societe Generale	-2.29	-1.58	2.04	1.71	0.95	0.77	1.28
27.	Sonali Bank	1.41	1.23	3.36	4.32	1.69	1.52	1.60
28.	Standard Chartered Bank	2.02	2.92	1.74	1.62	1.97	2.32	2.32
29.	State Bank of Mauritius Ltd.	0.85	1.05	1.33	1.20	0.68	1.53	1.12

- : Nil/Negligible.

Source: Balance Sheet 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**8.26**	**8.28**	**7.31**	**6.61**	**6.65**	**6.70**	**7.16**
	Public Sector Banks	**8.72**	**8.34**	**7.45**	**6.79**	**6.84**	**6.73**	**7.08**
	Nationalised Banks	**8.78**	**8.39**	**7.44**	**6.91**	**6.74**	**6.82**	**7.21**
1.	Allahabad Bank	9.18	9.16	7.69	7.06	6.81	7.22	7.57
2.	Andhra Bank	9.69	8.89	8.25	6.97	6.58	6.97	7.58
3.	Bank of Baroda	8.40	7.98	7.22	6.79	6.22	6.29	6.58
4.	Bank of India	8.01	7.77	6.83	6.35	6.26	6.30	6.91
5.	Bank of Maharashtra	9.31	8.36	6.83	7.20	7.93	6.98	7.35
6.	Canara Bank	8.83	8.16	7.11	6.86	6.56	6.85	7.87
7.	Central Bank of India	8.85	8.88	7.99	7.59	7.21	6.70	6.45
8.	Corporation Bank	8.24	8.00	7.55	6.63	6.48	6.37	6.78
9.	Dena Bank	9.07	8.79	7.83	7.18	6.63	6.74	7.01
10.	Indian Bank	7.58	7.16	6.81	6.54	7.06	7.47	7.31
11.	Indian Overseas Bank	8.95	8.47	7.93	7.78	7.42	7.09	7.82
12.	Oriental Bank of Commerce	9.43	9.72	8.05	6.61	6.99	6.99	7.54
13.	Punjab & Sind Bank	9.20	8.86	8.52	7.94	6.82	7.86	7.27
14.	Punjab National Bank	9.12	8.68	7.60	6.70	6.60	6.92	7.17
15.	Syndicate Bank	9.08	8.35	6.53	7.21	6.63	6.77	7.38
16.	UCO Bank	8.10	8.00	7.07	6.50	7.04	6.96	7.25
17.	Union Bank of India	9.05	8.43	7.74	6.86	6.58	7.19	7.61
18.	United Bank of India	8.93	8.73	8.02	7.33	7.10	6.68	6.55
19.	Vijaya Bank	9.53	8.76	8.06	7.15	7.33	6.66	7.09
	State Bank Group	**8.62**	**8.26**	**7.46**	**7.02**	**7.13**	**6.64**	**6.96**
20.	State Bank of India	8.56	8.27	7.47	7.05	7.28	6.57	6.78
21.	State Bank of Bikaner & Jaipur	8.76	8.00	7.82	7.43	7.14	6.88	7.42
22.	State Bank of Hyderabad	8.67	7.91	7.22	6.66	6.77	6.85	7.15
23.	State Bank of Indore	9.02	8.68	8.02	6.57	6.39	6.76	7.60
24.	State Bank of Mysore	9.38	9.15	7.68	7.09	6.96	6.62	7.54
25.	State Bank of Patiala	8.66	8.26	7.02	6.77	5.97	6.46	7.30
26.	State Bank of Saurashtra	8.99	7.90	7.62	7.52	7.12	6.87	7.29
27.	State Bank of Travancore	8.82	8.32	7.25	6.96	7.21	7.08	7.79
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	3.26	6.08	6.11	6.14

Appendix Table III.21: Interest Income as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**6.18**	**8.26**	**6.99**	**6.14**	**6.16**	**6.65**	**7.57**
	Old Private Sector Banks	**9.36**	**8.50**	**7.56**	**6.95**	**6.92**	**7.15**	**7.55**
1.	Bank of Rajasthan Ltd.	9.41	7.71	5.95	5.71	5.48	6.27	6.64
2.	Catholic Syrian Bank Ltd.	9.68	8.98	8.29	8.30	7.65	7.72	8.07
3.	City Union Bank Ltd.	9.51	8.91	8.65	8.32	7.91	7.46	8.18
4.	Dhanalakshmi Bank Ltd.	9.59	8.98	7.82	7.27	7.37	7.21	7.89
5.	Federal Bank Ltd.	10.28	9.11	7.89	7.08	6.96	7.18	7.74
6.	ING Vysya Bank Ltd.	8.61	7.89	6.99	6.44	7.29	6.57	6.58
7.	Jammu & Kashmir Bank Ltd.	9.21	8.50	7.17	6.34	6.45	6.63	7.43
8.	Karnataka Bank Ltd.	9.57	8.76	8.02	6.71	6.81	7.74	8.12
9.	Karur Vysya Bank Ltd.	9.44	8.35	9.11	7.49	7.23	7.83	7.78
10.	Lakshmi Vilas Bank Ltd.	9.53	8.48	7.48	7.36	6.55	7.18	7.76
11.	Lord Krishna Bank Ltd.	8.36	8.37	6.39	7.79	7.08	8.65	-
12.	Nainital Bank Ltd.	9.55	8.78	8.20	7.00	6.97	7.21	8.19
13.	Ratnakar Bank Ltd.	9.39	8.79	7.99	7.54	7.18	6.66	7.22
14.	Sangli Bank Ltd.	8.00	7.65	6.77	6.48	6.09	6.34	-
15.	SBI Commercial & International Bank Ltd.	8.07	8.30	8.08	5.42	6.85	5.08	6.56
16.	South Indian Bank Ltd.	9.39	8.62	7.36	7.48	7.03	7.15	7.66
17.	Tamilnad Mercantile Bank Ltd.	10.12	9.99	10.56	9.13	8.98	9.00	8.73
	New Private Sector Banks	**4.48**	**8.13**	**6.71**	**5.77**	**5.89**	**6.51**	**7.57**
18.	Axis Bank Ltd.	8.20	7.47	6.62	5.10	5.81	6.09	6.39
19.	Centurion Bank of Punjab Ltd.	11.57	10.97	9.41	7.50	7.09	6.67	8.12
20.	Development Credit Bank Ltd.	9.01	8.14	6.54	6.51	7.41	6.59	7.58
21.	HDFC Bank	7.16	6.62	6.02	6.02	6.09	7.29	7.60
22.	ICICI Bank	2.07	8.77	7.19	5.61	5.69	6.38	7.70
23.	IndusInd Bank Ltd.	6.96	7.50	6.54	7.26	6.74	7.17	8.25
24.	Kotak Mahindra Bank Ltd.	-	8.42	4.96	6.45	7.06	6.62	8.95
25.	Yes Bank Ltd.	-	-	-	2.35	4.63	5.29	7.72

Appendix Table III.21: Interest Income as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**8.56**	**7.68**	**6.74**	**5.97**	**6.17**	**6.53**	**6.71**
1.	AB Bank Ltd.	6.19	4.65	4.78	4.37	5.55	6.34	5.65
2.	ABN-AMRO Bank N.V.	10.16	7.92	7.18	5.89	5.85	7.66	8.30
3.	Abu Dhabi Commercial Bank Ltd.	10.03	9.65	8.47	7.68	16.16	5.88	11.22
4.	American Express Bank Ltd.	8.60	10.05	8.99	8.93	7.09	7.15	-
5.	Antwerp Diamond Bank	-	4.61	4.06	3.95	5.71	6.69	5.17
6.	Bank Internasional Indonesia	4.27	4.48	3.61	2.87	3.38	4.73	2.73
7.	Bank of America NA	9.13	6.99	5.48	4.68	5.83	6.81	6.33
8.	Bank of Bahrain & Kuwait B.S.C.	8.55	8.12	5.77	5.71	6.49	6.36	6.59
9.	Bank of Ceylon	8.32	6.86	5.14	4.68	5.48	6.19	6.93
10.	Bank of Nova Scotia	8.73	9.67	4.52	4.75	4.97	5.84	5.03
11.	Bank of Tokyo-Mitsubishi Ltd.UFJ	8.62	9.70	6.55	5.02	4.15	5.30	6.10
12.	Barclays Bank PLC	4.60	2.83	3.95	3.35	3.50	4.40	4.83
13.	BNP Paribas	7.54	9.11	5.93	5.99	5.98	7.20	6.06
14.	Calyon Bank	5.95	8.28	8.42	6.22	6.93	5.08	6.06
15.	Chinatrust Commercial Bank	13.35	11.17	10.01	7.82	5.22	6.20	6.92
16.	Citibank N.A.	8.89	7.84	7.70	6.52	6.74	6.61	7.11
17.	DBS Bank Ltd.	7.92	10.58	4.86	2.45	4.86	6.28	6.98
18.	Deutsche Bank AG	8.17	5.67	3.50	3.63	5.01	5.49	5.85
19.	HSBC Ltd.	7.83	7.08	6.15	5.83	5.88	6.39	6.56
20.	JPMorgan Chase Bank	6.32	4.78	5.43	3.06	4.37	4.48	5.57
21.	Krung Thai Bank Public Co. Ltd.	8.71	6.90	5.77	4.91	5.81	6.34	6.09
22.	Mashreq Bank PSC	11.18	12.19	10.02	8.57	23.06	6.93	6.77
23.	Mizuho Corporate Bank Ltd.	8.39	8.40	6.84	3.79	4.41	4.76	6.10
24.	Oman International Bank S.A.O.G.	4.42	4.11	4.00	4.05	3.95	4.13	3.79
25.	Shinhan Bank	7.11	10.38	5.44	4.53	4.25	5.09	6.84
26.	Societe Generale	7.57	5.62	4.03	4.16	5.12	5.90	7.03
27.	Sonali Bank	3.54	4.00	3.92	4.40	4.43	3.45	3.79
28.	Standard Chartered Bank	8.12	7.80	7.35	6.70	6.65	6.87	6.64
29.	State Bank of Mauritius Ltd.	9.27	6.10	6.78	7.94	8.84	7.09	8.14

- : Nil/Negligible.

Source : Balance Sheet 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**5.70**	**5.51**	**4.44**	**3.78**	**3.85**	**4.12**	**4.81**
	Public Sector Banks	**5.99**	**5.43**	**4.47**	**3.88**	**4.00**	**4.18**	**4.93**
	Nationalised Banks	**6.03**	**5.39**	**4.38**	**3.89**	**3.84**	**4.16**	**4.98**
1.	Allahabad Bank	6.23	5.92	4.56	4.03	3.96	4.63	5.42
2.	Andhra Bank	6.95	5.84	4.87	3.71	3.70	3.99	5.07
3.	Bank of Baroda	5.75	5.23	4.20	3.65	3.42	3.79	4.40
4.	Bank of India	5.40	5.10	4.24	4.00	3.92	3.88	4.54
5.	Bank of Maharashtra	6.57	5.64	4.44	4.52	4.81	4.17	4.80
6.	Canara Bank	6.31	5.39	4.35	4.01	3.86	4.42	5.91
7.	Central Bank of India	5.93	5.56	4.64	4.13	4.02	4.04	4.66
8.	Corporation Bank	5.59	4.99	4.24	3.30	3.46	3.89	4.61
9.	Dena Bank	6.72	5.97	5.16	4.32	3.91	4.02	4.70
10.	Indian Bank	5.83	4.84	3.96	3.57	3.89	4.30	4.48
11.	Indian Overseas Bank	6.21	5.50	4.55	4.12	3.94	3.98	5.19
12.	Oriental Bank of Commerce	6.42	6.15	4.50	3.79	4.27	4.70	5.68
13.	Punjab & Sind Bank	6.90	6.20	5.23	4.30	3.51	4.37	4.63
14.	Punjab National Bank	5.97	5.06	4.06	3.53	3.39	3.71	4.39
15.	Syndicate Bank	5.59	4.84	3.51	3.96	3.55	4.36	5.45
16.	UCO Bank	5.77	5.47	4.34	3.92	4.51	4.84	5.59
17.	Union Bank of India	6.04	5.50	4.77	4.01	3.92	4.47	5.13
18.	United Bank of India	6.29	5.77	5.00	4.18	4.03	3.96	4.88
19.	Vijaya Bank	6.52	5.39	4.58	3.78	4.25	4.13	5.44
	State Bank Group	**5.91**	**5.50**	**4.62**	**3.96**	**4.05**	**4.05**	**4.73**
20.	State Bank of India	5.95	5.62	4.73	4.02	4.13	3.92	4.43
21.	State Bank of Bikaner & Jaipur	5.59	4.93	4.26	3.72	3.54	4.16	5.13
22.	State Bank of Hyderabad	5.74	5.05	4.48	3.90	4.07	4.35	5.34
23.	State Bank of Indore	6.05	5.45	4.54	3.60	3.77	4.58	5.65
24.	State Bank of Mysore	6.33	5.74	4.38	3.76	3.80	4.07	5.24
25.	State Bank of Patiala	4.88	4.58	3.96	3.67	3.55	4.34	5.79
26.	State Bank of Saurashtra	6.01	5.11	4.47	4.15	4.22	4.65	5.59
27.	State Bank of Travancore	6.24	5.58	4.40	3.85	4.22	4.47	5.62
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	3.03	5.65	5.48	5.63

Appendix Table III.22: Interest Expended as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**4.60**	**6.29**	**4.77**	**3.80**	**3.76**	**4.41**	**5.16**
	Old Private Sector Banks	**6.97**	**6.03**	**4.96**	**4.25**	**4.17**	**4.39**	**5.12**
1.	Bank of Rajasthan Ltd.	6.73	4.76	3.70	3.37	3.22	3.63	4.66
2.	Catholic Syrian Bank Ltd.	7.36	6.67	5.45	5.01	4.57	4.75	5.32
3.	City Union Bank Ltd.	7.06	6.37	5.64	5.14	4.52	4.34	5.39
4.	Dhanalakshmi Bank Ltd.	7.34	6.46	4.98	4.50	4.45	4.34	5.29
5.	Federal Bank Ltd.	7.55	6.33	5.10	4.09	4.05	4.32	5.07
6.	ING Vysya Bank Ltd.	6.91	6.00	5.14	4.12	4.42	4.26	4.63
7.	Jammu & Kashmir Bank Ltd.	6.23	5.36	4.25	3.90	3.94	3.95	4.96
8.	Karnataka Bank Ltd.	7.76	7.09	6.00	4.18	4.36	5.16	5.70
9.	Karur Vysya Bank Ltd.	6.22	5.61	4.93	4.24	4.08	4.70	5.25
10.	Lakshmi Vilas Bank Ltd.	7.36	6.34	5.30	4.73	4.40	5.13	5.86
11.	Lord Krishna Bank Ltd.	7.59	6.95	5.09	5.52	4.99	6.59	-
12.	Nainital Bank Ltd.	5.68	5.08	4.33	3.47	3.05	3.25	4.52
13.	Ratnakar Bank Ltd.	6.50	6.10	5.26	4.45	4.11	3.70	3.53
14.	Sangli Bank Ltd.	5.58	5.46	4.14	4.09	3.77	4.04	-
15.	SBI Commercial & International Bank Ltd.	7.30	6.16	5.33	3.47	3.59	3.40	5.39
16.	South Indian Bank Ltd.	7.02	6.28	5.19	4.77	4.17	4.46	5.35
17.	Tamilnad Mercantile Bank Ltd.	6.77	6.40	6.33	5.01	4.95	4.83	5.63
	New Private Sector Banks	**3.33**	**6.43**	**4.68**	**3.60**	**3.62**	**4.41**	**5.17**
18.	Axis Bank Ltd.	6.81	5.82	4.23	3.16	3.64	4.09	4.03
19.	Centurion Bank of Punjab Ltd.	9.09	7.95	5.74	3.65	3.57	3.78	5.54
20.	Development Credit Bank Ltd.	6.87	6.52	4.76	5.01	5.40	4.32	5.12
21.	HDFC Bank	4.51	3.92	2.86	2.56	2.62	3.48	3.67
22.	ICICI Bank	1.50	7.44	5.60	3.92	3.82	4.75	5.87
23.	IndusInd Bank Ltd.	5.36	5.64	4.44	4.60	4.95	5.87	6.79
24.	Kotak Mahindra Bank Ltd.	-	4.03	2.02	2.99	3.33	3.51	4.63
25.	Yes Bank Ltd.	-	-	-	0.93	2.52	3.75	5.74

Appendix Table III.22: Interest Expended as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**5.34**	**4.33**	**3.15**	**2.63**	**2.58**	**2.77**	**2.91**
1.	AB Bank	0.69	0.77	0.77	0.50	0.56	0.74	0.55
2.	ABN-AMRO Bank N.V.	5.49	4.01	2.94	2.17	2.80	3.64	3.99
3.	Abu Dhabi Commercial Bank Ltd.	9.11	8.78	7.51	7.07	14.66	4.07	4.62
4.	American Express Bank Ltd.	5.78	6.62	5.25	5.00	4.23	4.12	-
5.	Antwerp Diamond Bank	-	1.24	1.06	1.48	3.32	3.96	2.92
6.	Bank Internasional Indonesia	1.70	1.06	0.72	0.55	0.78	1.32	0.20
7.	Bank of America NA	6.20	4.47	3.18	2.32	2.46	2.68	2.01
8.	Bank of Bahrain & Kuwait B.S.C.	7.37	6.40	4.71	3.63	4.47	3.68	3.53
9.	Bank of Ceylon	3.90	3.80	3.11	2.93	2.31	2.42	1.93
10.	Bank of Nova Scotia	6.32	6.83	3.11	3.21	3.50	4.07	3.66
11.	Bank of Tokyo-Mitsubishi Ltd.	3.92	4.45	1.73	1.39	1.56	1.98	2.20
12.	Barclays Bank PLC	3.67	2.00	0.95	0.92	1.50	2.27	2.50
13.	BNP Paribas	5.66	6.26	3.32	3.08	3.03	4.10	3.34
14.	Calyon Bank	4.96	5.98	5.55	5.20	5.58	2.88	3.13
15.	Chinatrust Commercial Bank	7.14	4.20	3.16	2.85	1.71	3.67	4.05
16.	Citibank N.A.	5.13	4.08	3.12	2.22	2.21	2.56	2.76
17.	DBS Bank Ltd.	4.83	5.11	2.23	0.60	1.90	3.99	4.33
18.	Deutsche Bank AG	4.41	3.03	2.66	2.84	3.06	2.64	2.17
19.	HSBC Ltd.	5.21	4.20	2.85	2.31	2.21	2.21	2.66
20.	JPMorgan Chase Bank	3.01	1.25	1.32	1.24	1.79	2.04	2.51
21.	Krung Thai Bank Public Co. Ltd.	0.68	0.34	0.49	0.75	0.86	1.15	1.88
22.	Mashreq Bank PSC	8.96	8.76	7.61	7.32	20.88	0.62	0.21
23.	Mizuho Corporate Bank Ltd.	6.18	5.74	2.32	1.28	2.09	1.63	2.76
24.	Oman International Bank S.A.O.G.	6.38	5.83	4.36	3.36	3.22	3.24	3.13
25.	Shinhan Bank	0.97	3.24	1.14	1.03	1.81	1.24	2.08
26.	Societe Generale	6.38	3.66	2.15	2.42	2.86	4.08	5.26
27.	Sonali Bank	2.00	2.90	2.48	2.48	2.64	1.79	1.69
28.	Standard Chartered Bank	4.61	3.93	3.12	2.98	2.59	2.80	2.90
29.	State Bank of Mauritius Ltd.	6.57	3.61	3.80	4.98	5.50	4.81	5.65

- : Nil/Negligible.

Source : Balance Sheet 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**2.57**	**2.77**	**2.88**	**2.83**	**2.81**	**2.58**	**2.35**
	Public Sector Banks	**2.73**	**2.91**	**2.98**	**2.91**	**2.85**	**2.55**	**2.15**
	Nationalised Banks	**2.74**	**3.00**	**3.06**	**3.02**	**2.89**	**2.66**	**2.23**
1.	Allahabad Bank	2.95	3.24	3.13	3.02	2.85	2.59	2.15
2.	Andhra Bank	2.75	3.05	3.37	3.27	2.87	2.98	2.51
3.	Bank of Baroda	2.65	2.75	3.02	3.15	2.80	2.50	2.18
4.	Bank of India	2.62	2.67	2.59	2.36	2.34	2.43	2.36
5.	Bank of Maharashtra	2.73	2.72	2.38	2.68	3.11	2.80	2.55
6.	Canara Bank	2.52	2.76	2.76	2.86	2.70	2.43	1.96
7.	Central Bank of India	2.92	3.32	3.35	3.46	3.19	2.66	1.79
8.	Corporation Bank	2.65	3.02	3.31	3.33	3.03	2.48	2.17
9.	Dena Bank	2.35	2.82	2.67	2.86	2.72	2.72	2.31
10.	Indian Bank	1.75	2.32	2.85	2.97	3.17	3.17	2.82
11.	Indian Overseas Bank	2.74	2.97	3.38	3.65	3.48	3.11	2.63
12.	Oriental Bank of Commerce	3.02	3.57	3.55	2.82	2.72	2.29	1.85
13.	Punjab & Sind Bank	2.30	2.67	3.29	3.64	3.31	3.49	2.64
14.	Punjab National Bank	3.15	3.62	3.54	3.17	3.21	3.21	2.78
15.	Syndicate Bank	3.49	3.51	3.03	3.25	3.08	2.41	1.93
16.	UCO Bank	2.33	2.53	2.73	2.58	2.53	2.12	1.66
17.	Union Bank of India	3.01	2.93	2.98	2.85	2.66	2.72	2.49
18.	United Bank of India	2.64	2.97	3.02	3.15	3.07	2.72	1.67
19.	Vijaya Bank	3.01	3.37	3.48	3.36	3.08	2.53	1.65
	State Bank Group	**2.71**	**2.76**	**2.83**	**3.06**	**3.07**	**2.59**	**2.24**
20.	State Bank of India	2.61	2.65	2.74	3.03	3.16	2.66	2.36
21.	State Bank of Bikaner & Jaipur	3.16	3.07	3.56	3.71	3.61	2.72	2.28
22.	State Bank of Hyderabad	2.94	2.86	2.75	2.76	2.69	2.50	1.81
23.	State Bank of Indore	2.97	3.23	3.48	2.97	2.61	2.18	1.95
24.	State Bank of Mysore	3.04	3.41	3.30	3.33	3.16	2.55	2.31
25.	State Bank of Patiala	3.78	3.69	3.06	3.10	2.42	2.12	1.51
26.	State Bank of Saurashtra	2.99	2.79	3.15	3.37	2.90	2.22	1.70
27.	State Bank of Travancore	2.57	2.75	2.85	3.10	3.00	2.61	2.17
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	0.23	0.43	0.63	0.50

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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**1.58**	**1.97**	**2.21**	**2.34**	**2.40**	**2.24**	**2.41**
	Old Private Sector Banks	**2.39**	**2.47**	**2.60**	**2.70**	**2.75**	**2.75**	**2.43**
1.	Bank of Rajasthan Ltd.	2.69	2.95	2.25	2.33	2.27	2.63	1.99
2.	Catholic Syrian Bank Ltd.	2.32	2.32	2.84	3.30	3.08	2.97	2.75
3.	City Union Bank Ltd.	2.45	2.53	3.02	3.17	3.39	3.12	2.79
4.	Dhanalakshmi Bank Ltd.	2.25	2.53	2.84	2.76	2.91	2.86	2.60
5.	Federal Bank Ltd.	2.72	2.78	2.79	2.99	2.91	2.86	2.67
6.	ING Vysya Bank Ltd.	1.70	1.89	1.85	2.32	2.87	2.31	1.95
7.	Jammu & Kashmir Bank Ltd.	2.98	3.13	2.92	2.44	2.51	2.68	2.47
8.	Karnataka Bank Ltd.	1.81	1.67	2.02	2.53	2.45	2.59	2.43
9.	Karur Vysya Bank Ltd.	3.22	2.74	4.18	3.26	3.14	3.13	2.53
10.	Lakshmi Vilas Bank Ltd.	2.17	2.13	2.18	2.63	2.14	2.04	1.90
11.	Lord Krishna Bank Ltd.	0.77	1.42	1.30	2.26	2.09	2.06	-
12.	Nainital Bank Ltd.	3.87	3.70	3.87	3.53	3.92	3.96	3.68
13.	Ratnakar Bank Ltd.	2.89	2.70	2.73	3.08	3.07	2.95	3.70
14.	Sangli Bank Ltd.	2.42	2.19	2.63	2.40	2.33	2.30	-
15.	SBI Commercial & International Bank Ltd.	0.78	2.15	2.76	1.95	3.26	1.68	1.17
16.	South Indian Bank Ltd.	2.37	2.33	2.17	2.71	2.86	2.69	2.31
17.	Tamilnad Mercantile Bank Ltd.	3.35	3.58	4.24	4.12	4.03	4.17	3.11
	New Private Sector Banks	**1.15**	**1.70**	**2.03**	**2.17**	**2.27**	**2.10**	**2.40**
18.	Axis Bank Ltd.	1.38	1.64	2.39	1.94	2.17	2.00	2.36
19.	Centurion Bank of Punjab Ltd.	2.48	3.01	3.66	3.86	3.52	2.89	2.58
20.	Development Credit Bank Ltd.	2.14	1.62	1.77	1.50	2.01	2.27	2.46
21.	HDFC Bank Ltd.	2.65	2.70	3.16	3.46	3.46	3.80	3.93
22.	ICICI Bank Ltd.	0.57	1.33	1.59	1.69	1.87	1.64	1.83
23.	IndusInd Bank Ltd.	1.60	1.86	2.10	2.66	1.79	1.30	1.46
24.	Kotak Mahindra Bank Ltd.	-	4.38	2.94	3.46	3.73	3.11	4.33
25.	Yes Bank Ltd.	-	-	-	1.42	2.12	1.54	1.98

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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.22**	**3.35**	**3.59**	**3.34**	**3.58**	**3.76**	**3.79**
1.	A B Bank Ltd.	5.50	3.89	4.01	3.87	4.99	5.59	5.10
2.	ABN-AMRO Bank N.V.	4.67	3.90	4.23	3.73	3.05	4.02	4.31
3.	Abu Dhabi Commercial Bank Ltd.	0.92	0.87	0.96	0.61	1.49	1.81	6.60
4.	American Express Bank Ltd.	2.82	3.43	3.74	3.92	2.87	3.03	-
5.	Antwerp Diamond Bank	-	3.36	2.99	2.47	2.40	2.73	2.25
6.	Bank Internasional Indonesia	2.57	3.42	2.88	2.32	2.60	3.41	2.53
7.	Bank of America NA	2.93	2.52	2.30	2.36	3.36	4.13	4.32
8.	Bank of Bahrain & Kuwait B.S.C.	1.18	1.72	1.06	2.09	2.02	2.68	3.06
9.	Bank of Ceylon	4.43	3.06	2.03	1.75	3.17	3.77	5.00
10.	Bank of Nova Scotia	2.41	2.84	1.41	1.54	1.46	1.77	1.37
11.	Bank of Tokyo-Mitsubishi UFJ	4.70	5.25	4.82	3.63	2.58	3.32	3.90
12.	Barclays Bank PLC	0.94	0.83	3.00	2.43	2.00	2.13	2.32
13.	BNP Paribas	1.88	2.85	2.61	2.91	2.95	3.10	2.71
14.	Calyon Bank	0.99	2.30	2.87	1.02	1.35	2.20	2.93
15.	Chinatrust Commercial Bank	6.21	6.97	6.85	4.97	3.51	2.53	2.87
16.	Citibank N.A.	3.76	3.76	4.58	4.29	4.53	4.05	4.36
17.	DBS Bank Ltd.	3.10	5.47	2.64	1.85	2.96	2.29	2.65
18.	Deutsche Bank AG	3.76	2.65	0.84	0.80	1.95	2.85	3.68
19.	HSBC Ltd.	2.63	2.88	3.29	3.52	3.67	4.18	3.90
20.	JPMorgan Chase Bank	3.30	3.53	4.12	1.81	2.58	2.44	3.06
21.	Krung Thai Bank Public Co. Ltd.	8.03	6.56	5.28	4.16	4.95	5.19	4.20
22.	Mashreq Bank PSC	2.22	3.43	2.41	1.26	2.18	6.31	6.56
23.	Mizuho Corporate Bank Ltd.	2.21	2.66	4.52	2.51	2.32	3.14	3.35
24.	Oman International Bank S.A.O.G.	-1.96	-1.72	-0.36	0.69	0.73	0.90	0.66
25.	Shinhan Bank	6.14	7.15	4.30	3.50	2.44	3.85	4.75
26.	Societe Generale	1.19	1.96	1.88	1.74	2.27	1.82	1.77
27.	Sonali Bank	1.55	1.10	1.44	1.93	1.79	1.66	2.10
28.	Standard Chartered Bank	3.51	3.87	4.23	3.72	4.06	4.07	3.74
29.	State Bank of Mauritius Ltd.	2.70	2.50	2.98	2.97	3.34	2.28	2.48

- : 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**1.19**	**1.39**	**1.54**	**1.28**	**1.07**	**1.01**	**0.95**
	Public Sector Banks	**1.16**	**1.36**	**1.55**	**1.31**	**1.06**	**0.92**	**0.79**
	Nationalised Banks	**1.15**	**1.35**	**1.52**	**1.28**	**0.98**	**0.95**	**0.79**
1.	Allahabad Bank	1.32	1.25	1.19	0.87	0.58	0.52	0.61
2.	Andhra Bank	1.07	1.43	1.73	1.44	0.53	0.83	0.85
3.	Bank of Baroda	1.08	1.23	1.78	1.73	0.96	0.97	0.89
4.	Bank of India	1.29	1.55	1.45	1.18	0.89	0.90	0.95
5.	Bank of Maharashtra	1.26	1.20	1.15	1.12	1.01	0.88	0.71
6.	Canara Bank	1.27	1.19	1.53	1.34	0.91	0.90	0.77
7.	Central Bank of India	1.03	1.08	1.44	1.82	1.26	0.83	0.58
8.	Corporation Bank	1.33	1.66	1.38	1.84	1.26	1.15	0.78
9.	Dena Bank	1.72	1.88	2.17	1.34	1.99	1.38	0.85
10.	Indian Bank	0.91	1.13	1.01	1.25	0.82	1.07	0.92
11.	Indian Overseas Bank	1.09	0.92	1.72	1.66	0.95	0.67	0.78
12.	Oriental Bank of Commerce	1.85	2.08	2.07	0.94	1.08	0.97	0.95
13.	Punjab & Sind Bank	1.02	1.91	0.94	2.09	0.84	1.16	0.52
14.	Punjab National Bank	1.25	1.71	1.97	0.79	1.02	1.28	0.98
15.	Syndicate Bank	0.33	0.80	1.24	1.18	0.77	0.75	0.58
16.	UCO Bank	0.99	1.19	0.83	0.90	0.91	0.84	0.60
17.	Union Bank of India	1.25	1.47	1.32	1.18	0.89	1.13	0.96
18.	United Bank of India	0.52	1.03	1.15	1.34	1.32	1.07	0.27
19.	Vijaya Bank	0.75	1.24	1.89	1.43	1.61	0.86	0.53
	State Bank Group	**1.17**	**1.36**	**1.59**	**1.53**	**1.31**	**0.96**	**0.83**
20.	State Bank of India	1.04	1.24	1.44	1.45	1.40	0.96	0.88
21.	State Bank of Bikaner & Jaipur	1.46	1.32	1.89	2.24	1.22	1.08	0.84
22.	State Bank of Hyderabad	1.69	1.75	2.07	1.32	0.76	1.02	0.70
23.	State Bank of Indore	2.21	1.94	2.35	1.30	1.21	0.81	0.74
24.	State Bank of Mysore	1.63	2.09	1.81	1.48	1.14	0.83	0.75
25.	State Bank of Patiala	1.91	1.96	2.13	1.80	1.04	0.89	0.62
26.	State Bank of Saurashtra	1.49	1.71	2.15	2.30	1.31	0.86	0.58
27.	State Bank of Travancore	1.21	1.49	1.90	1.92	1.30	1.01	0.73
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	0.07	0.27	0.27	0.46

Appendix Table III.24: Provisions and Contingencies as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**1.07**	**1.44**	**1.32**	**0.97**	**0.84**	**0.97**	**1.03**
	Old Private Sector Banks	**1.62**	**1.50**	**1.45**	**1.35**	**0.93**	**1.18**	**0.84**
1.	Bank of Rajasthan Ltd.	0.86	1.31	1.38	0.52	0.04	0.67	0.35
2.	Catholic Syrian Bank Ltd.	1.53	1.72	1.55	1.53	0.65	0.82	0.62
3.	City Union Bank Ltd.	1.64	1.79	1.90	1.01	1.28	1.11	1.08
4.	Dhanalakshmi Bank Ltd.	2.15	2.30	2.02	1.51	0.48	0.65	0.40
5.	Federal Bank Ltd.	2.20	2.02	1.99	1.84	1.10	1.28	1.31
6.	ING Vysya Bank Ltd.	1.27	1.36	1.53	0.89	0.55	0.71	0.59
7.	Jammu & Kashmir Bank Ltd.	1.37	1.29	1.05	1.04	0.95	0.98	0.89
8.	Karnataka Bank Ltd.	2.06	1.55	1.86	1.55	1.02	1.11	0.77
9.	Karur Vysya Bank Ltd.	1.04	1.17	0.75	1.19	1.04	1.03	0.68
10.	Lakshmi Vilas Bank Ltd.	1.65	1.44	1.20	1.27	0.35	0.96	1.00
11.	Lord Krishna Bank Ltd.	1.79	1.52	0.84	0.93	-0.10	0.75	-
12.	Nainital Bank Ltd.	0.91	0.52	0.98	0.93	1.19	1.21	1.16
13.	Ratnakar Bank Ltd.	2.69	1.43	0.67	2.18	1.27	0.29	1.14
14.	Sangli Bank Ltd.	0.93	0.46	0.80	1.77	0.95	16.63	-
15.	SBI Commercial & International Bank Ltd.	1.40	4.23	1.64	4.39	2.70	-0.28	-0.07
16.	South Indian Bank Ltd.	1.69	1.89	1.70	1.73	0.97	1.08	0.70
17.	Tamilnad Mercantile Bank Ltd.	1.52	1.52	1.75	1.64	1.53	1.77	1.10
	New Private Sector Banks	**0.78**	**1.41**	**1.26**	**0.80**	**0.81**	**0.91**	**1.08**
18.	Axis Bank Ltd.	1.90	1.11	1.74	0.61	1.02	0.83	1.05
19.	Centurion Bank of Punjab Ltd.	2.60	1.39	3.30	0.13	0.75	0.80	0.88
20.	Development Credit Bank Ltd.	1.66	0.57	0.68	3.41	1.75	0.64	0.94
21.	HDFC Bank	1.04	1.06	1.18	1.32	1.51	1.56	1.63
22.	ICICI Bank	0.28	1.28	0.67	0.57	0.54	0.80	0.95
23.	IndusInd Bank Ltd.	1.98	2.36	1.21	1.22	0.85	0.49	0.52
24.	Kotak Mahindra Bank Ltd.	-	2.07	0.82	0.75	0.91	0.93	1.33
25.	Yes Bank Ltd.	-	-	-	0.01	1.05	0.70	0.88

Appendix Table III.24: Provisions & Contingencies as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**1.78**	**1.63**	**2.02**	**1.69**	**1.80**	**1.83**	**2.03**
1.	A B Bank Ltd.	3.58	2.53	2.85	2.62	3.35	3.22	3.30
2.	ABN-AMRO Bank N.V.	1.96	1.57	1.54	1.60	1.45	2.29	1.73
3.	Abu Dhabi Commercial Bank Ltd.	0.43	0.52	0.21	2.83	-0.10	1.13	2.02
4.	American Express Bank Ltd.	3.53	4.26	3.64	2.01	1.49	2.74	-
5.	Antwerp Diamond Bank	-	0.73	1.11	0.98	0.84	1.25	1.07
6.	Bank Internasional Indonesia	-0.01	-5.03	0.26	0.44	1.87	-0.09	2.36
7.	Bank of America NA	1.84	0.97	1.08	1.40	2.37	2.51	2.78
8.	Bank of Bahrain & Kuwait B.S.C.	1.48	1.17	1.11	4.08	1.96	3.11	-1.22
9.	Bank of Ceylon	5.48	2.30	2.62	2.44	3.92	2.99	3.22
10.	Bank of Nova Scotia	1.71	2.41	1.38	2.41	1.01	1.00	0.97
11.	Bank of Tokyo-Mitsubishi UFJ	-1.03	-0.08	1.09	4.76	2.25	1.52	1.85
12.	Barclays Bank PLC	2.73	5.55	5.79	5.92	5.20	2.07	1.31
13.	BNP Paribas	0.35	0.59	1.61	1.42	1.60	1.77	2.01
14.	Calyon Bank	-0.49	0.87	-0.78	0.23	0.18	1.68	2.83
15.	Chinatrust Commercial Bank	3.21	2.11	3.43	10.01	3.55	0.68	-0.34
16.	Citibank N.A.	2.45	1.89	2.24	1.69	1.92	1.93	2.52
17.	DBS Bank Ltd.	1.47	2.44	3.27	0.15	0.95	1.26	0.59
18.	Deutsche Bank AG	2.15	3.01	2.71	1.32	1.65	1.10	1.94
19.	HSBC Ltd.	1.63	1.53	1.49	2.18	2.03	1.96	2.30
20.	JPMorgan Chase Bank	5.11	2.09	1.41	3.26	2.07	2.35	3.08
21.	Krung Thai Bank Public Co. Ltd.	4.35	3.47	0.28	1.29	3.33	1.27	1.29
22.	Mashreq Bank PSC	1.67	0.76	0.08	0.16	1.20	-1.03	2.17
23.	Mizuho Corporate Bank Ltd.	2.55	0.92	0.55	-0.04	1.21	1.45	1.18
24.	Oman International Bank S.A.O.G.	2.41	0.48	0.23	3.04	0.15	0.29	-2.71
25.	Shinhan Bank	3.02	4.97	2.45	1.62	1.02	1.44	1.80
26.	Societe Generale	2.24	2.16	0.57	-0.44	0.95	0.74	-0.10
27.	Sonali Bank	2.25	0.91	2.99	3.28	1.62	1.38	1.62
28.	Standard Chartered Bank	1.82	0.89	2.27	1.26	1.78	1.65	1.69
29.	State Bank of Mauritius Ltd.	3.72	3.07	3.89	1.21	1.98	0.74	1.19

- : 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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**2.19**	**2.24**	**2.21**	**2.13**	**2.13**	**1.92**	**1.78**
	Public Sector Banks	**2.29**	**2.25**	**2.21**	**2.09**	**2.05**	**1.77**	**1.54**
	Nationalised Banks	**2.40**	**2.33**	**2.21**	**2.18**	**2.00**	**1.73**	**1.52**
1.	Allahabad Bank	2.86	3.27	2.76	2.37	1.87	1.52	1.40
2.	Andhra Bank	2.17	2.44	2.44	2.53	2.11	1.96	1.67
3.	Bank of Baroda	2.20	2.16	2.12	2.09	2.10	1.78	1.63
4.	Bank of India	2.19	2.16	2.06	2.03	1.88	1.84	1.48
5.	Bank of Maharashtra	2.23	2.07	1.74	2.19	2.11	1.91	1.74
6.	Canara Bank	2.21	2.13	1.91	1.91	1.77	1.55	1.55
7.	Central Bank of India	2.72	2.67	2.46	2.46	2.30	1.81	1.41
8.	Corporation Bank	1.63	1.79	1.97	1.97	1.84	1.52	1.34
9.	Dena Bank	2.44	2.54	2.25	2.56	2.11	1.94	1.68
10.	Indian Bank	2.40	2.13	2.71	2.08	2.27	2.22	1.99
11.	Indian Overseas Bank	2.50	2.30	2.14	2.28	2.13	1.69	1.46
12.	Oriental Bank of Commerce	1.64	1.71	1.57	1.47	1.64	1.35	1.19
13.	Punjab & Sind Bank	2.77	2.85	3.99	3.63	2.54	2.38	1.81
14.	Punjab National Bank	2.47	2.39	2.32	2.60	2.08	2.05	1.77
15.	Syndicate Bank	3.24	3.15	2.51	2.43	2.35	1.55	1.40
16.	UCO Bank	2.67	2.48	2.33	1.99	1.90	1.59	1.45
17.	Union Bank of India	2.18	1.99	1.86	1.74	1.57	1.44	1.28
18.	United Bank of India	3.33	2.44	2.60	2.42	2.45	1.84	1.66
19.	Vijaya Bank	2.61	2.92	2.07	1.84	1.98	1.54	1.25
	State Bank Group	**2.11**	**2.11**	**2.21**	**2.14**	**2.28**	**1.98**	**1.68**
20.	State Bank of India	2.07	2.11	2.27	2.19	2.37	2.09	1.75
21.	State Bank of Bikaner & Jaipur	2.58	2.50	2.62	2.66	2.76	2.18	1.82
22.	State Bank of Hyderabad	1.88	1.73	1.74	1.92	2.01	1.65	1.30
23.	State Bank of Indore	2.28	2.18	2.16	1.94	1.92	1.67	1.47
24.	State Bank of Mysore	3.03	2.89	2.69	2.89	2.63	2.09	1.87
25.	State Bank of Patiala	2.05	1.86	1.67	1.52	1.48	1.39	1.20
26.	State Bank of Saurashtra	2.48	2.15	2.00	1.69	1.87	1.73	1.84
27.	State Bank of Travancore	2.02	1.93	1.88	1.74	1.98	1.70	1.56
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	0.56	0.97	0.75	0.73

Appendix Table III.25: Operating Expenses as Percentage of Total Assets - Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Private Sector Banks	**1.44**	**1.99**	**2.02**	**2.03**	**2.11**	**2.06**	**2.16**
	Old Private Sector Banks	**2.07**	**2.05**	**1.97**	**1.96**	**2.06**	**1.85**	**1.66**
1.	Bank of Rajasthan Ltd.	3.02	2.59	2.15	2.13	2.59	2.07	1.71
2.	Catholic Syrian Bank Ltd.	2.56	2.66	2.73	2.57	3.15	2.59	2.54
3.	City Union Bank Ltd.	1.68	1.52	1.41	1.79	1.70	1.68	1.48
4.	Dhanalakshmi Bank Ltd.	2.68	2.84	2.48	2.62	2.87	2.55	2.39
5.	Federal Bank Ltd.	1.89	1.82	1.87	1.87	1.77	1.62	1.44
6.	ING Vysya Bank Ltd.	2.42	2.91	2.61	2.47	3.09	2.62	2.39
7.	Jammu & Kashmir Bank Ltd.	1.59	1.55	1.38	1.32	1.31	1.30	1.23
8.	Karnataka Bank Ltd.	1.68	1.52	1.46	1.58	1.37	1.46	1.58
9.	Karur Vysya Bank Ltd.	2.10	1.69	2.21	2.16	1.94	1.74	1.48
10.	Lakshmi Vilas Bank Ltd.	2.47	2.26	2.19	2.23	2.04	1.75	1.79
11.	Lord Krishna Bank Ltd.	2.21	2.28	2.06	2.35	2.66	2.61	-
12.	Nainital Bank Ltd.	2.55	2.81	2.99	2.42	2.77	1.98	1.57
13.	Ratnakar Bank Ltd.	3.12	2.58	2.48	2.56	2.39	2.80	2.00
14.	Sangli Bank Ltd.	2.87	2.82	2.75	2.53	2.75	4.93	-
15.	SBI Commercial & International Bank Ltd.	1.20	1.50	1.63	1.61	1.45	1.41	1.38
16.	South Indian Bank Ltd.	1.84	1.86	2.09	1.97	2.09	1.60	1.45
17.	Tamilnad Mercantile Bank Ltd.	1.99	1.97	2.31	2.22	2.13	2.08	1.90
	New Private Sector Banks	**1.10**	**1.96**	**2.04**	**2.06**	**2.12**	**2.11**	**2.28**
18.	Axis Bank Ltd.	1.44	1.65	1.74	1.54	1.64	1.66	1.97
19.	Centurion Bank of Punjab Ltd.	3.84	4.68	5.10	4.75	4.44	3.82	3.63
20.	Development Credit Bank Ltd.	1.95	2.23	2.41	3.54	4.01	3.25	3.15
21.	HDFC Bank	1.76	1.90	1.91	2.11	2.30	2.65	2.81
22.	ICICI Bank	0.60	1.88	2.05	1.97	1.99	1.94	2.04
23.	IndusInd Bank Ltd.	0.93	1.19	1.44	1.70	1.80	1.64	1.73
24.	Kotak Mahindra Bank Ltd.	-	3.57	2.39	3.45	3.81	3.08	3.60
25.	Yes Bank Ltd.	-	-	-	3.12	2.07	1.74	2.01

Appendix Table III.25: Operating Expenses as Percentage of Total Assets - Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.00**	**2.79**	**2.77**	**2.88**	**2.94**	**2.82**	**2.84**
1.	A B Bank Ltd.	1.89	2.23	2.30	3.02	3.39	5.84	3.80
2.	ABN-AMRO Bank N.V.	3.62	3.47	4.43	3.68	3.18	3.40	3.57
3.	Abu Dhabi Commercial Bank Ltd.	0.49	0.79	0.56	2.43	2.03	2.38	4.63
4.	American Express Bank Ltd.	5.49	6.33	7.27	9.66	8.24	8.39	-
5.	Antwerp Diamond Bank	-	2.60	1.39	1.14	1.12	0.93	0.80
6.	Bank Internasional Indonesia	3.85	7.27	2.97	2.27	2.27	2.47	5.71
7.	Bank of America NA	1.76	1.42	1.55	1.66	1.89	2.21	2.06
8.	Bank of Bahrain & Kuwait B.S.C.	1.39	1.71	1.92	2.20	2.60	2.28	2.29
9.	Bank of Ceylon	1.29	1.55	1.54	1.33	1.43	1.62	1.66
10.	Bank of Nova Scotia	1.07	1.36	1.03	1.03	0.91	0.91	0.57
11.	Bank of Tokyo-Mitsubishi UFJ	4.88	4.70	3.46	2.98	2.22	1.74	0.87
12.	Barclays Bank PLC	1.87	1.94	3.24	3.36	2.76	4.10	5.35
13.	BNP Paribas	3.59	4.01	2.92	3.28	2.79	3.07	2.31
14.	Calyon Bank	1.62	1.96	2.20	2.82	2.82	2.39	2.36
15.	Chinatrust Commercial Bank	3.34	3.72	3.33	3.87	2.24	2.19	2.36
16.	Citibank N.A.	3.52	3.32	3.41	3.62	3.36	2.79	2.60
17.	DBS Bank Ltd.	1.53	2.36	1.15	1.31	1.23	1.22	0.97
18.	Deutsche Bank AG	3.43	2.89	2.00	2.56	3.87	4.20	4.29
19.	HSBC Ltd.	2.63	2.94	2.47	2.50	2.74	2.88	2.83
20.	JPMorgan Chase Bank	7.24	2.72	3.38	2.06	1.48	1.13	1.58
21.	Krung Thai Bank Public Co. Ltd.	4.33	4.25	3.90	3.19	4.20	2.83	2.02
22.	Mashreq Bank PSC	1.88	2.05	1.28	1.09	4.54	5.13	4.87
23.	Mizuho Corporate Bank Ltd.	2.14	2.65	2.61	1.79	1.67	1.84	2.09
24.	Oman International Bank S.A.O.G.	1.18	1.36	1.07	1.18	1.30	1.47	1.53
25.	Shinhan Bank	1.75	2.43	2.00	1.58	1.25	1.78	1.88
26.	Societe Generale	2.83	2.99	2.01	1.86	1.68	1.70	1.93
27.	Sonali Bank	6.66	6.06	7.17	9.24	11.00	7.61	9.20
28.	Standard Chartered Bank	2.22	1.98	2.26	2.26	2.61	2.38	2.79
29.	State Bank of Mauritius Ltd.	1.19	1.21	1.08	1.01	1.09	1.25	1.42

- : 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	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
	1	2	3	4	5	6	7	8	9
1.	Allahabad Bank	1,099.91	1,479.51	750.14	974.74	1,035.40	1,467.14	685.63	962.37
2.	Andhra Bank	931.24	1,056.94	537.90	575.57	885.57	1,047.62	492.23	566.25
3.	Bank of Baroda	2,415.01	3,028.55	1,026.46	1,435.52	2,400.24	3,021.54	1,011.70	1,428.51
4.	Bank of India	2,394.99	3,701.21	1,123.17	2,009.40	2,255.98	3,683.06	984.16	1,991.26
5.	Bank of Maharashtra	613.20	672.63	271.84	328.39	547.89	658.35	206.53	314.11
6.	Canara Bank	2,912.47	2,959.37	1,420.81	1,565.01	2,830.58	2,940.72	1,338.92	1,546.35
7.	Central Bank of India	1,265.72	1,268.30	498.01	550.16	1,102.49	1,243.46	334.78	525.32
8.	Corporation Bank	1,140.03	1,251.14	536.14	734.99	1,133.28	1,248.61	529.38	732.46
9.	Dena Bank	635.37	686.44	201.56	359.79	609.07	680.67	175.26	354.02
10.	Indian Bank	1,358.59	1,659.30	759.77	1,008.74	945.47	1,496.90	346.65	846.34
11.	Indian Overseas Bank	1,560.04	2,001.78	1,008.43	1,202.34	1,435.01	1,987.60	883.40	1,188.16
12.	Oriental Bank of Commerce	1,296.69	1,219.04	580.81	353.22	1,285.12	1,215.96	569.24	350.14
13.	Punjab and Sind Bank	472.44	542.66	218.53	382.36	373.16	510.37	119.26	350.07
14.	Punjab National Bank	3,617.41	4,006.24	1,540.08	2,048.76	3,562.72	3,991.44	1,485.40	2,033.96
15.	Syndicate Bank	1,382.56	1,468.27	716.06	848.07	1,257.88	1,456.19	591.38	835.99
16.	UCO Bank	944.76	953.95	316.10	412.16	731.88	895.37	103.22	353.58
17.	Union Bank of India	2,000.83	2,580.34	845.39	1,387.03	1,974.66	2,574.77	819.22	1,381.46
18.	United Bank of India	719.10	466.94	267.28	318.95	557.65	424.60	105.83	276.61
19.	Vijaya Bank	696.02	660.88	331.34	361.28	646.96	646.46	282.28	346.86
	Total	**27,456.37**	**31,663.48**	**12,949.84**	**16,856.47**	**25,571.02**	**31,190.83**	**11,064.48**	**16,383.81**

+ : 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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Scheduled Commercial Banks	**3.30**	**2.52**	**1.83**	**1.46**	**1.30**	**1.20**	**0.92**	**0.67**	**0.58**	**0.57**
	Public Sector Banks	**3.50**	**2.73**	**2.05**	**1.60**	**1.34**	**1.28**	**0.95**	**0.72**	**0.62**	**0.59**
	Nationalised Banks	**3.86**	**2.96**	**2.24**	**1.64**	**1.25**	**1.40**	**0.91**	**0.64**	**0.53**	**0.44**
1.	Allahabad Bank	4.09	2.84	2.14	1.62	1.22	1.05	0.60	0.45	0.65	0.48
2.	Andhra Bank	2.28	1.35	1.07	0.84	0.66	0.44	0.15	0.13	0.10	0.09
3.	Bank of Baroda	4.68	3.51	2.11	1.46	1.10	2.07	0.65	0.46	0.35	0.27
4.	Bank of India	4.40	3.32	2.21	1.48	1.08	2.43	1.64	0.86	0.45	0.33
5.	Bank of Maharashtra	2.96	2.93	3.02	2.10	1.59	0.89	0.85	1.07	0.71	0.53
6.	Canara Bank	3.15	2.15	1.35	0.90	0.78	1.39	1.02	0.66	0.56	0.50
7.	Central Bank of India	4.88	3.82	3.59	2.77	1.90	2.01	1.19	1.30	0.94	0.86
8.	Corporation Bank	2.48	1.91	1.54	1.18	0.88	0.86	0.61	0.38	0.27	0.19
9.	Dena Bank	6.70	4.78	3.58	2.37	1.48	3.99	2.46	1.63	1.16	0.56
10.	Indian Bank	3.04	1.71	1.40	0.97	0.69	0.98	0.56	0.37	0.18	0.14
11.	Indian Overseas Bank	3.33	2.73	2.07	1.36	0.98	1.22	0.63	0.38	0.31	0.36
12.	Oriental Bank of Commerce	2.95	4.61	3.59	1.97	1.41	-	0.61	0.28	0.29	0.59
13.	Punjab & Sind Bank	8.02	7.62	4.94	1.32	0.44	3.85	3.24	1.16	0.35	0.22
14.	Punjab National Bank	4.56	2.96	2.16	2.09	1.67	0.44	0.09	0.14	0.45	0.38
15.	Syndicate Bank	3.37	2.75	2.47	1.75	1.65	1.13	0.82	0.51	0.44	0.58
16.	UCO Bank	3.38	2.56	2.00	2.01	1.84	1.72	1.49	1.27	1.34	1.22
17.	Union Bank of India	4.02	2.84	2.35	1.82	1.34	1.45	1.46	0.94	0.59	0.10
18.	United Bank of India	2.96	2.50	2.24	1.93	1.40	1.16	0.95	0.91	0.79	0.56
19.	Vijaya Bank	1.62	1.47	1.71	1.33	0.91	0.42	0.29	0.45	0.34	0.32
	State Bank Group	**2.91**	**2.49**	**1.81**	**1.57**	**1.53**	**1.09**	**1.01**	**0.88**	**0.79**	**0.84**
20.	State Bank of India	3.11	2.71	1.95	1.76	1.78	1.33	1.16	0.99	0.93	1.03
21.	State Bank of Bikaner & Jaipur	2.40	1.71	1.41	1.34	1.06	0.53	0.83	0.68	0.65	0.51
22.	State Bank of Hyderabad	2.26	1.58	1.12	0.72	0.51	0.25	0.27	0.19	0.12	0.09
23.	State Bank of Indore	2.04	1.80	1.75	1.20	0.91	-	0.54	1.05	0.65	0.46
24.	State Bank of Mysore	3.74	2.51	2.06	1.43	1.09	1.35	0.49	0.45	0.28	0.27
25.	State Bank of Patiala	1.87	2.07	1.32	1.10	0.88	-	0.60	0.53	0.50	0.37
26.	State Bank of Saurashtra	1.56	1.22	0.95	0.65	0.82	-	0.63	0.59	0.41	0.52
27.	State Bank of Travancore	2.76	2.26	1.91	1.42	1.29	0.64	0.93	0.87	0.70	0.61
	Other Public Sector Bank										
28.	IDBI Bank Ltd.	-	1.49	1.26	1.19	1.20	-	1.04	0.64	0.70	0.83

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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks	**2.82**	**2.05**	**1.37**	**1.24**	**1.38**	**1.32**	**0.98**	**0.55**	**0.54**	**0.60**
	Old Private Sector Banks	**3.64**	**3.15**	**2.51**	**1.85**	**1.31**	**1.77**	**1.39**	**0.92**	**0.56**	**0.38**
1.	Bank of Rajasthan Ltd.	2.81	1.74	1.38	1.00	0.80	0.86	0.79	0.41	0.11	0.20
2.	Catholic Syrian Bank Ltd.	4.07	3.83	3.35	2.43	2.20	2.05	1.96	1.57	1.13	0.89
3.	City Union Bank Ltd.	5.25	3.48	2.73	1.62	1.13	3.09	1.94	1.21	0.68	0.60
4.	Dhanalakshmi Bank Ltd.	5.59	4.75	3.91	2.79	1.57	3.27	2.28	1.58	0.94	0.46
5.	Federal Bank Ltd.	3.97	4.03	2.73	1.80	1.44	1.47	1.16	0.54	0.26	0.13
6.	ING Vysya Bank Ltd.	1.41	1.26	1.08	0.66	0.46	1.39	1.26	1.08	0.59	0.40
7.	Jammu & Kashmir Bank Ltd.	1.35	1.30	1.40	1.75	1.48	0.65	0.67	0.51	0.68	0.62
8.	Karnataka Bank Ltd.	5.66	4.01	2.78	2.39	1.96	2.19	1.14	0.61	0.72	0.55
9.	Karur Vysya Bank Ltd.	3.37	3.07	2.48	1.83	1.33	1.29	0.96	0.50	0.14	0.12
10.	Lakshmi Vilas Bank Ltd.	5.67	4.62	2.54	2.25	2.12	2.86	2.84	1.13	0.98	0.91
11.	Lord Krishna Bank Ltd.	3.66	3.62	2.72	3.73	-	2.60	2.33	1.70	2.03	-
12.	Nainital Bank Ltd.	1.13	0.90	0.88	0.91	0.90	-	-	-	-	-
13.	Ratnakar Bank Ltd.	4.76	5.29	4.02	3.32	2.50	2.37	2.70	1.31	0.89	0.39
14.	Sangli Bank Ltd.	4.05	3.60	2.88	4.38	-	2.13	1.65	0.97	0.83	-
15.	SBI Commercial & International Bank Ltd.	14.16	14.16	8.27	1.67	0.79	4.51	3.70	1.83	0.09	-
16.	South Indian Bank Ltd.	3.55	3.86	3.03	2.35	1.10	2.06	2.15	1.09	0.57	0.20
17.	Tamilnad Mercantile Bank Ltd.	6.28	5.72	3.78	2.69	1.38	2.06	1.37	1.11	0.56	0.23
	New Private Sector Banks	**2.42**	**1.56**	**0.96**	**1.07**	**1.40**	**1.10**	**0.80**	**0.43**	**0.54**	**0.66**
18.	Axis Bank Ltd.	1.14	0.82	0.76	0.57	0.45	0.46	0.57	0.44	0.36	0.23
19.	Centurion Bank of Punjab Ltd.	6.24	3.39	2.83	1.72	2.01	1.94	1.19	0.65	0.77	0.99
20.	Development Credit Bank Ltd.	3.92	6.67	8.42	2.78	0.84	2.20	3.09	2.24	0.83	0.36
21.	HDFC Bank	0.79	0.85	0.69	0.72	0.68	0.07	0.12	0.21	0.22	0.22
22.	ICICI Bank	2.43	1.65	0.88	1.20	1.90	1.10	0.90	0.42	0.58	0.87
23.	IndusInd Bank Ltd.	1.72	2.05	1.53	1.64	1.69	1.41	1.56	1.11	1.31	1.25
24.	Kotak Mahindra Bank Ltd.	0.31	0.43	0.37	1.39	1.55	0.06	0.23	0.15	1.09	0.98
25.	Yes Bank	-	-	-	-	0.06	-	-	-	-	0.05

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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Foreign Banks in India	**2.13**	**1.43**	**0.97**	**0.82**	**0.78**	**0.66**	**0.42**	**0.41**	**0.34**	**0.34**
1.	AB Bank Ltd.	0.11	0.10	-	-	3.36	0.05	0.06	-	-	3.02
2.	ABN-AMRO Bank N.V.	2.03	1.47	0.22	0.35	0.80	0.56	0.22	0.07	0.07	0.47
3.	Abu Dhabi Commercial Bank Ltd.	3.94	2.11	9.17	5.02	3.38	2.35	0.59	2.75	0.16	-
4.	American Express Bank Ltd.	6.90	0.80	0.56	0.54	-	2.11	0.49	0.32	0.30	-
5.	Antwerp Diamond Bank	-	-	-	-	-	-	-	-	-	-
6.	Bank Internasional Indonesia	30.66	28.50	0.20	-	-	2.32	1.67	-	-	-
7.	Bank of America NA	0.51	0.34	0.07	0.01	0.01	-	-	-	-	-
8.	Bank of Bahrain and Kuwait B.S.C.	10.20	10.87	10.09	7.94	4.77	7.84	2.43	0.49	0.04	0.80
9.	Bank of Ceylon	14.92	14.17	18.48	17.47	10.31	6.83	4.51	6.51	3.67	1.03
10.	Bank of Nova Scotia	7.64	2.91	1.89	0.41	0.03	5.87	1.89	0.66	-	-
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	0.79	0.71	0.42	0.32	-	0.07	0.04	0.06	0.05	-
12.	Barclays Bank PLC	0.63	-	-	-	0.41	-	-	-	-	0.25
13.	BNP Paribas	3.00	2.13	1.10	0.92	0.44	1.18	0.34	-	-	-
14.	Calyon Bank	5.20	1.59	0.51	0.09	0.04	0.02	0.09	0.08	-	-
15.	Chinatrust Commercial Bank	6.78	15.24	2.12	1.56	0.63	4.07	3.04	1.06	0.17	-
16.	Citibank N.A.	1.33	1.09	0.86	0.80	0.94	0.72	0.54	0.51	0.51	0.56
17.	DBS Bank Ltd.	-	-	-	-	0.06	-	-	-	-	0.01
18.	Deutsche Bank AG	0.24	0.08	0.07	0.06	0.24	-	-	-	-	0.08
19.	HSBC Ltd.	1.65	1.47	0.85	0.72	0.92	0.27	0.23	0.26	0.18	0.23
20.	JPMorgan Chase Bank	-	-	-	0.99	1.50	-	-	-	0.28	0.28
21.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-	-	-
22.	Mashreq Bank PSC	3.57	3.65	13.84	-	-	-	-	-	-	-
23.	Mizuho Corporate Bank Ltd.	8.40	5.25	1.31	0.71	0.54	-	-	0.09	0.05	-
24.	Oman International Bank S.A.O.G.	35.20	29.86	33.02	39.16	-	2.02	1.59	0.73	-	-
25.	Shinhan Bank	0.39	-	-	-	-	0.19	-	-	-	-
26.	Societe Generale	2.61	1.32	0.29	0.12	-	0.32	-	-	-	-
27.	Sonali Bank	1.27	1.53	3.05	1.89	2.38	0.23	0.35	0.07	-	-
28.	Standard Chartered Bank	1.41	1.49	1.49	1.36	0.98	0.24	0.60	0.82	0.73	0.47
29.	State Bank of Mauritius Ltd.	4.27	3.87	2.37	-	-	2.80	-	0.96	-	-

-: 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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Scheduled Commercial Banks	**7.20**	**5.20**	**3.29**	**2.51**	**2.25**	**2.90**	**2.00**	**1.22**	**1.01**	**1.00**
	Public Sector Banks	**7.79**	**5.53**	**3.64**	**2.66**	**2.23**	**2.99**	**2.06**	**1.32**	**1.05**	**0.99**
	Nationalised Banks	**8.21**	**5.82**	**3.81**	**2.69**	**2.06**	**3.14**	**1.85**	**1.16**	**0.92**	**0.77**
1.	Allahabad Bank	8.66	5.80	3.94	2.61	2.01	2.37	1.28	0.84	1.07	0.80
2.	Andhra Bank	4.60	2.46	1.94	1.41	1.08	0.93	0.28	0.24	0.17	0.15
3.	Bank of Baroda	10.52	7.30	3.90	2.47	1.84	4.95	1.45	0.86	0.60	0.47
4.	Bank of India	7.86	5.45	3.72	2.42	1.68	4.49	2.80	1.49	0.95	0.52
5.	Bank of Maharashtra	7.70	7.00	5.53	3.50	2.57	2.46	2.15	2.03	1.21	0.87
6.	Canara Bank	6.33	3.89	2.25	1.51	1.31	2.89	1.88	1.11	0.94	0.84
7.	Central Bank of India	12.55	9.50	6.85	4.81	3.16	5.57	2.98	2.59	1.70	1.45
8.	Corporation Bank	5.03	3.41	2.56	2.05	1.47	1.80	1.12	0.64	0.47	0.32
9.	Dena Bank	14.82	9.67	6.44	4.08	2.45	9.40	5.23	3.04	1.99	0.94
10.	Indian Bank	7.98	4.19	2.91	1.85	1.21	2.71	1.35	0.79	0.35	0.24
11.	Indian Overseas Bank	7.40	5.28	3.43	2.34	1.63	2.85	1.27	0.65	0.55	0.60
12.	Oriental Bank of Commerce	5.87	9.06	5.95	3.20	2.31	-	1.29	0.49	0.49	0.99
13.	Punjab and Sind Bank	18.16	17.17	9.61	2.43	0.74	9.62	8.11	2.42	0.66	0.37
14.	Punjab National Bank	9.35	5.96	4.10	3.45	2.74	0.98	0.20	0.28	0.76	0.64
15.	Syndicate Bank	7.33	5.17	4.00	2.95	2.71	2.57	1.59	0.86	0.76	0.97
16.	UCO Bank	6.93	4.96	3.27	3.17	2.97	3.65	2.93	2.10	2.14	1.98
17.	Union Bank of India	7.59	5.01	3.84	2.94	2.18	2.87	2.64	1.56	0.96	0.17
18.	United Bank of India	9.07	6.14	4.66	3.61	2.70	3.75	2.43	1.95	1.50	1.10
19.	Vijaya Bank	3.44	2.94	3.17	2.29	1.60	0.91	0.59	0.85	0.59	0.57
	State Bank Group	**6.98**	**5.32**	**3.31**	**2.59**	**2.58**	**2.70**	**2.23**	**1.63**	**1.32**	**1.43**
20.	State Bank of India	7.75	5.96	3.60	2.92	3.04	3.45	2.65	1.88	1.56	1.78
21.	State Bank of Bikaner and Jaipur	5.36	3.26	2.42	2.23	1.73	1.24	1.61	1.18	1.09	0.83
22.	State Bank of Hyderabad	5.60	3.46	2.14	1.24	0.87	0.65	0.61	0.36	0.22	0.16
23.	State Bank of Indore	3.99	3.28	3.02	1.90	1.45	-	1.00	1.83	1.04	0.73
24.	State Bank of Mysore	7.76	4.56	3.30	2.29	1.69	2.96	0.92	0.74	0.45	0.43
25.	State Bank of Patiala	3.71	4.13	2.41	1.80	1.42	-	1.23	0.99	0.83	0.60
26.	State Bank of Saurashtra	3.68	2.70	1.85	1.10	1.42	-	1.40	1.16	0.70	0.91
27.	State Bank of Travancore	5.63	4.29	3.18	2.16	2.01	1.39	1.81	1.47	1.08	0.94
	Other Public Sector Bank										
28.	IDBI Bank Ltd.	-	2.92	1.98	1.89	1.87	-	1.74	1.07	1.12	1.30

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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks	**5.84**	**3.77**	**2.45**	**2.17**	**2.47**	**2.84**	**1.85**	**1.01**	**0.96**	**1.09**
	Old Private Sector Banks	**7.59**	**5.97**	**4.39**	**3.00**	**2.25**	**3.85**	**2.74**	**1.65**	**0.91**	**0.66**
1.	Bank of Rajasthan Ltd.	9.14	5.34	3.26	2.08	1.68	2.99	2.50	0.99	0.24	0.42
2.	Catholic Syrian Bank Ltd.	8.84	7.16	5.76	4.19	3.88	4.65	3.80	2.78	1.98	1.61
3.	City Union Bank Ltd.	10.36	5.89	4.32	2.58	1.81	6.37	3.37	1.95	1.09	0.98
4.	Dhanalakshmi Bank Ltd.	11.43	8.51	6.71	5.06	2.95	7.06	3.92	2.82	1.75	0.88
5.	Federal Bank Ltd.	7.44	7.29	4.62	2.95	2.42	2.89	2.21	0.95	0.44	0.23
6.	ING Vysya Bank Ltd.	2.65	2.14	1.77	1.05	0.79	2.60	2.13	1.76	0.70	0.79
7.	Jammu and Kashmir Bank Ltd.	3.04	2.72	2.51	2.89	2.53	1.49	1.41	0.92	1.13	1.07
8.	Karnataka Bank Ltd.	11.93	7.58	5.13	3.95	3.42	4.98	2.29	1.17	1.22	0.98
9.	Karur Vysya Bank Ltd.	5.83	5.10	3.91	2.82	2.03	2.32	1.66	0.81	0.23	0.18
10.	Lakshmi Vilas Bank Ltd.	10.15	7.88	4.14	3.57	3.51	5.40	4.98	1.88	1.58	1.55
11.	Lord Krishna Bank Ltd.	8.32	6.39	4.89	7.72	-	6.05	4.22	3.12	4.37	-
12.	Nainital Bank Ltd.	4.00	2.57	1.91	1.95	1.85	-	-	-	-	-
13.	Ratnakar Bank Ltd.	10.63	10.31	7.59	6.81	6.01	5.58	5.54	2.61	1.92	0.99
14.	Sangli Bank Ltd.	11.79	8.95	6.67	29.06	-	6.56	4.30	2.34	7.18	-
15.	SBI Commercial & International Bank Ltd.	41.28	24.06	15.20	3.28	1.45	18.31	7.65	3.81	-	-
16.	South Indian Bank Ltd.	7.59	6.64	4.99	3.94	1.78	4.55	3.81	1.86	0.98	0.33
17.	Tamilnad Mercantile Bank Ltd.	13.79	11.26	7.02	4.54	2.25	5.00	2.95	2.17	0.98	0.38
	New Private Sector Banks	**4.99**	**3.59**	**1.74**	**1.90**	**2.54**	**2.36**	**1.85**	**0.78**	**0.97**	**1.21**
18.	Axis Bank	2.88	1.98	1.68	1.13	0.83	1.20	1.39	0.99	0.72	0.42
19.	Centurion Bank of Punjab Ltd.	12.96	6.81	4.73	2.79	3.28	4.43	2.49	1.13	1.26	1.65
20.	Development Credit Bank Ltd.	8.19	14.19	15.01	5.14	1.55	4.87	6.34	4.50	1.64	0.66
21.	HDFC Bank	1.86	1.69	1.44	1.39	1.42	0.16	0.24	0.44	0.43	0.47
22.	ICICI Bank	4.70	4.27	1.51	2.08	3.30	2.21	1.65	0.72	1.02	1.55
23.	IndusInd Bank Ltd.	3.30	3.53	2.86	3.07	3.04	2.72	2.71	2.09	2.47	2.27
24.	Kotak Mahindra Bank Ltd.	0.85	0.69	0.59	2.53	2.79	0.17	0.37	0.24	1.98	1.78
25.	Yes Bank	-	-	-	-	0.11	-	-	-	-	0.09

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				
		2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8	9	10	11
	Foreign Banks in India	**4.62**	**2.85**	**1.95**	**1.77**	**1.75**	**1.48**	**0.86**	**0.83**	**0.97**	**1.21**
1.	AB Bank Ltd.	0.68	0.32	-	-	10.20	0.34	0.18	-	-	9.25
2.	ABN-AMRO Bank N.V.	3.15	2.26	0.34	0.55	1.43	0.88	0.35	0.11	0.12	0.85
3.	Abu Dhabi Commercial Bank Ltd.	38.78	34.42	38.80	16.44	10.73	27.39	12.73	15.97	0.63	-
4.	American Express Bank Ltd.	16.47	1.63	1.01	1.35	-	5.68	0.99	0.58	0.77	-
5.	Antwerp Diamond Bank	-	-	-	-	-	-	-	-	-	-
6.	Bank Internasional Indonesia	97.07	66.55	3.24	-	-	69.57	10.49	-	-	-
7.	Bank of America NA	0.84	0.57	0.02	0.02	0.02	-	-	-	-	-
8.	Bank of Bahrain and Kuwait B.S.C.	21.90	20.77	21.24	17.92	8.42	17.73	5.53	1.28	0.12	1.51
9.	Bank of Ceylon	37.91	33.41	46.89	45.58	29.55	21.85	13.76	23.74	14.96	4.01
10.	Bank of Nova Scotia	11.48	4.66	2.81	0.61	0.04	9.07	3.08	1.00	-	-
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	2.18	1.43	0.77	0.49	-	0.21	0.01	0.11	-	-
12.	Barclays Bank PLC	65.36	-	-	-	0.69	-	-	-	-	0.42
13.	BNP Paribas	6.56	3.48	2.17	1.63	0.89	2.70	-	-	-	-
14.	Calyon Bank	43.96	4.24	0.94	0.30	0.11	0.26	0.30	0.15	-	-
15.	Chinatrust Commercial Bank	9.25	24.33	3.53	2.49	1.00	5.76	6.02	1.80	0.27	-
16.	Citibank N.A.	2.52	2.01	1.58	1.60	2.03	1.40	1.00	0.95	1.02	1.23
17.	DBS Bank Ltd.	-	-	-	-	0.22	-	-	-	-	0.05
18.	Deutsche Bank AG	0.97	0.33	0.32	0.22	0.66	-	-	-	0.01	0.22
19.	HSBC Ltd.	4.20	3.16	1.86	1.69	2.29	0.70	0.50	0.58	0.43	0.58
20.	JPMorgan Chase Bank	-	-	-	7.32	10.48	-	-	-	2.17	2.12
21.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-	-	-
22.	Mashreq Bank PSC	41.31	39.51	28.54	-	-	-	-	-	-	-
23.	Mizuho Corporate Bank Ltd.	11.93	8.22	2.13	1.02	0.76	-	-	0.15	-	-
24.	Oman International Bank S.A.O.G.	96.51	95.85	96.86	98.87	-	61.39	55.05	40.47	-	-
25.	Shinhan Bank	1.60	-	-	-	-	0.81	-	-	-	-
26.	Societe Generale	10.21	6.91	1.92	0.90	-	1.36	-	-	-	-
27.	Sonali Bank	7.49	7.86	23.50	17.75	10.05	1.42	1.75	0.75	-	-
28.	Standard Chartered Bank	2.91	2.73	2.80	2.62	2.14	0.52	1.12	1.57	1.43	1.04
29.	State Bank of Mauritius Ltd.	6.91	7.65	4.59	-	-	4.64	4.08	1.91	-	-

-: 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 2008)

(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
	Public Sector Banks	**8,268.03**	**20.80**	**5,804.75**	**14.60**	**11,213.90**	**28.21**	**25,286.67**	**63.62**	**298.69**	**0.75**	**14,163.14**	**35.63**	**39,748.51**
	Nationalised Banks	**4,947.20**	**20.17**	**4,270.01**	**17.41**	**7,167.74**	**29.22**	**16,384.94**	**66.80**	**202.05**	**0.82**	**7,941.13**	**32.38**	**24,528.12**
1.	Allahabad Bank	277.79	27.52	126.07	12.49	320.53	31.76	724.39	71.78	0.50	0.05	284.35	28.17	1,009.23
2.	Andhra Bank	12.74	3.42	70.40	18.90	53.43	14.35	136.57	36.67	9.26	2.49	226.60	60.84	372.43
3.	Bank of Baroda	410.89	22.11	231.18	12.44	582.02	31.32	1,224.09	65.88	10.40	0.56	623.62	33.56	1,858.11
4.	Bank of India	410.30	23.01	407.75	22.87	521.32	29.24	1,339.37	75.13	40.29	2.26	403.14	22.61	1,782.80
5.	Bank of Maharashtra	106.06	13.84	118.96	15.52	264.79	34.56	489.80	63.92	17.48	2.28	258.99	33.80	766.27
6.	Canara Bank	260.51	18.72	65.66	4.72	351.63	25.27	677.80	48.71	8.24	0.59	705.43	50.70	1,391.47
7.	Central Bank of India	535.83	22.80	636.30	27.08	479.31	20.40	1,651.44	70.28	0.81	0.03	697.59	29.69	2,349.84
8.	Corporation Bank	77.07	13.19	52.46	8.98	232.90	39.85	362.43	62.02	-	-	221.99	37.98	584.42
9.	Dena Bank	126.21	22.04	58.33	10.19	230.68	40.29	415.22	72.51	0.12	0.02	157.26	27.46	572.60
10.	Indian Bank	47.00	9.93	161.00	34.02	81.00	17.11	289.00	61.06	6.55	1.38	177.76	37.56	473.31
11.	Indian Overseas Bank	281.26	30.72	243.72	26.62	226.68	24.76	751.66	82.10	25.30	2.76	138.63	15.14	915.59
12.	Oriental Bank of Commerce	167.22	13.06	253.71	19.82	273.54	21.37	694.47	54.25	-	-	585.63	45.75	1,280.10
13.	Punjab and Sind Bank	53.23	39.28	24.45	18.04	32.45	23.94	110.13	81.26	-	-	25.40	18.74	135.53
14.	Punjab National Bank	1,011.61	30.48	910.51	27.43	839.47	25.29	2,761.59	83.20	52.84	1.59	504.87	15.21	3,319.30
15.	Syndicate Bank	255.27	14.51	173.22	9.84	631.28	35.88	1,059.77	60.23	1.95	0.11	697.94	39.66	1,759.66
16.	UCO Bank	358.69	21.71	195.49	11.83	650.84	39.40	1,205.02	72.95	2.75	0.17	444.18	26.89	1,651.95
17.	Union Bank of India	324.50	19.59	287.56	17.36	646.23	39.01	1,258.29	75.96	-	-	398.31	24.04	1,656.60
18.	United Bank of India	133.57	17.56	176.72	23.23	233.00	30.63	543.29	71.42	-	-	217.44	28.58	760.73
19.	Vijaya Bank	54.99	10.75	33.60	6.57	311.21	60.84	399.80	78.16	3.52	0.69	108.18	21.15	511.50
	Other Public Sector Bank													
20	IDBI Bank Ltd.	42.46	3.08	42.92	3.12	205.43	14.92	290.81	21.12	22.04	1.60	1,063.82	77.27	1,376.68
	State Bank Group	**3,320.83**	**21.82**	**1,534.74**	**10.08**	**4,046.16**	**26.58**	**8,901.73**	**58.49**	**96.64**	**0.63**	**6,222.01**	**40.88**	**15,220.39**
21.	State Bank of Bikaner and Jaipur	26.02	5.95	44.33	10.14	70.57	16.14	140.92	32.22	2.22	0.51	294.17	67.27	437.31
22.	State Bank of Hyderabad	33.72	10.81	30.75	9.86	105.58	33.85	170.05	54.51	-	-	141.89	45.49	311.94
23.	State Bank of India	2,915.12	23.18	1,260.11	10.02	3,386.05	26.92	7,561.28	60.12	91.16	0.72	4,923.64	39.15	12,576.08
24.	State Bank of Indore	39.82	15.00	26.80	10.10	70.64	26.62	137.26	51.72	-	-	128.12	48.28	265.39
25.	State Bank of Mysore	30.24	8.42	37.49	10.44	69.65	19.40	137.38	38.27	-	-	221.62	61.73	359.00
26.	State Bank of Patiala	193.26	37.10	32.88	6.31	124.19	23.84	350.33	67.25	-	-	170.61	32.75	520.94
27.	State Bank of Saurashtra	28.25	15.79	15.50	8.66	41.33	23.10	85.08	47.56	-	-	93.82	52.44	178.90
28	State Bank of Travancore	54.40	9.53	86.88	15.22	178.15	31.21	319.43	55.96	3.26	0.57	248.14	43.47	570.83

Appendix Table III.29(B) : Non-Performing Assets of Private Sector Banks - Sector-wise

(As at end-March 2008)

(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
	Private Sector Banks	**1,467.31**	**11.31**	**651.11**	**5.02**	**1,300.10**	**10.02**	**3,418.53**	**26.34**	**0.01**	**-**	**9,557.52**	**73.66**	**12,976.06**
	Old Private Sector Banks	**242.61**	**9.49**	**358.70**	**14.03**	**737.18**	**28.83**	**1,338.49**	**52.34**	**-**	**-**	**1,218.66**	**47.66**	**2,557.15**
1.	Bank of Rajasthan Ltd.	22.05	17.47	20.90	16.56	18.65	14.78	61.60	48.81	-	-	64.60	51.19	126.20
2.	Catholic Syrian Bank Ltd.	7.69	5.85	25.99	19.78	45.92	34.95	79.60	60.58	-	-	51.79	39.42	131.39
3.	City Union Bank Ltd.	5.56	6.70	6.19	7.46	9.62	11.60	21.37	25.77	-	-	61.56	74.23	82.93
4.	Dhanalakshmi Bank Ltd.	2.79	4.41	8.25	13.05	14.83	23.46	25.87	40.93	-	-	37.34	59.07	63.21
5.	Federal Bank Ltd.	36.31	7.75	42.73	9.12	243.00	51.86	322.04	68.73	-	-	146.55	31.27	468.59
6.	ING Vysya Bank Ltd.	32.50	27.96	8.13	6.99	29.03	24.98	69.66	59.93	-	-	46.57	40.07	116.23
7.	Jammu and Kashmir Bank Ltd.	28.27	5.83	40.60	8.37	148.15	30.53	217.02	44.73	-	-	268.21	55.27	485.23
8.	Karnataka Bank Ltd.	48.14	12.68	63.63	16.76	52.24	13.76	164.02	43.21	-	-	215.55	56.79	379.57
9.	Karur Vysya Bank Ltd.	4.31	2.22	46.93	24.16	17.36	8.94	68.60	35.31	-	-	125.67	64.69	194.27
10.	Lakshmi Vilas Bank Ltd.	4.95	3.59	15.16	10.99	28.45	20.62	48.56	35.19	-	-	89.42	64.81	137.98
11.	Nainital Bank Ltd.	4.42	23.85	3.06	16.51	6.76	36.48	14.24	76.85	-	-	4.29	23.15	18.53
12.	Ratnakar Bank Ltd.	3.42	9.22	10.97	29.58	8.76	23.62	23.14	62.39	-	-	13.95	37.61	37.09
13.	SBI Commercial and International Bank Ltd.	-	-	-	-	-	-	-	-	-	-	5.27	100.00	5.27
14.	South Indian Bank Ltd.	18.28	9.70	43.42	23.04	93.51	49.61	155.21	82.35	-	-	33.27	17.65	188.48
15.	Tamilnad Mercantile Bank Ltd.	23.92	19.58	22.74	18.61	20.90	17.11	67.56	55.30	-	-	54.62	44.70	122.18
	New Private Sector Banks	**1,224.70**	**11.75**	**292.41**	**2.81**	**562.92**	**5.40**	**2,080.04**	**19.96**	**0.01**	**-**	**8,338.86**	**80.04**	**10,418.91**
16.	Axis Bank Ltd.	109.12	22.47	14.76	3.04	86.71	17.85	210.59	43.36	-	-	275.06	56.64	485.65
17.	Centurion Bank of Punjab Ltd.	55.94	10.36	98.75	18.30	38.29	7.09	192.99	35.75	-	-	346.78	64.25	539.76
18.	Development Credit Bank Ltd.	1.20	1.89	7.97	12.57	2.03	3.20	11.20	17.66	-	-	52.23	82.34	63.43
19.	HDFC Bank Ltd.	36.15	4.00	110.56	12.23	47.70	5.28	194.41	21.51	-	-	709.23	78.49	903.64
20.	ICICI Bank Ltd.	981.85	12.97	23.35	0.31	354.13	4.68	1,359.34	17.96	0.01	-	6,211.12	82.04	7,570.47
21.	IndusInd Bank Ltd.	30.44	7.76	3.18	0.81	30.02	7.65	63.64	16.22	-	-	328.67	83.78	392.31
22.	Kotak Mahindra Bank Ltd.	10.00	2.21	33.84	7.47	4.04	0.89	47.87	10.57	-	-	405.20	89.43	453.08
23.	Yes Bank Ltd.	-	-	-	-	-	-	-	-	-	-	10.57	-	10.57

Appendix Table III.29(C) : Non-Performing Assets of Foreign Banks - Sector-wise

(As at end-March 2008)

(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
	Foreign Banks	**0.07**	**-**	**65**	**2.1**	**337**	**10.8**	**402**	**12.9**	**-**	**-**	**2,712**	**87.1**	**3,114**
1.	AB Bank Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	ABN-AMRO Bank N.V.	-	-	-	-	6	1.9	6	1.9	-	-	288	98.1	294
3.	Abu Dhabi Commercial Bank Ltd.	-	-	6	32.4	-	-	6	32.4	-	-	13	67.6	19
4.	Antwerp Diamond Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
5.	BNP Paribas	-	-	-	-	-	-	-	1.4	-	-	33	98.6	34
6.	Bank of America NA	-	-	-	-	-	-	-	-	-	-	1	100.0	1
7.	Bank of Bahrain & Kuwait B.S.C.	-	-	-	0.7	28	47.6	28	48.4	-	-	30	51.6	58
8.	Bank of Ceylon	-	-	3	15.8	8	48.0	11	63.8	-	-	6	36.2	17
9.	Bank of Nova Scotia	-	-	-	-	-	-	-	-	-	-	2	100.0	2
10.	Barclays Bank PLC	-	-	-	-	-	-	-	-	-	-	61	100.0	61
11.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Calyon Bank	-	-	-	-	-	-	-	-	-	-	2	100.0	2
13.	Chinatrust Commercial Bank	-	-	-	-	-	-	-	-	-	-	1	100.0	1
14.	Citibank N.A.	-	-	-	-	56	5.6	56	5.6	-	-	955	94.4	1011
15.	Deutsche Bank AG	-	-	-	-	7	11.2	7	11.2	-	-	53	88.8	60
16.	DBS Bank Ltd.	-	-	-	-	-	-	-	-	-	-	5	100.0	5
17.	HSBC Ltd.	-	-	17	2.4	125	17.9	142	20.3	-	-	555	79.7	697
18.	JPMorgan Chase Bank	-	-	-	-	-	-	-	-	-	-	121	100.0	121
19.	Krung Thai Bank Public Co. Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Mashreq Bank PSC	-	-	-	-	-	-	-	-	-	-	-	-	-
21.	Mizuho Corporate Bank Ltd.	-	-	-	-	7	100.0	7	100.0	-	-	-	-	7
22.	Oman International Bank S.A.O.G.	-	-	-	-	-	-	-	-	-	-	-	-	-
23.	Shinhan Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
24.	Societe Generale	-	-	-	-	-	-	-	-	-	-	-	-	-
25.	Sonali Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
26.	Standard Chartered Bank	-	-	38	5.3	100	13.9	139	19.2	-	-	584	80.8	723
27.	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 2008)

(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
	Public Sector Banks	**99,993.88**	**5,388.00**	**5.39**
	Nationalised Banks	**63,078.89**	**3,330.00**	**5.28**
1.	Allahabad Bank	4,455.00	269.00	6.04
2.	Andhra Bank	3,317.16	39.54	1.19
3.	Bank of Baroda	5,468.81	349.61	6.39
4.	Bank of India	3,269.30	325.21	9.95
5.	Bank of Maharashtra	1,723.01	113.84	6.61
6.	Canara Bank	7,528.00	317.68	4.22
7.	Central Bank of India	1,379.46	303.43	22.00
8.	Corporation Bank	1,255.22	49.16	3.92
9.	Dena Bank	1,160.49	106.18	9.15
10.	Indian Bank	3,678.52	188.40	5.12
11.	Indian Overseas Bank	5,154.62	12.37	0.24
12.	Oriental Bank of Commerce	2,337.96	94.66	4.05
13.	Punjab and Sind Bank	1,056.10	18.67	1.77
14.	Punjab National Bank	8,772.21	442.66	5.05
15.	Syndicate Bank	4,847.02	56.92	1.17
16.	UCO Bank	1,808.28	218.18	12.07
17.	Union Bank of India	1,924.47	197.40	10.26
18.	United Bank of India	2,210.00	121.00	5.48
19.	Vijaya Bank	1,544.20	68.87	4.46
	State Bank Group	**36,914.99**	**1,975.37**	**5.35**
20.	State Bank of India	24,421.99	1,697.48	6.95
21.	State Bank of Bikaner and Jaipur	3,049.41	51.23	1.68
22.	State Bank of Hyderabad	3,265.23	92.86	2.84
23.	State Bank of Indore	1,879.12	83.04	4.42
24.	State Bank of Mysore	1,718.40	59.63	3.47
25.	State Bank of Patiala	371.90	16.75	4.50
26.	State Bank of Saurashtra	665.20	15.89	2.39
27.	State Bank of Travancore	1,543.74	41.53	2.69
	Other Public Sector Bank			
28.	IDBI Bank Ltd.	189.06	36.94	-

- : 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 2008)

(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
	Private Sector Banks	**5,031.57**	**117.04**	**2.33**
	Old Private Sector Banks	**3,305.40**	**116.79**	**3.53**
1.	Bank of Rajasthan Ltd.	95.60	10.57	11.06
2.	Catholic Syrian Bank Ltd.	9.88	6.12	61.94
3.	City Union Bank Ltd.	66.22	0.46	0.69
4.	Dhanalakshmi Bank Ltd.	155.00	-	-
5.	Federal Bank Ltd.	847.66	48.31	5.70
6.	ING Vysya Bank Ltd.	315.71	4.02	1.27
7.	Jammu and Kashmir Bank Ltd.	898.69	15.90	1.77
8.	Karnataka Bank Ltd.	179.56	7.16	
9.	Karur Vysya Bank Ltd.	342.52	12.84	3.75
10.	Lakshmi Vilas Bank Ltd.	250.02	1.76	0.70
11.	Nainital Bank Ltd.	-	-	-
12.	Ratnakar Bank Ltd.	-	-	-
13.	SBI Commercial and International Bank Ltd.	-	-	-
14.	South Indian Bank Ltd.	134.65	9.56	7.10
15.	Tamilnad Mercantile Bank Ltd.	9.89	0.08	0.81
	New Private Sector Banks	**1,726.17**	**0.25**	**0.01**
16.	Centurion Bank of Punjab Ltd.	29.84	-	-
17.	Development Credit Bank Ltd.	0.62	-	-
18.	HDFC Bank Ltd.	905.93	0.25	0.03
19.	ICICI Bank Ltd.	63.30	-	-
20.	IndusInd Bank Ltd.	25.64	-	-
21.	Kotak Mahindra Bank Ltd.	-	-	-
22.	Axis Bank Ltd.	700.84	-	-
23.	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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**12.00**	**12.70**	**12.90**	**12.80**	**12.32**	**12.28**	**13.01**
	Public Sector Banks	**11.80**	**12.60**	**13.20**	**12.90**	**12.17**	**12.36**	**12.51**
	Nationalised Banks	**10.90**	**12.20**	**13.10**	**13.20**	**12.27**	**12.37**	**12.13**
1.	Allahabad Bank	10.62	11.15	12.52	12.53	13.37	12.52	12.04
2.	Andhra Bank	12.59	13.62	13.71	12.11	14.00	11.33	11.61
3.	Bank of Baroda	11.32	12.65	13.91	12.61	13.65	11.80	12.91
4.	Bank of India	10.68	12.02	13.01	11.52	10.75	11.75	12.04
5.	Bank of Maharashtra	11.16	12.05	11.88	12.68	11.27	12.06	10.26
6.	Canara Bank	11.88	12.50	12.66	12.78	11.22	13.50	13.25
7.	Central Bank of India	9.58	10.51	12.43	12.15	11.03	10.40	10.42
8.	Corporation Bank	17.90	18.50	20.12	16.23	13.92	12.76	12.09
9.	Dena Bank	7.64	6.02	9.48	11.91	10.62	11.52	11.09
10.	Indian Bank	1.70	10.85	12.82	14.14	13.19	14.14	12.86
11.	Indian Overseas Bank	10.82	11.30	12.49	14.20	13.04	13.27	11.96
12.	Oriental Bank of Commerce	10.99	14.04	14.47	9.21	11.04	12.51	12.12
13.	Punjab & Sind Bank	10.70	10.43	11.06	9.46	12.83	12.88	11.57
14.	Punjab National Bank	10.70	12.02	13.10	14.78	11.95	12.29	12.96
15.	Syndicate Bank	12.12	11.03	11.49	10.70	11.73	11.74	11.22
16.	UCO Bank	9.64	10.04	11.88	11.26	11.12	11.56	10.09
17.	Union Bank of India	11.07	12.41	12.32	12.09	11.41	12.80	12.51
18.	United Bank of India	12.02	15.17	17.04	18.16	13.12	12.02	11.88
19.	Vijaya Bank	12.25	12.66	14.11	12.92	11.94	11.21	11.22
	State Bank Group	**13.30**	**13.40**	**13.40**	**12.40**	**11.95**	**12.32**	**13.21**
20.	State Bank of India	13.35	13.50	13.53	12.45	11.88	12.34	12.64
21.	State Bank of Bikaner & Jaipur	13.42	13.18	12.93	12.60	12.08	12.89	12.51
22.	State Bank of Hyderabad	14.03	14.91	14.29	11.74	12.08	12.51	12.35
23.	State Bank of Indore	12.78	13.09	12.39	11.61	11.40	11.77	11.29
24.	State Bank of Mysore	11.81	11.62	11.53	12.08	11.37	11.47	11.73
25.	State Bank of Patiala	12.55	13.57	13.56	14.21	13.67	12.38	12.50
26.	State Bank of Saurashtra	13.20	13.68	14.53	11.45	12.03	12.78	12.34
27.	State Bank of Travancore	12.54	11.30	11.36	11.05	11.15	11.68	12.68
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	-	-	-	15.51	14.80	13.73	11.95

Appendix Table III.31: Capital Adequacy Ratio - Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Old Private Sector Banks	**12.50**	**12.80**	**13.70**	**12.50**	**11.69**	**12.08**	**14.08**
1.	Bank of Rajasthan Ltd.	12.07	11.29	11.18	12.75	10.60	11.32	11.87
2.	Catholic Syrian Bank Ltd.	9.57	10.58	11.23	11.35	11.26	9.58	10.87
3.	City Union Bank Ltd.	13.97	13.95	13.36	12.18	12.33	12.58	12.48
4.	Dhanalakshmi Bank Ltd.	11.23	10.45	13.56	10.16	9.75	9.77	9.21
5.	Federal Bank Ltd.	10.63	11.23	11.48	11.27	13.75	13.43	22.46
6.	ING Vysya Bank Ltd.	11.57	9.81	11.05	9.09	10.67	10.56	10.20
7.	Jammu & Kashmir Bank Ltd.	15.46	16.48	16.88	15.15	13.52	13.24	12.80
8.	Karnataka Bank Ltd.	12.96	13.44	13.03	14.16	11.78	11.03	12.17
9.	Karur Vysya Bank Ltd.	16.90	17.01	17.11	16.07	14.79	14.51	12.58
10.	Lakshmi Vilas Bank Ltd.	11.54	11.35	13.79	11.32	10.79	12.43	12.73
11.	Lord Krishna Bank Ltd.	16.50	12.82	16.68	11.74	10.11	11.61	-
12.	Nainital Bank Ltd.	14.88	20.93	18.54	14.85	13.88	12.89	12.32
13.	Ratnakar Bank Ltd.	13.60	14.05	16.65	12.03	10.77	34.34	49.15
14.	Sangli Bank Ltd.	11.64	14.94	13.68	9.30	1.64	-	-
15.	SBI Commercial and International Bank Ltd.	22.10	21.19	30.43	23.56	22.29	20.93	25.06
16.	South Indian Bank Ltd.	11.20	10.75	11.32	9.89	13.02	11.08	13.80
17.	Tamilnad Mercantile Bank Ltd.	18.02	18.54	21.07	19.74	18.33	16.77	15.35
	New Private Sector Banks	**12.30**	**11.30**	**10.20**	**12.10**	**12.60**	**11.99**	**14.39**
18.	Axis Bank	10.65	10.90	11.21	12.66	11.08	11.57	13.73
19.	Centurion Bank of Punjab Ltd.	4.16	1.95	4.41	21.42	12.52	11.05	10.66
20.	Development Credit Bank Ltd.	11.49	10.08	14.14	9.88	9.66	11.34	13.38
21.	HDFC Bank	13.93	11.12	11.66	12.16	11.41	13.08	13.60
22.	ICICI Bank	11.44	11.10	10.36	11.78	13.35	11.69	14.92
23.	IndusInd Bank Ltd.	12.51	12.13	12.75	11.62	10.54	12.54	11.91
24.	Kotak Mahindra Bank Ltd.	-	25.97	15.25	12.80	11.27	13.46	18.65
25.	Yes Bank Ltd.	-	-	-	18.81	16.40	13.60	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	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	1	2	3	4	5	6	7	8
	Foreign Banks in India	**12.90**	**15.20**	**15.00**	**14.00**	**13.02**	**12.39**	**13.08**
1.	A B Bank Ltd.	138.51	105.64	111.34	109.39	86.21	100.00	43.09
2.	ABN-AMRO Bank N.V.	13.17	12.57	13.48	10.55	10.44	11.34	12.92
3.	Abu Dhabi Commercial Bank Ltd.	10.42	10.14	14.22	14.38	36.98	27.66	51.71
4.	American Express Bank Ltd.	10.71	10.93	10.74	10.87	10.26	13.00	-
5.	Antwerp Diamond Bank	-	92.69	53.22	39.99	39.67	46.48	37.09
6.	Bank Internasional Indonesia	123.07	103.99	133.94	92.26	108.87	141.24	235.82
7.	Bank of America NA	21.07	21.08	22.92	30.07	23.40	13.33	12.14
8.	Bank of Bahrain and Kuwait B.S.C.	17.03	17.19	21.06	11.66	20.01	22.00	21.61
9.	Bank of Ceylon	30.94	32.29	45.26	49.40	56.37	63.21	55.86
10.	Bank of Nova Scotia	10.12	13.38	13.78	15.27	13.71	23.26	20.15
11.	Bank of Tokyo-Mitsubishi Ltd. UFJ	15.36	30.40	32.78	32.10	33.38	30.71	26.87
12.	Barclays Bank PLC	63.56	45.68	37.16	20.85	22.92	13.68	21.11
13.	BNP Paribas	9.66	10.74	21.70	9.41	11.61	10.76	11.79
14.	Calyon Bank	11.23	20.04	24.51	14.40	19.80	15.10	9.70
15.	Chinatrust Commercial Bank	40.11	36.96	39.98	59.94	38.01	22.14	22.72
16.	Citibank N.A.	11.04	11.30	11.11	10.78	11.33	11.06	12.00
17.	DBS Bank Ltd.	13.31	15.98	55.49	35.06	31.33	29.24	18.15
18.	Deutsche Bank AG	14.55	17.35	14.42	16.22	12.74	10.62	13.58
19.	HSBC Ltd.	10.92	18.10	14.54	14.03	10.61	11.06	10.59
20.	JPMorgan Chase Bank	85.88	72.95	34.83	10.19	11.76	16.14	17.72
21.	Krung Thai Bank Public Co. Ltd.	167.65	119.88	115.98	99.59	133.53	121.73	110.11
22.	Mashreq Bank PSC	20.54	39.38	54.71	60.14	136.92	97.06	52.81
23.	Mizuho Corporate Bank Ltd.	11.14	18.50	36.09	28.76	65.76	34.40	27.80
24.	Oman International Bank S.A.O.G.	18.86	14.62	16.48	13.52	9.58	10.99	23.09
25.	Shinhan Bank	27.65	37.17	54.43	55.31	81.71	89.26	48.66
26.	Societe Generale	12.85	32.63	32.71	64.81	37.40	31.82	26.62
27.	Sonali Bank	113.64	46.86	60.55	105.81	93.78	71.42	41.25
28.	Standard Chartered Bank	9.28	10.56	10.87	10.46	9.93	10.44	10.59
29.	State Bank of Mauritius Ltd.	46.78	31.74	35.08	31.06	35.42	38.99	41.13

- : Nil/Negligible.

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 2008)

(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
	Nationalised Banks									
1.	Allahabad Bank	55.2	9.6	18.5	2.9	-	13.7	0.1	81.4	18.6
2.	Andhra Bank	51.6	12.7	19.3	3.2	-	13.2	0.1	80.6	19.4
3.	Bank of Baroda	53.8	18.0	-	1.2	19.8	6.5	0.6	79.6	20.4
4.	Bank of India	64.5	11.8	15.1	1.3	0.1	6.7	0.6	84.2	15.8
5.	Bank of Maharashtra	76.8	5.7	8.1	0.9	-	8.5	0.1	91.8	8.2
6.	Canara Bank	73.2	5.8	14.0	1.2	-	5.8	-	86.0	14.0
7.	Central Bank of India	80.2	6.9	5.4	1.1	-	6.3	0.1	94.5	5.5
8.	Corporation Bank	57.2	29.4	10.2	0.4	0.2	2.6	-	89.6	10.4
9.	Dena Bank	51.2	8.5	-	6.6	-	20.9	12.8	87.2	12.8
10.	IDBI Bank Ltd.	52.7	23.8	-	7.0	-	16.5	-	100.0	-
11.	Indian Bank	80.0	2.5	13.8	0.4	-	3.1	0.1	86.1	14.0
12.	Indian Overseas Bank	61.2	6.6	18.3	1.1	-	12.1	0.7	81.0	19.0
13.	Oriental Bank of Commerce	51.1	20.7	18.1	4.7	-	5.3	-	81.9	18.1
14.	Punjab & Sind Bank	100.0	-	-	-	-	-	-	100.0	-
15.	Punjab National Bank	57.8	16.6	20.0	0.8	-	4.7	-	79.9	20.1
16.	Syndicate Bank	66.5	6.7	12.4	1.8	-	12.7	-	87.6	12.4
17.	UCO Bank	75.0	5.2	-	4.1	0.7	14.7	0.3	98.9	1.1
18.	Union Bank of India	55.4	12.0	19.5	1.5	-	11.6	-	80.5	19.5
19.	United Bank of India	100.0	-	-	-	-	-	-	100.0	-
20.	Vijaya Bank	53.9	8.2	14.9	3.2	-	19.4	0.5	84.6	15.4
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	-	75.3	-	4.6	2.4	14.7	3.0	94.6	5.4
22.	State Bank of Hyderabad	-	100.0	-	-	-	-	-	100.0	-
23.	State Bank of India	59.7	11.5	19.6	3.4	-	5.8	0.1	80.4	19.6
24.	State Bank of Indore	-	98.1	-	0.7	-	1.2	-	100.0	-
25.	State Bank of Mysore	-	94.0	-	0.3	-	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	76.1	2.8	3.6	-	12.6	3.8	93.4	6.6

Appendix Table III.32 : Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2008)

(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
	Old Private Sector Banks									
1.	Bank of Rajasthan Ltd.	-	3.9	15.6	65.3	-	15.0	0.2	84.2	15.8
2.	Catholic Syrian Bank Ltd.	-	-	-	3.6	13.9	65.2	17.4	68.8	31.2
3.	City Union Bank Ltd.	-	9.1	11.3	20.3	8.6	50.2	0.5	79.6	20.4
4.	Dhanalakshmi Bank Ltd.	-	2.1	23.3	11.7	-	59.1	3.8	72.9	27.1
5.	Federal Bank Ltd.	-	18.2	53.1	3.6	5.0	20.1	-	41.9	58.1
6.	ING Vysya Bank Ltd.	-	15.7	22.8	2.5	43.9	10.6	4.5	28.8	71.2
7.	Jammu & Kashmir Bank Ltd.	53.2	2.3	33.6	1.2	-	9.4	0.4	66.1	33.9
8.	Karnataka Bank Ltd.	-	45.8	-	8.8	-	45.2	0.3	99.7	0.3
9.	Karur Vysya Bank Ltd.	-	5.3	21.9	13.6	-	55.7	3.4	74.7	25.3
10.	Lakshmi Vilas Bank Ltd.	-	12.0	-	24.8	2.7	60.3	0.2	97.1	2.9
11.	Nainital Bank Ltd.	-	98.4	-	-	-	1.6	-	100.0	-
12.	Ratnakar Bank Ltd.	-	2.1	-	10.8	19.9	59.7	7.4	72.7	27.3
13.	SBI Commercial & International Bank Ltd	-	100.0	-	-	-	-	-	100.0	-
14.	South Indian Bank Ltd.	-	8.6	45.8	8.3	4.8	29.9	2.5	46.8	53.2
15.	Tamilnad Mercantile Bank Ltd.	-	0.1	-	24.7	16.5	58.3	0.4	83.1	16.9
	New Private Sector Banks									
16.	Axis Bank Ltd.	-	50.8	37.5	5.3	1.4	4.8	0.1	60.9	39.1
17.	Centurion Bank of Punjab Ltd.	-	0.1	27.8	17.9	36.7	15.5	2.1	33.5	66.5
18.	Development Credit Bank Ltd	-	2.3	-	12.2	64.6	20.0	1.0	34.5	65.5
19.	HDFC Bank Ltd.	-	7.5	-	32.1	49.1	11.1	0.2	50.7	49.3
20.	ICICI Bank Ltd.	-	6.4	69.4	16.6	-	7.2	0.4	30.2	69.8
21.	IndusInd Bank Ltd.	-	2.7	19.0	17.9	39.8	17.3	3.2	38.0	62.1
22.	Kotak Mahindra Bank Ltd.	-	4.4	26.2	7.7	0.6	60.4	0.7	72.4	27.6
23.	Yes Bank Ltd	-	0.7	40.9	17.0	13.5	26.5	1.5	44.2	55.9

- : 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

(Rs. crore)

Sr. No.	Name of the Bank	Expenditure incurred during half year ended March 2008	Expenditure incurred between Sept 1999 and March 2008
	1	2	3
	Public Sector Banks	**1,318.35**	**15,015.84**
	Nationalised Banks	**853.29**	**9,591.10**
1.	Allahabad Bank	17.68	218.47
2.	Andhra Bank	36.55	434.94
3.	Bank of Baroda	34.67	809.85
4.	Bank of India	83.75	1,241.92
5.	Bank of Maharashtra	38.17	334.06
6.	Canara Bank	63.84	952.64
7.	Central Bank of India	19.90	448.50
8.	Corporation Bank	20.68	413.11
9.	Dena Bank	2.77	174.18
10.	Indian Bank	51.71	473.69
11.	Indian Overseas Bank	57.47	350.77
12.	Oriental Bank of Commerce	28.45	376.96
13.	Punjab and Sind Bank	4.19	58.01
14.	Punjab National Bank	99.36	1,092.76
15.	Syndicate Bank	34.95	448.20
16.	UCO Bank	91.92	450.72
17.	Union Bank of India	77.85	529.70
18.	United Bank of India	35.57	258.47
19.	Vijaya Bank	53.81	524.15
	State Bank Group	**465.06**	**5,424.74**
20.	State Bank of India	279.96	3,777.93
21.	State Bank of Bikaner and Jaipur	57.34	354.26
22.	State Bank of Hyderabad	17.96	287.81
23.	State Bank of Indore	16.72	129.27
24.	State Bank of Mysore	27.86	192.20
25.	State Bank of Patiala	23.56	244.80
26.	State Bank of Saurashtra	28.07	210.20
27.	State Bank of Travancore	13.59	228.27

Appendix Table III.34: Computerisation in Public Sector Banks

(As on March 31, 2008)

(Rs. crore)

Sr. No.	Name of the Bank	Branches Under Core Banking Solution	Branches Already Fully Computerised#	Fully Computerised Branches (2+3)	Branches Partially Computerised
	1	2	3	4	5
	Public Sector Banks	**67.7**	**26.9**	**94.6**	**6.4**
	Nationalised Bank	**56.6**	**35.7**	**92.3**	**9.0**
1.	Allahabad Bank	9.8	88.6	98.4	2.6
2.	Andhra Bank	82.3	17.9	100.0	-
3.	Bank of Baroda	60.4	39.9	100.0	-
4.	Bank of India	53.6	47.7	100.0	-
5.	Bank of Maharashtra	47.6	53.1	100.0	-
6.	Canara Bank	21.2	78.3	100.0	-
7.	Central Bank of India	30.7	55.4	86.1	13.4
8.	Corporation Bank	100.0	-	100.0	-
9.	Dena Bank	10.1	98.2	100.0	-
10.	Indian Bank	100.0	-	100.0	-
11.	Indian Overseas Bank	61.1	11.8	73.0	25.3
12.	Oriental Bank of Commerce	100.0	-	100.0	-
13.	Punjab National Bank	100.0	100.0	100.0	-
14.	Punjab and Sind Bank	-	2.0	2.0	19.4
15.	Syndicate Bank	81.9	5.9	87.9	11.2
16.	UCO Bank	36.0	7.7	43.7	56.9
17.	Union Bank of India	100.0	-	100.0	-
18.	United Bank of India	27.1	57.8	84.8	15.3
19.	Vijaya Bank	70.2	29.6	100.0	-
	State Bank Group	**95.0**	**5.3**	**100.0**	**-**
20.	State Bank of India	92.2	7.8	100.0	-
21.	State Bank of Bikaner and Jaipur	100.0	-	100.0	-
22.	State Bank of Hyderabad	100.0	-	100.0	-
23.	State Bank of Indore	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 2008)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
	1	2	3	4	5	6	7	8	9	10	11
	Scheduled Commercial Banks	**19,557**	**15,055**	**13,726**	**12,794**	**61,132**	**18,486**	**16,303**	**34,789**	**46.9**	**56.9**
	Public Sector Banks	**18,526**	**12,685**	**11,260**	**10,409**	**52,880**	**12,902**	**8,886**	**21,788**	**40.8**	**41.2**
	Nationalised Banks	**13,198**	**8,140**	**8,440**	**7,997**	**37,775**	**8,320**	**5,035**	**13,355**	**37.7**	**35.4**
1.	Allahabad Bank	947	363	440	385	2,135	119	92	211	43.6	9.9
2.	Andhra Bank	387	381	354	241	1,363	201	455	656	69.4	48.1
3.	Bank of Baroda	1,090	630	519	606	2,845	645	461	1,106	41.7	38.9
4.	Bank of India	1,217	574	512	542	2,845	273	162	435	37.2	15.3
5.	Bank of Maharashtra	515	252	257	341	1,365	257	88	345	25.5	25.3
6.	Canara Bank	723	683	655	629	2,690	1,199	807	2,006	40.2	74.6
7.	Central Bank of India	1,324	822	625	553	3,324	277	90	367	24.5	11.0
8.	Corporation Bank	180	187	289	308	964	439	517	956	54.1	99.2
9.	Dena Bank	348	223	210	290	1,071	72	241	313	77.0	29.2
10.	Indian Bank	458	381	378	307	1,524	448	152	600	25.3	39.4
11.	Indian Overseas Bank	535	426	493	425	1,879	369	82	451	18.2	24.0
12.	Oriental Bank of Commerce	266	302	420	356	1,344	506	235	741	31.7	55.1
13.	Punjab and Sind Bank	283	127	223	206	839	10	-	10	-	1.2
14.	Punjab National Bank	1,855	840	809	674	4,178	1,092	424	1,516	28.0	36.3
15.	Syndicate Bank	647	506	541	494	2,188	847	153	1,000	15.3	45.7
16.	UCO Bank	755	369	414	407	1,945	259	46	305	15.1	15.7
17.	Union Bank of India	748	545	524	507	2,324	655	491	1,146	42.8	49.3
18.	United Bank of India	613	225	291	270	1,399	110	54	164	32.9	11.7
19.	Vijaya Bank	254	211	320	268	1,053	231	41	272	15.1	25.8
20.	IDBI Bank Ltd.	53	93	166	188	500	311	444	755	58.8	151.0
	State Bank Group	**5,328**	**4,545**	**2,820**	**2,412**	**15,105**	**4,582**	**3,851**	**8,433**	**45.7**	**55.8**
21.	State Bank of India	4,015	2,908	1,781	1,479	10,183	2,877	2,971	5,848	50.8	57.4
22.	State Bank of Bikaner and Jaipur	288	241	152	166	847	242	164	406	40.4	47.9
23.	State Bank of Hyderabad	257	315	235	185	992	374	136	510	26.7	51.4
24.	State Bank of Indore	116	137	83	123	459	168	132	300	44.0	65.4
25.	State Bank of Mysore	207	132	147	164	650	245	74	319	23.2	49.1
26.	State Bank of Patiala	259	217	203	123	802	321	120	441	27.2	55.0
27.	State Bank of Saurashtra	135	139	74	111	459	119	103	222	46.4	48.4
28.	State Bank of Travancore	51	456	145	61	713	236	151	387	39.0	54.3

Appendix Table III.35: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2008)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
	1	2	3	4	5	6	7	8	9	10	11
	Private Sector Banks	**1,031**	**2,368**	**2,417**	**2,159**	**7,975**	**5,315**	**6,652**	**11,967**	**55.6**	**150.1**
	Old Private Sector Banks	**808**	**1,498**	**1,270**	**874**	**4,450**	**1,436**	**664**	**2,100**	**31.6**	**47.2**
1.	Bank of Rajasthan Ltd.	99	92	142	125	458	69	27	96	28.1	21.0
2.	Catholic Syrian Bank Ltd.	17	191	94	44	346	80	45	125	36.0	36.1
3.	City Union Bank Ltd.	31	52	66	33	182	80	2	82	2.4	45.1
4.	Dhanalakshmi Bank Ltd.	21	80	52	28	181	55	13	68	19.1	37.6
5.	Federal Bank Ltd.	40	318	148	95	601	294	222	516	43.0	85.9
6.	ING Vysya Bank	78	77	132	111	398	124	79	203	38.9	51.0
7.	Jammu and Kashmir Bank Ltd.	213	81	122	64	480	142	68	210	32.4	43.8
8.	Karnataka Bank Ltd.	88	91	135	122	436	108	33	141	23.4	32.3
9.	Karur Vysya Bank Ltd.	30	80	100	64	274	229	62	291	21.3	106.2
10.	Lakshmi Vilas Bank Ltd.	33	86	75	42	236	29	-	29	-	12.3
11.	Nainital Bank Ltd.	19	24	22	22	87	-	-	-		-
12.	Ratnakar Bank Ltd.	24	24	16	15	79	9	-	9	-	11.4
13.	SBI Commercial and International Bank Ltd.	-	-	-	2	2	2	-	2	-	100.0
14.	South Indian Bank Ltd.	66	229	114	80	489	160	65	225	28.9	46.0
15.	Tamilnad Mercantile Bank Ltd.	49	73	52	27	201	55	48	103	46.6	51.2
	New Private Sector Banks	**223**	**870**	**1,147**	**1,285**	**3,525**	**3,879**	**5,988**	**9,867**	**60.7**	**279.9**
16.	Axis Bank Ltd.	15	133	259	219	626	718	2,046	2,764	74.0	441.5
17.	Centurion Bank of Punjab Ltd.	18	108	134	145	405	254	111	365	30.4	90.1
18.	Development Credit Bank Ltd.	4	14	11	48	77	68	44	112	39.3	145.5
19.	HDFC Bank Ltd.	31	150	245	319	745	1,027	953	1,980	48.1	265.8
20.	ICICI Bank Ltd.	131	386	358	374	1,249	1,433	2,448	3,881	63.1	310.7
21.	IndusInd Bank Ltd.	5	36	88	53	182	163	174	337	51.6	185.2
22.	Kotak Mahindra Ltd.	11	31	39	99	180	176	137	313	43.8	173.9
23.	Yes Bank Ltd.	8	12	13	28	61	40	75	115	65.2	188.5

Appendix Table III.35: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2008)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent ATMs to Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
	1	2	3	4	5	6	7	8	9	10	11
	Foreign Banks	**-**	**2**	**49**	**226**	**277**	**269**	**765**	**1,034**	**74.0**	**377.4**
1.	AB Bank Ltd.	-	-	-	1	1	-	-	-	-	-
2.	ABN-AMRO Bank N.V.	-	-	9	19	28	33	83	116	71.6	414.3
3.	Abu Dhabi Commercial Bank Ltd.	-	-	-	2	2	-	-	-	-	-
4.	American Express Bank Ltd.	-	-	-	1	1	9	2	11	18.2	1,100.0
5.	Antwerp Bank Ltd.	-	-	-	1	1	-	-	-	-	-
6.	Bank Internasional Indonesia	-	-	-	1	1	-	-	-	-	-
7.	Bank of America NA	-	-	-	5	5	-	-	-	-	-
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	2	2	5	6	4	10	40.0	200.0
13.	BNP Paribas	-	-	-	9	9	-	-	-	-	-
14.	Calyon Bank	-	-	-	6	6	-	-	-	-	-
15.	Chinatrust Commercial Bank	-	-	-	1	1	-	-	-	-	-
16.	Citibank N.A.	-	1	10	29	40	53	412	465	88.6	1,162.5
17.	DBS Bank Ltd.	-	-	-	2	2	-	-	-	-	-
18.	Deutsche Bank AG	-	-	4	6	10	11	20	31	64.5	310.0
19.	HSBC Ltd.	-	-	9	38	47	71	106	177	59.9	376.6
20.	JPMorgan Chase Bank	-	-	-	1	1	-	-	-	-	-
21.	Krung Thai Bank Public Co. Ltd.	-	-	-	1	1	-	-	-	-	-
22.	Mashreq Bank 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	-	-	12	78	90	85	138	223	61.9	247.8
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, 2007@					As on June 30, 2008@				
		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	5,119	4,195	2,604	2,233	14,151	5,356	4,575	2,838	2,456	15,225
		(36.2)	(29.6)	(18.4)	(15.8)	(100.0)	(35.2)	(30.0)	(18.6)	(16.1)	(100.0)
2. Nationalised Banks	19	13,016	7,693	7,852	7,549	36,110	13,168	8,106	8,332	7,857	37,463
		(36.0)	(21.3)	(21.7)	(20.9)	(100.0)	(35.1)	(21.6)	(22.2)	(21.0)	(100.0)
3. Other Public Sector Bank	1	49	81	124	182	436	53	95	166	188	502
		(11.2)	(18.6)	(28.4)	(41.7)	(100.0)	(10.6)	(18.9)	(33.1)	(37.5)	(100.0)
4. Old Private Sector Banks	15	810	1,468	1,237	868	4,383	817	1,504	1,282	884	4,487
		(18.5)	(33.5)	(28.2)	(19.8)	(100.0)	(18.2)	(33.5)	(28.6)	(19.7)	(100.0)
5. New Private Sector Banks	7	185	628	925	1,087	2,825	235	964	1,222	1,361	3,782
		(6.5)	(22.2)	(32.7)	(38.5)	(100.0)	(6.2)	(25.5)	(32.3)	(36.0)	(100.0)
6. Foreign Banks in India	30	-	2	44	225	271	-	2	50	227	279
		-	(0.7)	(16.2)	(83.0)	(100.0)	-	(0.7)	(17.9)	(81.4)	(100.0)
7. Regional Rural Banks	88	11,440	2,513	533	59	14,545	11,492	2,598	596	63	14,749
		(78.7)	(17.3)	(3.7)	(0.4)	(100.0)	(77.9)	(17.6)	(4.0)	(0.4)	(100.0)
8. Non-Scheduled Commercial Banks (Local Area Banks)	4	6	14	11	-	31	6	14	11	-	31
		(19.4)	(45.2)	(35.5)	-	(100.0)	(19.4)	(45.2)	(35.5)	-	(100.0)
Total	**172**	**30,625**	**16,594**	**13,330**	**12,203**	**72,752**	**31,127**	**17,858**	**14,497**	**13,036**	**76,518**
		(42.1)	**(22.8)**	**(18.3)**	**(16.8)**	**(100.0)**	**(40.7)**	**(23.3)**	**(18.9)**	**(17.0)**	**(100.0)**

: As on June 30,2008.
@ : Population group wise classification of branches is based on 2001 Census.
Note : 1. Number of branches data exclude administrative offices.
2. Data for June 2007 are revised and that for June 2008 are provisional.
3. Figures in parentheses are percentage 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.	Regional/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	
		2007	2008	July 2006 to June 2007	*of which:* at unbanked centres	July 2007 to June 2008	*of which:* at unbanked centres	2007	2008
	1	2	3	4	5	6	7	8	9
	ALL INDIA	**72,752**	**76,518**	**2,731**	**85**	**3,836**	**160**	**16**	**15**
1	**NORTHERN REGION**	**12,405**	**13,058**	**608**	**23**	**670**	**24**	**12**	**12**
	Chandigarh	226	244	13	-	19	-	5	4
	Delhi	1,906	2,042	120	2	142	-	9	8
	Haryana	1,902	2,036	124	8	135	8	12	12
	Himachal Pradesh	870	906	40	1	36	5	7	7
	Jammu and Kashmir	917	952	35	3	35	2	13	13
	Punjab	2,970	3,124	159	7	161	5	9	9
	Rajasthan	3,614	3,754	117	2	142	4	18	17
2	**NORTH-EARSTERN REGION**	**1,976**	**2,039**	**66**	**2**	**66**	**3**	**22**	**21**
	Arunachal Pradesh	72	73	3	-	1	-	17	16
	Assam	1,289	1,325	42	-	37	-	23	23
	Manipur	76	77	1	-	2	-	34	34
	Meghalaya	187	190	2	1	4	-	13	13
	Mizoram	84	91	9	-	7	1	12	11
	Nagaland	79	81	4	-	2	1	27	27
	Tripura	189	202	5	1	13	1	18	17
3	**EASTERN REGION**	**12,482**	**12,937**	**345**	**5**	**461**	**15**	**20**	**20**
	Andaman and Nicobar Islands	37	37	3	-	-	-	11	11
	Bihar	3,643	3,724	58	2	81	5	25	25
	Jharkhand	1,558	1,636	42	1	79	1	19	18
	Orissa	2,444	2,566	104	1	117	5	16	16
	Sikkim	68	71	9	-	4	-	9	8
	West Bengal	4,732	4,903	129	1	180	4	18	18
4	**CENTRAL REGION**	**14,435**	**15,277**	**453**	**10**	**854**	**39**	**20**	**19**
	Chhatisgarh	1,093	1,153	42	3	61	3	21	21
	Madhya Pradesh	3,589	3,777	80	-	195	5	19	18
	Uttar Pradesh	8,808	9,317	301	6	513	27	21	21
	Uttarakhand	945	1,030	30	1	85	4	10	9
5	**WESTERN REGION**	**11,212**	**11,829**	**447**	**15**	**638**	**20**	**15**	**14**
	Dadra and Nagar Haveli	21	21	7	-	1	-	12	13
	Daman and Diu	18	18	1	-	-	-	10	11
	Goa	368	395	16	2	27	1	4	4
	Gujarat	3,966	4,205	173	7	244	11	14	13
	Maharashtra	6,839	7,190	250	6	366	8	15	15
6	**SOUTHERN REGION**	**20,242**	**21,378**	**812**	**30**	**1,147**	**59**	**12**	**11**
	Andhra Pradesh	5,844	6,206	235	6	363	21	14	13
	Karnataka	5,288	5,538	169	3	253	10	11	10
	Kerala	3,758	3,936	141	6	179	10	9	9
	Lakshadweep	10	10	-	-	-	-	7	7
	Puducherry	98	108	6	2	10	-	11	10
	Tamil Nadu	5,244	5,580	261	13	342	18	13	12

- : Nil/Negligible.
@ : Inclusive of 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 years received from the Office of Registrar General and Census Commissioner, Government of India.
2. Bank branches exclude administrative offices.
3. Data for June 2007 are revised.
4. Data for June 2008 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 2005		March 2006		March 2007		March 2008	March 2006		March 2007	
		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
	ALL INDIA	**66.0**	**66.0**	**72.4**	**72.4**	**75.0**	**75.0**	**74.2**	**78.3**	**78.3**	**79.8**	**79.8**
1.	**NORTHERN REGION**	**59.5**	**62.2**	**64.6**	**67.9**	**69.6**	**71.2**	**66.6**	**68.7**	**72.0**	**73.0**	**74.6**
	Haryana	51.4	63.2	57.4	69.6	56.9	68.4	60.6	63.8	75.9	61.7	73.2
	Himachal Pradesh	36.3	50.9	41.0	53.0	42.8	51.1	43.6	58.1	70.0	58.1	66.5
	Jammu & Kashmir	46.7	50.9	47.2	52.7	62.5	60.9	48.1	55.1	60.6	69.9	68.3
	Punjab	50.1	49.7	56.8	56.3	65.6	65.3	66.3	63.4	63.0	71.8	71.5
	Rajasthan	68.7	76.5	77.3	86.0	82.9	90.9	82.0	94.1	102.9	96.4	104.5
	Chandigarh	88.9	97.0	76.8	85.8	95.9	101.1	94.0	76.8	85.8	95.9	101.1
	Delhi	62.4	62.5	67.4	68.0	70.8	69.6	65.7	67.4	68.0	70.8	69.6
2.	**NORTH-EASTERN REGION**	**35.0**	**44.6**	**40.7**	**52.3**	**40.7**	**48.6**	**39.0**	**55.2**	**66.7**	**51.7**	**59.7**
	Arunachal Pradesh	22.0	30.0	26.5	41.6	28.0	46.0	29.1	36.8	52.0	36.6	54.7
	Assam	35.3	41.9	42.6	49.1	42.8	52.5	41.2	54.6	61.1	51.7	61.5
	Manipur	42.4	42.6	50.1	51.8	55.1	55.6	47.2	78.4	80.1	76.8	77.4
	Meghalaya	43.6	85.7	48.1	113.9	35.7	41.2	30.4	62.6	128.4	46.6	52.1
	Mizoram	47.8	59.1	51.2	53.7	53.8	58.4	55.9	79.7	82.2	74.7	79.3
	Nagaland	22.9	23.2	22.3	23.2	29.1	31.9	33.2	52.6	53.5	53.7	56.5
	Tripura	28.6	29.0	32.8	33.9	35.3	36.2	33.9	46.2	47.2	45.9	46.8
3.	**EASTERN REGION**	**45.5**	**50.4**	**49.2**	**55.6**	**54.1**	**60.6**	**51.2**	**59.1**	**65.5**	**61.8**	**68.3**
	Bihar	27.7	31.4	30.3	40.0	32.4	49.0	29.7	42.4	52.1	41.3	57.9
	Jharkhand	29.6	30.6	31.2	31.6	32.8	33.3	35.1	35.7	36.1	36.8	37.3
	Orissa	61.8	74.7	66.0	78.7	64.6	72.6	56.6	80.3	92.9	74.4	82.4
	Sikkim	29.5	29.3	45.3	44.8	52.8	51.2	47.5	59.2	58.6	62.5	61.0
	West Bengal	52.3	56.8	56.3	61.4	64.7	68.4	61.4	65.7	70.8	72.3	76.0
	Andaman & Nicobar Islands	26.8	43.8	29.0	49.2	27.7	56.6	31.4	29.0	49.2	27.7	56.6
4.	**CENTRAL REGION**	**40.8**	**45.8**	**44.2**	**50.0**	**47.4**	**52.3**	**47.2**	**54.2**	**59.9**	**56.0**	**61.0**
	Chhattisgarh	43.6	49.9	45.5	52.5	50.0	58.3	52.3	50.7	57.7	54.2	62.6
	Madhya Pradesh	54.7	61.2	60.5	67.2	61.8	64.6	60.3	71.9	78.6	71.5	74.4
	Uttar Pradesh	37.9	42.2	41.0	46.3	45.1	50.4	44.9	51.3	56.7	54.2	59.4
	Uttarakhand	24.3	29.1	25.8	30.9	26.7	32.1	26.6	34.3	39.4	33.8	39.2
5.	**WESTERN REGION**	**83.5**	**71.8**	**92.0**	**78.9**	**90.1**	**77.3**	**88.8**	**95.0**	**82.0**	**92.5**	**79.7**
	Goa	25.1	30.3	23.2	27.6	26.2	30.0	29.2	27.0	31.4	29.9	33.7
	Gujarat	46.5	60.9	55.6	75.3	63.7	88.4	65.2	63.0	82.7	69.6	94.3
	Maharashtra	94.9	75.9	102.2	81.3	96.8	76.5	94.7	104.4	83.5	98.5	78.2
	Dadra & Nagar Haveli	34.8	110.8	49.3	136.7	20.6	116.4	25.5	49.3	136.7	20.6	116.4
	Daman & Diu	11.5	48.3	11.4	45.7	15.6	57.1	14.9	11.4	45.7	15.6	57.1
6.	**SOUTHERN REGION**	**78.1**	**83.9**	**84.4**	**90.8**	**87.0**	**96.6**	**89.3**	**91.1**	**97.5**	**92.7**	**102.3**
	Andhra Pradesh	74.8	83.3	81.3	86.2	87.3	91.2	91.6	90.5	95.3	95.5	99.3
	Karnataka	73.8	80.5	75.9	93.4	76.3	99.8	78.0	80.8	98.3	79.9	103.4
	Kerala	54.6	57.5	61.4	64.3	60.9	63.8	65.3	69.1	72.1	67.7	70.7
	Tamil Nadu	101.2	105.4	110.5	109.3	114.5	118.6	113.4	116.6	115.4	119.6	123.7
	Lakshadweep	9.7	23.7	11.5	41.6	10.2	24.7	7.7	11.5	41.6	10.2	24.7
	Puducherry	38.3	43.9	45.0	48.7	47.9	51.5	49.4	45.3	49.0	47.9	51.5

@ : 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 investments 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 2005, 2006 and 2007 are based on BSR-1 and 2 Surveys as on March 31.
2. Deposits and credit data (as per sanction) for 2008 are based on BSR 7 as on March 31,2008.
3. The investment figures are based on BSR-5 survey as on March 31,2006 and March 31,2007.

Appendix Table III.39: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2007-08)

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 of 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
	Scheduled Commercial Banks	**45,772**	**N.A.**	**N.A.**	**5,500**	**5,077**	**10,107**	**5,042**	**731**	**3,700**	**1,573**	**6,222**	**3,044**	**133**	**4,643**
	Public Sector Banks	**25,694**	**N.A.**	**N.A.**	**2,866**	**3,432**	**3,936**	**3,348**	**392**	**1,659**	**1,519**	**3,521**	**1,902**	**91**	**3,028**
	Nationalised Banks	**12,163**	**N.A.**	**N.A.**	**1,685**	**1,713**	**697**	**1,929**	**218**	**815**	**599**	**1,805**	**979**	**47**	**1,676**
1.	Allahabad Bank	506	0.04	0.03	57	75	10	91	11	24	30	85	75	-	48
2.	Andhra Bank	397	0.03	0.03	28	56	80	24	2	30	22	37	38	1	79
3.	Bank of Baroda	1,070	0.05	0.04	117	177	98	137	13	103	28	199	85	8	105
4.	Bank of India	930	0.05	0.02	138	130	65	152	22	68	37	133	74	1	110
5.	Bank of Maharashtra	309	0.04	0.01	62	48	9	36	5	20	23	65	20	-	21
6.	Canara Bank	1,102	0.05	0.02	190	139	90	191	17	53	42	138	82	2	158
7.	Central Bank of India	1,013	0.07	0.07	125	157	24	208	30	22	73	140	91	7	136
8.	Corporation Bank	205	0.04	0.01	41	30	14	25	5	15	2	33	14	-	26
9.	Dena Bank	292	0.05	0.02	36	34	12	29	6	23	23	45	25	-	59
10.	Indian Bank	479	0.04	0.01	68	36	28	119	6	27	17	79	13	1	85
11.	Indian Overseas Bank	435	0.05	0.02	66	39	17	107	1	27	19	79	22	3	55
12.	Oriental Bank of Commerce	425	0.08	0.02	83	53	16	55	6	47	6	56	28	2	73
13.	Punjab National Bank	2,006	0.07	0.02	261	330	104	288	36	129	179	205	142	9	323
14.	Punjab and Sind Bank	224	0.06	1.03	41	33	3	31	5	4	14	34	22	1	36
15.	Syndicate Bank	550	0.04	0.01	87	58	30	115	8	32	26	61	47	2	84
16.	UCO Bank	543	0.06	0.17	70	90	16	99	2	17	14	92	55	5	83
17.	Union Bank of India	778	0.06	0.02	82	105	31	137	14	81	27	137	78	4	82
18.	United Bank of India	195	0.02	0.03	36	27	11	19	3	25	9	35	12	1	17
19.	Vijaya Bank	195	0.04	0.02	25	29	11	34	-	12	6	27	15	-	36
20.	IDBI Bank	509	0.24	0.02	72	67	28	32	26	56	2	125	41	-	60
	State Bank Group	**13,531**	**N.A.**	**N.A.**	**1,181**	**1,719**	**3,239**	**1,419**	**174**	**844**	**920**	**1,716**	**923**	**44**	**1,352**
21.	State Bank of India	10,867	0.13	0.10	968	1,362	3,047	982	114	546	757	1,187	757	34	1,113
22.	State Bank of Bikaner and Jaipur	949	0.21	0.03	28	157	55	73	19	148	71	342	4	5	47
23.	State Bank of Hyderabad	275	0.05	0.03	18	41	59	32	-	15	13	39	17	1	40
24.	State Bank of Indore	396	0.17	0.02	15	43	21	52	12	48	22	59	107	2	15
25.	State Bank of Mysore	178	0.06	0.01	25	27	13	28	1	9	8	22	23	-	22
26.	State Bank of Patiala	298	0.07	0.02	44	38	29	47	9	34	27	30	8	1	31
27.	State Bank of Saurashtra	155	0.07	0.01	16	18	7	23	2	25	7	26	7	1	23
28.	State Bank of Travancore	413	0.10	-	67	33	8	182	17	19	15	11	-	-	61

Appendix Table III.39 : Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2007-08)

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 of 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	**13,950**	**N.A.**	**N.A.**	**2,113**	**1,330**	**3,084**	**1,290**	**260**	**1,618**	**45**	**2,145**	**801**	**30**	**1,234**
	Old Private Sector Banks	**929**	**N.A.**	**N.A.**	**140**	**97**	**49**	**131**	**23**	**111**	**3**	**193**	**37**	**5**	**140**
1.	Bank of Rajasthan Ltd.	195	0.12	0.01	15	19	4	14	2	31	2	90	4	3	11
2.	Catholic Syrian Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
3.	City Union Bank Ltd.	43	0.04	0.01	10	3	1	12	-	4	-	3	-	-	10
4.	Dhanalakshmi Bank Ltd.	30	0.07	NA	4	4	1	3	-	3	-	8	1	-	6
5.	Federal Bank Ltd.	30	0.05	-	5	3	-	7	2	3	-	4	-	-	6
6.	ING Vysya Bank Ltd.	124	0.04	-	23	16	5	37	9	7	-	12	-	-	15
7.	Jammu and Kashmir Bank Ltd.	197	0.13	0.03	31	16	25	19	8	31	-	26	15	1	25
8.	Karnataka Bank Ltd.	25	0.01	0.01	4	4	3	4	1	1	-	2	-	-	6
9.	Karur Vysya Bank Ltd.	42	0.02	0.01	5	7	3	5	-	1	-	5	3	1	12
10.	Laxmi Vilas Bank Ltd.	56	0.04	-	5	3	5	7	-	6	-	13	5	-	12
11.	Lord Krishna Bank Ltd.	34	0.06	NA	11	4	1	4	-	-	-	6	-	-	8
12.	Nainital Bank Ltd.	2	0.01	NA	1	1	-	-	-	-	-	-	-	-	-
13.	Ratnakar Bank Ltd.	11	0.04	NA	-	3	-	-	-	1	-	-	5	-	2
14.	Sangli Bank Ltd.	5	0.02	NA	-	-	-	-	-	-	-	5	-	-	-
15.	SBI Commercial and International Bank Ltd.	4	0.01	NA	1	-	-	-	-	-	-	1	-	-	2
16.	South Indian Bank Ltd.	1	0.18	-	-	-	-	-	-	1	-	-	-	-	-
17.	Tamilnad Mercantile Bank Ltd.	-	NA	NA	-	-	-	-	-	-	-	-	-	-	-
	New Private Sector Banks	**13,021**	**N.A.**	**N.A.**	**1,973**	**1,233**	**3,035**	**1,159**	**237**	**1,507**	**42**	**1,952**	**764**	**25**	**1,094**
18.	Axis Bank Ltd.	1,043	0.20	0.03	155	126	210	56	17	200	6	152	44	3	74
19.	Centurion Bank of Punjab Ltd.	473	0.40	NA	91	40	49	66	13	76	5	74	24	2	33
20.	Development Credit Bank Ltd.	61	0.19	-	7	7	-	5	6	9	-	18	4	-	5
21.	HDFC Bank Ltd.	3,480	0.48	0.08	508	286	963	286	37	362	6	468	224	1	339
22.	ICICI Bank Ltd.	7,576	0.66	0.08	1,122	733	1,795	701	156	820	20	1,165	443	19	602
23.	Indus Ind Bank Ltd.	109	0.19	0.01	15	12	3	8	3	14	2	22	12	-	18
24.	Kotak Mahindra Bank Ltd.	261	1.04	0.02	72	26	12	37	5	23	1	52	12	-	21
25.	Yes Bank Ltd.	18	0.07	0.04	3	3	3	-	-	3	2	1	1	-	2

Appendix Table III 39: Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the period 2007-08)

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 of 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
	Foreign Banks	**6,128**	**N.A.**	**N.A.**	**521**	**315**	**3,087**	**404**	**79**	**423**	**9**	**556**	**341**	**12**	**381**
1.	AB Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
2.	ABN Amro Bank Ltd	1,162	1.22	0.35	75	40	612	86	13	93	-	130	67	2	44
3.	Abu Dhabi Commercial Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
4.	American Express Bank Ltd.	63	1.30	0.09	7	3	38	2	-	6	1	2	-	-	4
5.	Antwerp Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
6.	Bank of America NA	3	0.16	NA	1	1	-	1	-	-	-	-	-	-	-
7.	Bank of International Indonesia	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
8.	Bank of Bahrain & Kuwait B.S.C.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
9.	Bank of Ceylon	1	0.60	NA	-	-	-	-	-	-	-	1	-	-	-
10.	Bank of Nova Scotia	1	0.24	NA	-	-	-	-	-	1	-	-	-	-	-
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	1	0.14	NA	-	-	-	-	-	-	-	-	-	-	1
12.	Barclays Bank PLC	252	13.93	0.15	23	17	106	26	3	18	1	36	6	1	15
13.	BNP Paribas	3	0.03	NA	-	-	2	1	-	-	-	-	-	-	-
14.	Calyon Bank	3	-	NA	-	-	3	-	-	-	-	-	-	-	-
15.	Chinatrust Commercial Bank	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
16.	Citibank N.A.	1,901	1.02	NA	173	126	943	131	20	108	1	166	79	2	152
17.	DBS Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
18.	Deutsche Bank AG	134	1.00	0.08	11	7	49	10	1	15	-	19	17	-	5
19.	HSBC Ltd.	1,291	0.89	NA	100	44	722	52	14	104	1	95	95	5	59
20.	J P Morgan Chase Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21.	Krung Thai Bank Public Co. Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
22.	Mashreq Bank PSC	1	3.58	NA	-	-	-	-	-	1	-	-	-	-	-
23.	Mauritius Bank	1	0.05	NA	1	-	-	-	-	-	-	-	-	-	-
24.	Mizuhho Corporate Bank Ltd.	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
25.	Oman International Bank S.A.O.G.	1	0.13	NA	-	-	-	-	-	-	-	1	-	-	-
26.	Shinhan Bank	-	NA	NA	-	-	-	-	-	-	-	-	-	-	-
27.	Societe Generale	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
28.	Sonali Bank	-	-	NA	-	-	-	-	-	-	-	-	-	-	-
29.	Standard Chartered Bank Ltd.	1,310	1.02	0.29	130	77	612	95	28	77	5	106	77	2	101

* : The number of accounts as on March 31, 2007.
@ : The number of credit card accounts as on June 30, 2008.
\- : 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	2006-07 P	2007-08P
1	2	3	4	5	6	7	8
1.	Urban Co-operative Banks (UCBs)	Number	1,926	1,872	1,853	1,813	1,770
		Owned Funds	12,348	13,604	13,973	18,209	19,499
		Deposits	1,10,256	1,05,021	1,14,060	1,21,391	1,38,496
		Borrowings	1,484	1,782	1,781	2,657	2,292
		Working Capital	N.A	N.A			
		Loans Outstanding	67,930	66,874	71,641	79,733	88,981
		C-D Ratio	62	64	63	66	64
2.	State Co-operative Banks (StCBs)	Number	31	31	31	31	N.A.
		Owned Funds	8,288	9,500	10,545	10548	N.A.
		Deposits	44,335	44,335	45,405	48560	N.A.
		Borrowings	12,457	14,602	16,989	22256	N.A.
		Working Capital	57,936	65,399	69,140	78280	N.A.
		Loans Issued	33,961	46,234	48,260	52777	N.A.
		Loans Outstanding	35,105	37,353	39,684	47354	N.A.
		Recovery Performance (as per cent to demand)	83	86	87	86	N.A.
		C-D Ratio	79	84	88	98	N.A.
3.	District Central Co-operative Banks (DCCBs)	Number	365	367	366	369	N.A.
		Owned Funds	17,052	20,499	23,450	26180	N.A.
		Deposits	79,153	82,129	87,532	94529	N.A.
		Borrowings	20,256	22,575	24,217	29912	N.A.
		Working Capital	114,702	107,241	113,472	130535	N.A.
		Loans Issued	58,708	67,899	73,583	82963	N.A.
		Loans Outstanding	67,152	73,125	79,202	89038	N.A.
		Recovery Performance (as per cent to demand)	63	72	69	71	N.A.
		C-D Ratio	85	89	91	94	N.A.
4.	State Co-operative Agriculture and Rural Development Banks (SCARDBs)	Number	20	20	20	20	N.A.
		Owned Funds	4,403	3,376	3,352	2931	N.A.
		Deposits	524	608	636	605	N.A.
		Borrowings	16,933	17,182	17,075	16662	N.A.
		Working Capital	22,038	23,229	23,655	23023	N.A.
		Loans Issued	2,837	3,291	2,907	2436	N.A.
		Loans Outstanding	16,263	17,403	17,713	18644	N.A.
		Recovery Performance (as per cent to demand)	44	44	47	44	N.A.
5.	Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)	Number	768	727	696	697	N.A.
		Owned Funds	3,856	3,116	3,380	3596	N.A.
		Deposits	395	364	382	341	N.A.
		Borrowings	11,879	12,750	13,066	12751	N.A.
		Working Capital	15,812	16,689	16,856	16737	N.A.
		Loans Issued	2,164	2,506	2,254	1970	N.A.
		Loans Outstanding	11,311	12,622	12,740	12114	N.A.
		Recovery Performance (as per cent to demand)	44	54	48	52	N.A.

P : Provisional.

Note : 1. SCARDBs- In 2004-05 data repeated for J& K and Manipur In 2006-07 data repeated for Manipur SCARDB.
2. PCARDBs- In 2005-06 data for Tamil Nadu is received Nil, and data for Kerala is repeated.

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, 2008)P

Sr. No.	Name of the Bank-centre-wise	Date of imposition Deposits (Yes/No)	Whether bar Placed on Repayment of Deposits (Yes/ No)	Whether bar Placed on Collection of
1	2	3	4	5
I.	**AHMEDABAD**			
1.	Ankleshwar Nagrik Sahakari Bank Ltd.*	03.12.2005	Yes	Yes
2.	Anyonya Co-operative Bank Ltd.	14.09.2007	Yes	Yes
3.	Bhavnagar Mercantile Co-operative Bank Ltd.*	21.08.2004	Yes	Yes
4.	Borsad Nagrik Sahakari Bank Ltd.**	18.05.2006	Yes	Yes
5.	Dakor Nagrik Sahakari Bank Ltd., Dakor.	11.01.2007	Yes	Yes
6.	Nutan Sahakari Bank Ltd.	16.08.2007	Yes	Yes
7.	Sanand Urban Co-operative Bank Ltd.	13.04.2007	Yes	Yes
8.	Shree Krishna Sahakari Bank Ltd.	24.09.2007	Yes	Yes
9.	Shree Vardhaman Co-operative Bank Ltd.	21.11.2006	Yes	Yes
10.	Surendranagar Peoples Co-operative Bank Ltd.	02.08.2007	Yes	Yes
11.	United Mercantile Co-operative Bank Ltd., Nadiad.***	10.10.2002	Yes +	Yes
		12.12.2004	Yes ~	
		01.10.2007	Yes =	
II.	**BANGALORE**			
1.	Akki-Alur Urban Co-operative Bank Ltd., Akki-Alur.	17.04.2007	Yes	Yes
2.	Anubhav Co-operative Bank Ltd., Basavakalyan.	29.01.2008	Yes	Yes
3.	Haliyal Urban Co-operative Bank Ltd., Haliyal.	29.01.2008	Yes	Yes
4.	Hiriyur Urban Co-operative Bank Ltd., Hiriyur.	28.06.2003	Restricted	Restricted
5.	Katkol Co-operative Bank Ltd., Katkol.	09.08.2006	Yes	Yes
6.	Mahalaxmi Co-operative Bank Ltd., Dharwad.	13.10.2006	Yes	Yes
7.	Mahalingpur Urban Co-operative Bank Ltd., Mahalingpur.	31.10.2003	Yes	Yes
8.	Primary Teachers' Co-operative Bank Ltd., Nipani.	28.07.2007	Yes	Yes
9.	Rabkavi Urban Co-operative Bank Ltd., Rabkavi.	05.03.2005	Restricted	Restricted
10.	Raichur City Urban Co-operative Bank Ltd., Raichur.	14.07.2005	Restricted	Restricted
11.	Sahasrarjun Seva Kalyan Co-operative Bank Ltd., Hubli.	24.12.2003	Yes	Yes
12.	Vardhaman Co-operative Bank Ltd., Hubli.	12.02.2005	Yes	Yes
III.	**BHOPAL**			
1.	Citizen Co-operative Bank ltd., Burhanpur.*	15.01.2005	Yes	Yes
2.	Suvidha Mahila Nagrik Sahakari Bank Mydt., Hoshangabad.*	05.10.2004	Yes	Yes
IV.	**BHUBANESWAR**			
1.	The Chatrapur Co-operative Bank Ltd.	06.07.2004	Yes	Yes
2.	The Urban Co-operative Bank Ltd., Bhubaneswar.	22.01.2004	Yes	Yes
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.Dev Bank Ltd. $	18.11.2004	Yes	Yes
IX.	**JAMMU**	**Nil**		
X.	**HYDERABAD**			
1.	Balaji Co-operative Urban Bank Ltd.	01.06.2006	Yes	Yes
2.	Bhimavaram Co-operative Urban Bank Ltd.	12.03.2005	Yes	Yes
3.	Charminar Co-operative Urban Bank Ltd.	25.02.2002	Yes	Yes
4.	Chittoor Co-operative Urban Bank Ltd.	23.09.2004	Yes	Yes
5.	Palakol Co-operative Urban Bank Ltd.	12.02.2004	Yes	Yes
6.	Srikalahasti Co-operative Urban Bank Ltd.	29.01.2004	Yes	Yes
7.	Vasavi Co-operative Urban Bank Ltd.	07.03.2003	Yes	Yes

Appendix Table IV.2: Urban Co-operative Banks Working under Direction of the Reserve Bank *(Concluded)*

(As on March 31, 2008)P

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
XI.	**JAIPUR**			
1.	The Rajasthan Urban Co-operative Bank Ltd., Jaipur.	30.08.2005	Yes	yes
XII.	**KOLKATA**			
1.	Bally Co-operative Bank.	14.11.2006	Yes	Yes
2.	Kasundia Co-operative Bank Ltd.	15.01.2004	No	Yes
3.	The Bantra Co-operative Bank.	12.11.2001	No	Yes (Only Fixed Deposits)
XIII.	**LUCKNOW**			
1.	Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad.	16.06.2004	Yes	Yes
2.	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.	Care Co-operative Bank Ltd., Mumbai.	14.03.2005	Yes	Yes
3.	Chalisgaon Peoples Co-operative Bank Ltd., Chalisgaon.	13.02.2008	Yes	Yes
4.	Faizpur Janata Sahakari Bank Ltd., Faizpur,Yawal.	19.02.2008	Yes	Yes
5.	Goregaon Co-operative.Urban Bank Ltd., Raigad.	03.11.2007	Yes	Yes
6.	Krishna Valley Co-operative Bank Ltd., Sangli.	20.12.2003	Yes	Yes
7.	Lakshmi Vishnu Sahakari Bank Ltd., Ichalkaranji.	27.03.2006	Yes	Yes
8.	Mapusa Urban Co-operative Bank Ltd., Goa.	16.08.2002	Yes	No
9.	Miraj Urban Co-operative Bank Ltd., Miraj, Sangli.	28.10.2006	Yes	Yes
10.	Rohe Ashtami Sahakari Bank Ltd., Raigad.	14.03.2008	Yes	Yes
11.	Shahupuri Sahakari Bank Ltd., Satara.	04.11.2005	Yes	Yes
12.	Shree Suvarna Sahakari Bank Ltd. Pune.	14.09.2006	Yes	Yes
13.	Shri B.J.Khatal Janata Sahakari Bank Ltd., A. Nagar.	05.12.2007	Yes	Yes
14.	The South Indian Co-operative Bank Ltd., Mumbai.	09.08.2004	Yes	Yes
XV.	**NAGPUR**			
1.	Dnyanopasak Urban Co-operative Bank Ltd., Parbhani.	18.03.2008	Yes	Yes
2.	Jijamatha Mahila Nagari Sahakari Bank Ltd., Sailu.	11.05.2006	Yes	Yes
3.	Priyadarshini Mahila Sahakari Bank Ltd., Latur.	05.05.2006	Yes	Yes
4.	Sanjivani Urban Co-operative Bank Ltd., Aundha.	30.12.2005	Yes	Yes
5.	Sant Janabai Nagari Sahakari Bank Ltd., Gangakhed.	09.03.2005	Yes	Yes
6.	Suvarna Nagari Sahakari Bank Ltd., Parbhani.	26.04.2006	Yes	Yes
7.	The Achalpur Urban Co-operative Bank Ltd., Achalpur.	11.03.2008	Yes	Yes
8.	The Nagpur Mahila Nagari Sahakari Bank Ltd., Nagpur.	20.09.2004	Yes	Yes
9.	The Samatha 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**		

P : Provisional.

* : Under Administrator.

** : Under Custodian.

*** : Direction revised by Central Office.

\+ : Above Rs.10,000.

~ : Above Rs.20,000.

= : Above Rs.40,000.

$: Direction has been withdrawn vide CO letter No. UBD.CO.BSD-NSB II/11338/12.29.105/2007-08 dated May 16, 2008. The order was handed over to the bank on June 5, 2008.

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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.	Adarsh Mahila Co-operative Bank Ltd.	15.02.2007		
2.	Anand Peoples Co-operative Bank Ltd.	26.10.2005		27.10.2005
3.	Anand Urban Co-operative Bank Ltd.	Licence cancelled on 27.03.2007 vide speaking order dated 20.03.2007		
4.	Apexa Co-operative Bank Ltd., Ahmedabad.			11.02.1992
5.	Baroda Mercantile Co-operative Bank Ltd.	16.05.2006		
6.	Baroda Peoples Co-operative Bank Ltd., Baroda.	22.05.2004		27.05.2004
7.	Bharuch Nagarik Sahakari Bank Ltd.	22.02.2008		25.02.2008
8.	Bharuch Taluka Teachers & District School Board, Bank Ltd., Jhadeshwar.		Registration Cancelled	
9.	Bhiloda Nagarik Sahakari Bank Ltd., Bhiloda.		Registration Cancelled	
10.	Century Co-operative Bank Ltd., Surat.	07.06.2005		10.06.2005
11.	Classic Co-operative Bank Ltd., Ahmedabad.	21.06.2004		21.06.2004
12.	Co-operative Bank of Umreth Ltd., Umreth.	21.06.2004		21.06.2004
13.	Dabhoi Nagarik Sahakari Bank Ltd.	08.03.2006		08.03.2006
14.	Dakor Mahila Nagarik Sahakari Bank Ltd.	29.12.2007		29.12.2007
15.	Dhansura Peoples Co-operative Bank Ltd., Dhansura.	15.02.2006		16.02.2006
16.	Diamond Jubilee Co-operative Bank Ltd., Surat.	23.06.2004		23.06.2004
17.	Harisiddha Co-operative Bank Ltd., Ahmedabad.		Licence application rejected vide C.O. letter dated 11.05.1999	29.04.2000
18.	Janata Co-operative Bank Ltd., Nadiad.	09.12.2005		12.12.2005
19.	Karamsad Urban Co-operative Bank Ltd.	09.12.2006		
20.	Kuber Co-operative Bank Ltd.	31.05.2007 (bank has been allowed to convert to credit society)		
21.	Matar Nagrik Sahakari Bank Ltd., Matar, Dist : Kheda.	21.06.2004		21.06.2004
22.	Metro Co-operative Bank Ltd.	16.09.2005		19.09.2005
23.	Nadiad Mercantile Co-operative Bank Ltd., Nadiad.	15.09.2004		16.09.2004
24.	Natpur Co-operative Bank Ltd.	22.11.2005		23.11.2005
25.	Navsari People's Co-op. Bank Ltd., Navasari.	08.11.2004		04.08.2005
26.	Palana Co-operative Bank Ltd., Palana.	21.02.2003		28.02.2003
27.	Palitana Nagarik Sahakari Bank Ltd., Palitana.		Liquidation process completed in 1983.	
28.	Patni Co-operative Bank Ltd., Baroda.	27.07.2004		02.08.2004
29.	Petlad Commercial Co-operative Bank Ltd., Petlad.	24.08.2004		26.08.2004
30.	Petlad Nagrik Sahakari Bank Ltd., Petlad.	13.03.2004		28.10.2004
31.	Pragati Co-operative Bank Ltd., Ahmedabad.	21.09.2004		21.09.2004
32.	Rajkot Mahila Nagarik Sahakari Bank Ltd.	31.01.2007		
33.	Rajkot Mercantile Co-operative Bank Ltd.	Revival proposal forwarded to C.O. Licence cancelled on 01.11.2004.		19.09.2005
34.	Relief Mercantile Co-operative Bank Ltd., Ahmedabad.		Licence application rejected vide C.O. letter dated 06.05.1999	22.05.2000

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
35.	Royale Co-operative Bank Ltd., Surat.	02.06.2005		08.06.2005
36.	Sabarmati Co-operative Bank Ltd., Ahmedabad.	01.09.2004		03.09.2004
37.	Sami Taluka Nagarik Sahakari Bank Ltd., Sami.	21.07.1999		20.08.1999
38.	Santram Co-operative Bank Ltd., Nadiad.		02.06.2003	02.06.2003
39.	Sardar Nagrik Sahakari Bank Ltd.			07.05.2001
40.	Sarvoday Nagarik Sahakari Bank Ltd.	06.02.2007		
41.	Sheth B.B.Shroff Bulsar Peoples Co-operative Bank Ltd., Valsad.	11.11.2004		17.08.2005
42.	Shree Bhagyalaxmi Co-operative Bank Ltd., Ahmedabad.	09.11.2000		05.02.2001
43.	Shree Laxmi Co-operative Bank Ltd., Ahmedabad.		Unlicensed bank under liquidation (18.10.2001)	18.10.2001
44.	Shree Swaminarayan Co-operative Bank Ltd., Vadoadara.	02.06.2005		08.06.2005
45.	Shree Veraval Vibhagiya Nagarik Sahakari Bank Ltd., Veraval.	01.08.2000		
46.	Shree Vitthal Co-operative Bank Ltd., Dehgam.	21.09.2004		22.09.2004
47.	Shreenathji Co-operative Bank Ltd., Nadiad.	06.12.2004		06.12.2004
48.	Shri Dhrangadhra Nagarik Sahakari Bank Ltd., Dhrangadhra.		Registration Cancelled	
49.	Shri Jamnagar Nagarik Sahakari Bank Ltd., Jamnagar.		Licence application rejected (27.12.2002)	21.07.2004
50.	Shri Janata Sahakari Bank Ltd., Radhanpur.	31.01.2008		04.02.2008
51.	Shri Sarvodaya Co-operative Bank Ltd., Ahmedabad.		Licence rejected vide C.O. letter dated 10.04.1999	15.04.1999
52.	Shri Vikas Co-operative Bank Ltd., Surat.	01.09.2004		01.09.2004
53.	Shri Vitrag Co-operative Bank Ltd.	06.09.2005		07.09.2005
54.	Shri Wadhwan Vibhagiya Nagarik Sahakari Bank Ltd., Wadhwan.		Registration Cancelled.	
55.	Sindh Mercantile Co-operative Bank Ltd.	29.11.2006		
56.	Sunav Nagrik Sahkari Bank Ltd., Sunav.	29.09.2004		29.09.2004
57.	Suprabhat Co-operative Bank Ltd., Ahmedabad.		Licence applications refused vide C.O. letter dated 27.2.1999.	27.02.1999
58.	Suryapur Co-operative Bank Ltd., Surat.	17.08.2004		19.08.2004
59.	Talod Janata Sahakari Bank Ltd.	27.12.2007		27.12.2007
60.	Textile Processors Co-operative Bank Ltd., Ahmedabad.		Licence application rejected by Central Office order dated 08-11-2004	16.11.2004
61.	The Ahmedabad Mahila Nagarik Sahakari Bank Ltd., Ahmedabad.	05.03.2002		05.03.2002
62.	The Ahmedabad Urban Co-operative Bank Ltd., Ahmedabad.	27.12.2001		
63.	The Bhavnagar Welfare Co-operative Bank Ltd., Bhavnagar.		02.06.2003	02.06.2003

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
64.	The Charotar Nagarik Sahakari Bank Ltd., Anand.		28.07.2003 (the bank has been taken into liquidation vide CO letter UBD.CO.BSD (SCB)/146/12.03.208/ 2003-04 dated July 23, 2003, based on the suggestion of RCS vide their letter No.NSB/01/27/223/03 dated Feb. 07, 2003.	28.07.2003
65.	The Ellisbridge Co-operative Bank Ltd., Ahmedabad.		29.04.2000	26.04.1999
66.	The General Co-operative Bank Ltd., Ahmedabad.		02.06.2003	02.06.2003
67.	The Janta Commercial Co-operative Bank Ltd., Dholka.		02.06.2003	02.06.2003
68.	The Majoor Sahakari Bank Ltd., Ahmedabad.		Licence application rejected (6.2.2002)	11.02.2002
69.	The Nayaka Mercantile Co-operative Bank Ltd.		14.08.2003	14.08.2003
70.	The Sahyog Co-operative Bank Ltd., Ahmedabad.	20.10.2000		05.03.2001
71.	The Vikas Co-operative Bank Ltd., Ahmedabad.	26.04.2001		11.05.2001
72.	The Visnagar Nagarik Sahakari Bank Ltd., Visnagar.		11.7.2003 (the bank has been taken into liquidation vide CO letter UBD.CO.BSD (SCB)/81/12.03.1315/ 2002-03 dated July 10, 2003, based on the suggestion of RCS vide their letter No. NSB/01/Z 7/411/ 03 dated Mar.07, 2003.	11.07.2003
73.	Ujjavar Co-operative Bank Ltd., Ahmedabad.	04.06.2004		04.06.2004
74.	Umreth Peoples Co-operative Bank Ltd., Umreth.		Licence application rejected by Central Office order dated 28.02.2007 and served on the bank on 06.03.2007	
75.	United Mercantile Co-operative Bank Ltd., Ahmedabad.		Revival proposal under correspondence. Court case- GHC SCA No. 2162 / 2001 for issue of licence.	
76.	Veraval Ratnakar Co-operative Bank Ltd., Veraval.	29.01.2000		10.04.2000
II.	**BANGALORE**			
1.	Adarsha Co-operative Bank Ltd., Mysore.	Unlicensed	28.01.1985	28.01.1985
2.	Bangalore Mercantile Co-operative Bank Ltd., Bangalore.	23.06.2006	N.A.	30.06.2006
3.	Bannikpo Urban Co-operative Bank Ltd., Bannikop.	Unlicensed	19.06.1995	19.06.1995
4.	Bellatti Urban Co-operative Bank Ltd., Bellatti.	Unlicensed	28.05.1991	05.10.1993
5.	Bijapur Industrial Co-operative Bank Ltd., Bagalkot.	Unlicensed	08.02.1994	30.08.1994
6.	Cauvery Urban Co-operative Bank Ltd.	11.02.2004	N.A.	11.02.2004

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
7.	Challakere Urban Co-operative Bank Ltd., Challakere.	01.08.2006	N.A.	07.08.2006
8.	Dharwad Industrial Co-operative Bank Ltd., Hubli.	Unlicensed	31.08.1994	31.08.1994
9.	Gadag Urban Co-operative Bank Ltd., Gadag.	27.05.1985	N.A.	27.05.1985
10.	Gulbarga Urban Co-operative Bank Ltd.	Unlicensed	01.11.2002	01.11.2002
11.	Harugeri Urban Co-operative Bank Ltd., Harugeri.	22.01.2007	N.A.	06.02.2007
12.	Hirekerur Urban Co-operative Bank Ltd., Hirekerur.	07.11.2007	N.A.	30.01.2008
13.	Hubli Dharwad Urban Co-operative Bank Ltd., Hubli.	24.11.1999	N.A.	04.12.1999
14.	Hubli Muslim Co-operative Bank Ltd., Hubli.	14.05.1976	N.A.	11.10.1976
15.	Jyothirlinga Sahakari Bank., Niyamitha Jalageri.	12.09.2000	N.A.	28.09.2000
16.	Karnataka Contractors Co-operative Bank Ltd., Bangalore.	12.02.2004	N.A.	02.06.2004
17.	Karnataka Kurubara Co-operative Bank Ltd., Gadag.	Unlicensed	17.06.1995	17.06.1995
18.	Kittur Rani Chnannamma Mahila Sahakari Bank., Niymitha, Hubli.	19.07.2007	N.A.	28.01.2008
19.	Laxmeshwar Urban Co-operative Credit Bank Limited.	05.02.2008	N.A.	08.02.2008
20.	Manihal Urban Co-operative Bank Ltd., Manlhal.	19.11.1987	N.A.	24.07.1987
21.	Manoli Shri Panchalingeshwara Urban Co-operative Bank Ltd.	28.05.1991	N.A.	28.05.1981
22.	Maratha Co-operative Bank Ltd., Hubli.	29.01.2008	N.A.	02.02.2008
23.	Mundargi Urban Co-operative Bank Ltd., Mundagi.	18.04.1988	N.A.	18.04.1988
24.	Navodaya Sahakara Bank Ltd., Bangalore.	16.03.2000	N.A.	18.03.2000
25.	Onake Obavva Mahila Co-operative Bank Ltd., Chitradurga.	13.05.2006	N.A.	17.05.2006
26.	Raibag Urban Co-operative Bank Ltd.	Unlicensed	24.09.2003	14.07.2004
27.	Ramdurga Urban Co-operative Bank Ltd., Ramdurga.	22.04.1981	N.A.	22.04.1981
28.	Robertsonpet Co-operative Society Ltd., Robertsonpet.	Unlicensed	10.01.1972	10.01.1972
29.	Ron Urban Co-operative Bank Ltd., Ron.	Unlicensed	27.11.1976	27.11.1976
30.	Shri Fakireshwar Co-operative Urban Bank Ltd.	Unlicensed	18.04.1988	18.04.1988
31.	Sri Basavakalyan Urban Co-operative Bank Ltd., Bidar.	05.03.2007	N.A.	22.03.2007
32.	Sri Chamaraja Co-operative Bank Ltd., Chamaraja.	25.03.1994	N.A.	16.05.1995
33.	Sri Kalmeshwar Urban Co-operative Bank Ltd., Gadag.	28.02.2007	N.A.	27.03.2007
34.	Sri Mouneshwar Co-operative Bank Ltd.	23.04.2003	N.A.	23.04.2003
35.	Sri Sampige Siddeshwara Urban Co-operative Bank Ltd., Chitradurga.	26.07.2006	N.A.	31.07.2006
36.	Srirampura Co-operative Bank Ltd., Bangalore.	Unlicensed	26.03.1996	26.03.1996
37.	Urban Co-operative Bank Ltd., Siddapur.	27.10.2007	N.A.	13.02.2008
38.	Varada Co-operative Bank Ltd., Karjagi.	Unlicensed	18.04.2007	17.05.2007
III.	**BHOPAL**			
1.	Citizen Co-operative Bank Ltd. Damoh.	16.09.2003	06.12.2003	08.12.2003
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	06.10.2004	14.07.2005
7.	Mahila Nagarik Sahakari Bank., Mydt. Khargone.	24.04.2006	25.05.2006	25.05.2006

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
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	03.07.2004	11.10.2004
10.	Nagarik Sahakari Bank Ltd., Jhabua.		10.06.1971	28.11.1973
11.	Nagarik Sahakari Bank., Mydt. Ratlam.	25.11.2005	24.01.2006	24.01.2006
12.	Sagar Nagarik Sahakari Bank Ltd., Sagar.	07.07.1999	21.12.1999	21.12.1999
13.	Sanskardhani Mahila Nagarik Sahakari Bank., Mydt. Jabalpur.	27.08.2004	17.09.2004	01.12.2004
14.	Sarvodaya Mahila Co-operative Bank Ltd., Burhanpur.	09.11.2005	20.12.2006	20.12.2006
15.	Shree Co-operative Bank Ltd., Indore.	10.02.2004	28.02.2004	28.04.2004
IV.	**BHUBANESWAR**			
1.	The Aska Co-operative Urban Bank Ltd.	21.03.2000	-	06.03.2002
2.	The Bhanjnagar Urban Co-operative Bank Ltd.	30.07.1999	-	20.05.2003
3.	The Bhubaneswar Urban Co-operative Bank Ltd.	05.11.1969	-	05.11.1969
4.	The Cuttack Urban Co-operative Bank Ltd.	Not issued	-	23.10.1989
5.	The Rayagada Urban Co-operative Bank Ltd.	Not issued	-	07.03.1983
6.	The Rourkela Urban Co-operative Bank Ltd.	Not issued	-	Sep.1969
V.	**CHANDIGARH**			
1.	Yamuna Nagar Urban Co-operative Bank Ltd.	Unlicensed Bank	13.08.2002	14.08.2002
VI.	**CHENNAI**			
1.	Kotagiri Co-operative Urban Bank Ltd.	Unlicensed	09.11.2005	18.11.2005
2.	Madurai Urban Co-operative Bank Ltd.	22.08.2003	Licence cancelled	07.01.2005
3.	Theni Urban Co-operative Bank Ltd.	Unlicensed	23.05.2002	24.12.2002
4.	Thiruvanaikoil Co-operative Urban Bank Ltd.	Unlicensed	20.05.2002	24.12.2002
VII.	**DEHRADUN**			
1.	Urban Co-operative Bank Ltd., Tehri.	30.03.2002	N.A.	19.04.2002
VIII.	**GUWAHATI**			
1.	Gauhati Co-operative Town Bank Ltd.	08.12.1999	Nil	07.06.2000
2.	Lamka Urban Co-operative Bank Ltd., Manipur.	25.02.2003	Nil	18.05.2005
3.	Manipur Industrial Co-operative Bank Ltd., Imphal.	25.09.1999	Nil	Nil
4.	Nagaon Urban Co-operative Bank Ltd., Nagaon.	22.06.2004	Nil	17.02.2006
5.	Silchar Co-operative Urban Bank Ltd., Silchar.	Nil	16.02.2000	Nil
6.	Urban Co-operative Bank Ltd., Dimapur.	07.11.2006	Nil	28.03.2007
7.	Urban Industrial Bank Ltd., Dibrugarh.	07.02.2000	Nil	21.03.2006
IX.	**HYDERABAD**			
1.	Anakapalli Co-operative Urban Bank Ltd.	Finally closed		15.12.1997
2.	Armoor Co-operative Urban Bank Ltd.	26.08.2002		01.10.2002
3.	Aryan Co-operative Urban Bank Ltd.	15.01.2002		05.09.2002
4.	Bellampally Co-operative Urban Bank Ltd.	04.08.2004		10.08.2004
5.	Bhagyanagar Co-operative Urban Bank Ltd.	18.07.2000		18.07.2000
6.	Bharat Mercantile Co-operative Urban Bank Ltd.			17.10.2006
7.	Chipurupalli Co-operative Urban Bank Ltd.	Finally closed		11.12.1991
8.	Chirala Co-operative Urban Bank Ltd.	Finally closed		
9.	Dhana Co-operative Urban Bank Ltd.	08.04.2003		16.04.2003

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
10.	First City Co-operative Urban Bank Ltd.	05.04.2002		18.04.2002
11.	Greater Telangana Co-operative Urban Bank Ltd.	No objection was issued on 09.11.2004		03.12.2004
12.	Guduru Co-operative Urban Bank Ltd.	-		28.12.1998
13.	Gurajala Vasavi Co-operative Urban Bank Ltd.	Finally closed		29.07.1987
14.	The Hyderabad Co-operative Urban Bank Ltd.	*		Mar-06
15.	Jawahar Co-operative Urban Bank Ltd.	08.05.2002		23.10.2002
16.	Kalyan Co-operative Urban Bank Ltd.	13.01.2001		16.02.2004
17.	Kanyaka Parameshwari Co-operative Urban Bank Ltd.			16.08.2006
18.	Kolluru Parvathi Co-operative Urban Bank Ltd.	-		16.04.1980
19.	Krushi Co-operative Urban Bank Ltd.	16.10.2001		16.11.2001
20.	Kurnool Urban Co-operative Bank Ltd.	08.03.2001		27.02.2002
21.	Mahalakshmi Co-operative Urban Bank Ltd.	12.01.2004		19.01.2004
22.	Manikanta Co-operative Urban Bank Ltd.	07.07.2003		30.04.2003
23.	Mega City Co-operative Urban Bank Ltd.	02.08.2002		13.09.2002
24.	Mother Theresa Co-operative Urban Bank Ltd.	14.10.2002		19.12.2002
25.	Narsaraopeta Co-operative Urban Bank Ltd.	24.05.2003		16.09.2003
26.	Neelagiri Co-operative Urban Bank Ltd.	26.09.2003		06.10.2003
27.	Nizamabad Mahila Co-operative Urban Bank Ltd.	-		24.01.2005
28.	Nizamabad Co-operative Town Bank Ltd.	16.09.1999		25.07.2002
29.	Pithapuram Co-operative Urban Bank Ltd.	11.11.2002		01.07.2003
30.	Praja Co-operative Urban Bank Ltd.	01.07.2002		28.08.2002
31.	Prudential Co-operative Bank Ltd.	03.11.2004		07.12.2004
32.	Rajampeta Co-operative Town Bank Ltd.		Application was rejected on 03.07.2002	30.07.2002
33.	Sai Co-operative Urban Bank Ltd.	01.06.2004		14.06.2004
34.	Sitara Co-operative Urban Bank Ltd.	06.09.2001		24.10.2002
35.	Sravya Co-operative Urban Bank Ltd.	30.05.2002		30.05.2002
36.	Sri Krishna Co-operative Urban Bank Ltd.	Closed		
37.	Sri Lakshmi Mahila Co-operative Bank Ltd.	01.07.2000		09.10.2000
38.	Sri Satya Sai Co-operative Urban Bank Ltd.	19.06.2004		07.01.2005
39.	Sri Swamy Gyanananda Yogeswara Mahila Co-operative Urban Bank Ltd.	23.02.2004		06.03.2004
40.	Star Co-operative Urban Bank Ltd.	27.12.2002		19.04.2003
41.	Trinity Co-operative Urban Bank Ltd.	05.12.2003		18.12.2003
42.	Vasundhara Co-operative Urban Bank Ltd.	09.02.2003		24.10.2003
43.	Vasundhara Mahila Co-operative Urban Bank Ltd.	No objection was issued		07.05.2005
44.	Vijaya Mahila Co-operative Urban Bank Ltd.	20.01.2004		28.01.2004
45.	Yellamanchili Co-operative Urban Bank Ltd.	Finally closed		08.04.2002
X.	**JAIPUR**			
1.	Banswara Urban Co-operative Bank Ltd., Banswara	08.10.1976	Nil	08.10.1976
2.	The Lok Vikas Urban Co-operative Bank Ltd., Jaipur	28.09.2004	Nil	11.10.2004
3.	The Sriganganagar Urban Co-operative Bank Ltd., Sriganganagar	28.08.2004	Nil	08.09.2004
4.	Union Co-operative Bank Ltd., Jaipur	08.10.1976	Nil	08.10.1976

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Continued)*

(As on March 31, 2008)P

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
XI.	**JAMMU**	**Nil**	**Nil**	**Nil**
XII.	**KOLKATA**			
1.	Asansol Peoples Co-operative Bank Ltd.	-	12.08.1999	16.03.2004
2.	Jhargram Peoples Co-operative Bank Ltd.	-	05.08.2002	Order not yet issued
3.	Pranabananda Co-operative Bank Ltd.	-	25.01.2001	06.08.2002
4.	Rahuta Co-operative Bank Ltd.	16.04.2007	-	Order not yet issued
XIII.	**LUCKNOW**			
1.	City Co-operative Bank Ltd., Lucknow.	23.10.2004	N.A.	04.10.2006
2.	Federal Co-operative Bank Ltd., Ghatampur.	25.08.2000	N.A.	28.06.2002
3.	Firozabad Urban Co-operative Bank Ltd., Firozabad.	Licence not cancelled	N.A.	06.01.2000
4.	Hind Urban Co-operative Bank Ltd., Lucknow.	Unlicensed	N.A.	29.10.1986
5.	Indian Co-operative Development Bank Ltd., Meerut.	08.06.2004	N.A.	12.06.2004
6.	Nagariya Sahkari Bank Ltd., Varanasi.	11.06.2004	N.A.	28.06.2004
7.	Oudh Sahkari Bank Ltd., Lucknow.	Unlicensed	01.07.1999	15.02.2003
8.	Urban Co-operative Bank Ltd., Allahabad.	19.12.2001	N.A.	24.08.2002
XIV.	**MUMBAI**			
1.	Awami Mercantile Co-operative Bank Ltd., Mumbai.	17.10.1998		06.01.1999
2.	Chetna Co-operative Bank Ltd., Mumbai.	15.11.1994		01.12.1994
3.	Dadar Janata Sahakari Bank Ltd., Mumbai.	16.12.1997		26.02.1998
4.	Friends Co-operative Bank Ltd., Mumbai.	20.07.2001		08.08.2001
5.	Ichalkaranji Jiveshwar Sahakari Bank Ltd., Ichalkaranji.	29.05.2006		02.06.2006
6.	Ichalkaranji Kamgar Nagrik Shahakari Bank Ltd., Kolhapur.	29.12.1999		22.05.2000
7.	Indira Sahakari Bank Ltd., Mumbai.	23.06.1999		29.06.1999
8.	Jai Hind Co-operative Bank Ltd., Mumbai.	28.10.2004		03.01.2005
9.	Kalwa Belapur Shahakari Bank Ltd., Navi Mumbai.	10.08.2002		22.08.2002
10.	Khed Urban Co-operative Bank Ltd., Ratnagiri.	21.06.2000		13.10.2000
11.	Kolhapur Zilla Janata Sahakari Bank Ltd., Mumbai.	20.10.1997		21.11.1997
12.	Lord Balaji Co-operative Bank Ltd., Sangli.	03.09.2004		09.09.2004
13.	Mafatlal Engg. Emp. Co-operative Bank Ltd., Mumbai.	05.03.2002		31.03.2002
14.	Maratha Market Peoples Co-operative Bank Ltd., Mumbai.	15.05.2000		14.08.2000
15.	Metropolitan Co-operative Bank Ltd., Mumbai.	19.06.1992		20.06.1992
16.	Mira Bhayander Co-operative Bank Ltd., Thane.	01.02.2001		28.02.2002
17.	Nandgaon Merchant's Co-operative Bank Ltd., Nashik.	20.02.1999		09.06.1999
18.	Parivartan Co-operative Bank Ltd., Mumbai.	04.06.2007		07.06.2007
19.	Peoples Co-operative Bank Ltd., Ichalkaranji.	22.09.1994		19.12.1994
20.	Pratibha Mahila Sahakari Bank Ltd., Jalgaon.	25.02.2003		04.03.2003
21.	Raghuvanshi Co-operative Bank Ltd., Mumbai.	17.03.2005		19.03.2005
22.	Ravi Co-operative Bank Ltd., Kolhapur.	27.12.2007		28.12.2007
23.	Ravikiran Urban Co-operative Bank Ltd., Mumbai.	27.11.1998		15.01.1999
24.	Samastanagar Co-operative Bank Ltd., Mumbai.	09.09.2004		15.09.2004

Appendix Table IV.3: Urban Co-operative Banks under Liquidation *(Concluded)*

(As on March 31, 2008)P

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
25.	Sevalal Urban Co-operative Bank Ltd., Solapur.	12.12.2002		23.12.2002
26.	Shree Labh Co-operative Bank Ltd., Mumbai.	06.08.2002		13.08.2002
27.	Shri Adinath Co-operative Bank Ltd., Pune.	22.06.2002		28/29.06.2002
28.	Shri. Balasaheb Satbhai Merchants. Co-operative Bank Ltd., Kopergaon.	29.03.2007		30.03.2007
29.	Shriram Sahakari Bank, Maryadit, Nasik.	12.06.2006		21.07.2006
30.	Siddharth Sahakari Bank Ltd., Jalgaon.	04.08.1999		27.10.1999
31.	Solapur Merchants Co-operative Bank Ltd., Solapur.	20.06.2003		03.07.2003
32.	Solapur Zilla Mahila Sahakari Bank Ltd., Solapur.	13.09.1999		04.06.2000
33.	Swastik Janata Sahakari Bank Ltd., Mumbai.	30.09.1994		14.12.1994
34.	Trimoorti Sahakari Bank Ltd., Pune.	07.08.1998		09.09.1998
35.	Vinkar Sahakari Bank Ltd., Mumbai.	18.08.1998		24.08.1998
36.	Western Co-operative Bank Ltd., Mumbai.	30.10.2001		20.12.2001
37.	Yeshwant Sahakari Bank Ltd., Mumbai.	04.02.2003		07.03.2003
XV.	**NAGPUR**			
1.	Ahilya-Devi Mahila Sahakari Bank Ltd., Kalamnuri.	29.12.1999		
2.	Chetak Urban Co-operative Bank Ltd.	14.05.2007		
3.	Maa Sharda Mahila Sahakari Bank Ltd.	21.08.2002		
4.	Partur Peoples' Co-operative Bank Ltd., Partur.	02.12.2004		
5.	Purna Nagari Sahakari Bank Ltd., Purna.	01.07.2006		
6.	The Aurangabad Peoples' Co-operative Bank Ltd.	13.01.2005		
7.	The Indira Sahakari Bank Ltd.	26.04.2000		
8.	The Latur Peoples' Co-operative Bank Ltd.	21.09.2000		
9.	The Parbhani Peoples' Co-operative Bank Ltd.	16.06.2006		
XVI.	**NEW DELHI**			
1.	Jai Laxmi Co-operative Bank Ltd.	15.10.2004	-	01.11.2004
2.	The Farmers' Co-operative Bank Ltd.	-	07.02.2000	08.03.2000
3.	The Parishad Co-operative Bank Ltd.	29.07.1999	-	16.08.1999
XVII.	**PATNA**			
1.	Begusarai Urban Dev.Co-operative Bank Ltd., Begusarai	22.04.2002	-	27.05.2002
2.	Madhepura Urban Co-operative Bank Ltd.	22.04.2002	-	27.05.2002
3.	Nalanda Urban Co-operative Bank Ltd.	10.06.2002	-	22.07.2002
4.	People's Urban Co-operative Bank Ltd., Muzaffarpur	22.04.2002	-	27.05.2002
XVIII.	**RAIPUR**			
1.	IPM Nagrik Shakari Bank.	03.10.2007	N.A.	12.10.2007
2.	Nagrik Commercial Co-operative Bank, Bilaspur.	25.09.2000	N.A.	11.11.2000
3.	Nagrik Shakari Bank, Dhamtari.	15.07.2004	N.A.	19.07.2004
XIX.	**Thiruvananthapuram**			
1.	Kundara Urban Co-operative Bank Ltd.	29.11.1990	-	28.04.1991
2.	Panur Urban Co-operative Bank Ltd.	26.09.1975	-	29.07.1976
3.	Punalur Urban Co-operative Bank Ltd	26.09.1975	-	30.12.1976

P : Provisional.
N.A. : Not available.
* : 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	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6	7	8
1.	Abhyudaya Co-operative Bank Ltd.	2.3	2.9	0.5	1.2	6.5	8.3
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	2.8	3.0	0.6	0.7	7.3	7.4
3.	Amanath Co-operative Bank Ltd. Bangalore.	-9.8	2.5	-9.8	2.5	4.0	4.2
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	2.1	2.8	0.9	1.5	8.6	9.8
5.	Bassein Catholic Co-operative Bank Ltd.	2.6	1.9	1.7	1.9	8.1	5.8
6.	Bharat Co-operative Bank (Mumbai) Ltd.	1.8	0.7	1.2	1.3	8.1	7.1
7.	Bharati Sahakari Bank Limited.	1.6	1.6	0.4	0.7	7.5	7.9
8.	Bombay Mercantile Co-operative Bank Ltd.	0.0	0.0	0.0	0.1	3.3	3.7
9.	Charminar Co-operative Urban Bank Ltd.	4.5	-1.1	4.5	-1.1	9.4	8.7
10.	Citizen Credit Co-operative Bank Ltd., Dadar.	1.9	1.5	1.1	1.0	7.3	5.4
11.	Cosmos Co-operative Urban Bank Ltd.	1.4	1.5	1.2	1.1	6.7	7.5
12.	Dombivli Nagari Sahakari Bank Ltd.	2.4	2.4	0.9	0.9	6.8	7.2
13.	Goa Urban Co-operative Bank Ltd.	0.7	0.7	0.4	0.4	7.3	7.4
14.	Greater Bombay Co-operative Bank Ltd.	1.8	1.6	1.0	0.8	6.6	7.0
15.	Ichalkaranji Janata Sahakari Bank Ltd.	0.6	0.6	0.2	0.3	7.7	8.0
16.	Indian Mercantile Co-operative Bank Ltd., Lucknow.	0.2	1.3	0.2	0.4	6.1	7.1
17.	Jalgaon Janata Sahakari Bank Ltd.	0.9	–	0.0	–	8.2	–
18.	Janakalyan Sahakari Bank Ltd., Bombay.	0.0	-0.2	0.2	0.3	6.9	6.8
19.	Janalaxmi Co-operative Bank Ltd.	1.5	2.7	0.1	0.1	7.5	6.0
20.	Janata Sahakari Bank Ltd., Pune.	0.9	0.7	0.3	0.2	7.0	7.5
21.	Kalupur Commercial Co-operative Bank Ltd.	1.7	2.1	1.2	1.2	5.5	6.5
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan.	1.9	1.3	0.8	0.8	7.1	5.2
23.	Kapole Co-operative Bank Ltd., Bombay.	0.6	1.0	0.2	0.3	6.8	7.7
24.	Karad Urban Co-operative Bank Ltd.	1.2	1.0	0.2	0.2	7.9	7.8
25.	Madhavpura Mercantile Co-operative Bank Ltd.	3.6	6.4	3.6	6.4	1.6	2.0
26.	Mahanagar Co-operative Bank Ltd., Mumbai.	0.9	1.1	0.4	0.1	7.4	7.7
27.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa.	2.4	1.3	3.4	2.7	9.9	6.3
28.	Mehsana Urban Co-operative Bank Ltd.	1.0	1.7	0.9	0.8	7.8	8.3
29.	Nagar Urban Co-operative Bank Ltd., Ahmednagar.	1.0	1.0	0.7	0.5	7.9	7.9
30.	Nagpur Nagrik Sahakari Bank Ltd.	1.1	0.8	0.3	0.3	7.5	7.1
31.	Nasik Merchant's Co-operative Bank Ltd.	1.9	2.9	0.7	1.0	7.3	7.8
32.	New India Co-operative Bank Ltd., Bombay.	1.8	1.1	1.0	0.8	6.7	7.1
33.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	1.9	1.3	1.0	0.7	8.0	6.1
34.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad.	2.4	0.7	0.7	0.7	6.9	7.3
35.	Parsik Janata Sahakari Bank Ltd., Thane.	1.7	2.8	0.5	1.5	7.0	7.0
36.	Pravara Sahakari Bank Ltd.	0.3	1.0	0.1	1.0	8.2	5.0
37.	Punjab & Maharashtra Co-operative Bank Ltd.	1.4	2.6	0.7	1.6	8.2	8.8
38.	Rajkot Nagrik Sahakari Bank Ltd.	0.9	1.2	0.6	0.7	5.7	5.6
39.	Rupee Co-operative Bank Ltd.	0.1	0.1	-1.3	-0.2	4.7	4.5
40.	Sangli Urban Co-operative Bank Ltd.	-0.3	0.5	-0.7	0.1	8.3	7.7
41.	Saraswat Co-operative Bank Ltd., Bombay.	1.4	1.8	1.1	1.3	4.7	5.8
42.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	1.5	1.9	0.4	0.6	6.4	6.7
43.	Shamrao Vithal Co-operative Bank Ltd.	1.3	0.8	0.6	0.5	7.7	6.1
44.	Shikshak Sahakari Bank Ltd., Nagpur.	0.3	–	-2.1	–	6.8	–
45.	Solapur Janata Sahakari Bank Ltd.	1.5	2.2	0.4	0.9	11.1	11.5
46.	Surat Peoples Co-operative Bank Ltd.	1.6	2.3	0.5	0.8	7.6	8.2
47.	Thane Bharat Sahakari Bank Ltd.	1.2	1.1	0.4	0.4	7.4	7.8
48.	Thane Janata Sahakari Bank Ltd.	2.6	2.0	1.5	1.1	7.8	7.4
49.	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	1.1	1.3	0.3	0.4	7.4	7.9
50.	The Akola Urban Co-operative Bank Ltd., Akola.	0.6	1.0	0.2	0.2	7.5	8.3
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	0.0	0.0	-0.8	-2.3	7.4	7.5
52.	Vasavi Co-operative Urban Bank LImited.	7.7	3.4	7.7	2.7	10.4	5.9
53.	Zoroastrian Co-operative Bank Ltd., Bombay	1.4	1.6	0.3	1.4	7.5	8.2

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	
		2006-07	2007-08	2006-07	2007-08
1	2	9	10	11	12
1.	Abhyudaya Co-operative Bank Ltd.	3.2	3.7	1.2	0.4
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	2.8	2.9	1.4	1.4
3.	Amanath Co-operative Bank Ltd. Bangalore.	3.4	2.7	0.0	0.0
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	4.1	4.8	0.8	0.5
5.	Bassein Catholic Co-operative Bank Ltd.	4.0	3.4	0.9	0.0
6.	Bharat Co-operative Bank (Mumbai) Ltd.	4.1	4.2	0.2	0.0
7.	Bharati Sahakari Bank Ltd.	4.6	4.7	1.1	0.8
8.	Bombay Mercantile Co-operative Bank Ltd.	2.2	2.5	0.0	0.1
9.	Charminar Co-operative Urban Bank Ltd.	4.5	3.5	0.0	–
10.	Citizen Credit Co-operative Bank Ltd., Dadar.	3.9	2.9	0.2	0.1
11.	Cosmos Co-operative Urban Bank Ltd.	4.3	5.1	1.3	0.4
12.	Dombivli Nagari Sahakari Bank Ltd.	3.5	4.0	1.1	0.9
13.	Goa Urban Co-operative Bank Ltd.	4.1	4.6	0.3	0.2
14.	Greater Bombay Co-operative Bank Ltd.	4.6	5.0	0.8	0.7
15.	Ichalkaranji Janata Sahakari Bank Ltd.	5.3	5.5	0.3	0.3
16.	Indian Mercantile Co-operative Bank Ltd., Lucknow.	4.3	5.2	0.0	0.9
17.	Jalgaon Janata Sahakari Bank Ltd.	5.5	–	0.7	–
18.	Janakalyan Sahakari Bank Ltd., Bombay.	5.2	5.1	0.1	0.1
19.	Janalaxmi Co-operative Bank Ltd.	4.8	4.0	1.4	2.6
20.	Janata Sahakari Bank Ltd., Pune.	4.9	5.5	0.0	0.2
21.	Kalupur Commercial Co-operative Bank Ltd.	2.9	3.7	0.1	0.4
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan.	3.8	3.0	0.6	0.0
23.	Kapole Co-operative Bank Ltd., Bombay.	4.7	4.7	0.4	0.7
24.	Karad Urban Co-operative Bank Ltd.	4.9	5.1	0.9	0.5
25.	Madhavpura Mercantile Co-operative Bank Ltd.	1.8	1.7	0.0	0.0
26.	Mahanagar Co-operative Bank Ltd., Mumbai.	3.9	4.1	0.5	0.9
27.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa.	5.7	5.3	0.0	0.0
28.	Mehsana Urban Co-operative Bank Ltd.	5.1	5.2	0.0	0.3
29.	Nagar Urban Co-operative Bank Ltd., Ahmednagar.	4.9	5.2	0.3	0.3
30.	Nagpur Nagrik Sahakari Bank Ltd.	4.5	4.6	0.7	0.5
31.	Nasik Merchant's Co-operative Bank Ltd.	3.5	3.3	1.2	1.2
32.	New India Co-operative Bank Ltd., Bombay.	3.5	3.9	0.6	0.1
33.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	4.7	4.0	0.2	0.1
34.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad.	3.7	4.4	1.4	0.0
35.	Parsik Janata Sahakari Bank Ltd., Thane.	3.1	2.8	1.0	0.5
36.	Pravara Sahakari Bank Ltd.	5.9	2.9	0.2	0.0
37.	Punjab & Maharashtra Co-operative Bank Ltd.	4.8	5.5	0.4	0.3
38.	Rajkot Nagrik Sahakari Bank Ltd.	3.9	3.6	0.3	0.5
39.	Rupee Co-operative Bank Ltd.	3.6	3.5	1.4	0.3
40.	Sangli Urban Co-operative Bank Ltd.	5.5	5.2	0.4	0.4
41.	Saraswat Co-operative Bank Ltd., Bombay.	3.1	4.3	0.1	0.3
42.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	3.2	2.9	0.8	0.9
43.	Shamrao Vithal Co-operative Bank Ltd.	4.7	3.8	0.3	0.0
44.	Shikshak Sahakari Bank Ltd., Nagpur.	4.9	–	2.4	–
45.	Solapur Janata Sahakari Bank Ltd.	6.4	6.0	0.4	1.1
46.	Surat Peoples Co-operative Bank Ltd.	3.9	4.1	1.0	0.8
47.	Thane Bharat Sahakari Bank Ltd.	4.6	5.1	0.5	0.4
48.	Thane Janata Sahakari Bank Ltd.	3.9	4.3	0.3	0.3
49.	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	5.1	5.7	0.8	0.4
50.	The Akola Urban Co-operative Bank Ltd., Akola.	5.8	6.4	0.2	0.5
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	5.7	6.0	0.9	2.3
52.	Vasavi Co-operative Urban Bank LImited.	1.7	1.4	0.0	0.0
53.	Zoroastrian Co-operative Bank Ltd., Bombay.	4.5	5.6	1.1	0.3

Appendix Tables 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	
		2006-07	2007-08	2006-07	2007-08
1	2	13	14	15	16
1.	Abhyudaya Co-operative Bank Ltd.	5.7	5.8	3.3	4.6
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	4.7	4.7	4.4	4.5
3.	Amanath Co-operative Bank Ltd. Bangalore.	14.2	4.4	0.6	1.5
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	6.8	7.5	4.5	5.0
5.	Bassein Catholic Co-operative Bank Ltd.	5.8	4.3	4.0	2.4
6.	Bharat Co-operative Bank (Mumbai) Ltd.	6.8	6.1	4.0	2.9
7.	Bharati Sahakari Bank Ltd.	6.6	6.8	2.8	3.1
8.	Bombay Mercantile Co-operative Bank Ltd.	3.8	4.1	1.2	1.2
9.	Charminar Co-operative Urban Bank Ltd.	5.0	4.3	4.9	5.2
10.	Citizen Credit Co-operative Bank Ltd., Dadar.	5.9	4.2	3.4	2.5
11.	Cosmos Co-operative Urban Bank Ltd.	5.8	6.5	2.4	2.4
12.	Dombivli Nagari Sahakari Bank Ltd.	5.2	5.6	3.3	3.3
13.	Goa Urban Co-operative Bank Ltd.	7.2	6.8	3.1	2.8
14.	Greater Bombay Co-operative Bank Ltd.	6.8	7.2	2.0	2.1
15.	Ichalkaranji Janata Sahakari Bank Ltd.	7.3	7.7	2.4	2.5
16.	Indian Mercantile Co-operative Bank Ltd., Lucknow.	6.5	6.4	1.8	1.9
17.	Jalgaon Janata Sahakari Bank Ltd.	7.8	–	2.7	–
18.	Janakalyan Sahakari Bank Ltd., Bombay.	7.8	7.6	1.7	1.6
19.	Janalaxmi Co-operative Bank Ltd.	6.2	5.3	2.6	2.0
20.	Janata Sahakari Bank Ltd., Pune.	6.7	7.3	2.1	1.9
21.	Kalupur Commercial Co-operative Bank Ltd.	4.1	4.9	2.6	2.8
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan.	5.8	4.4	3.4	2.2
23.	Kapole Co-operative Bank Ltd., Bombay.	7.8	7.8	2.2	3.0
24.	Karad Urban Co-operative Bank Ltd.	7.2	7.2	3.0	2.7
25.	Madhavpura Mercantile Co-operative Bank Ltd.	2.1	2.1	-0.2	0.2
26.	Mahanagar Co-operative Bank Ltd., Mumbai.	6.9	7.0	3.5	3.6
27.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa.	10.2	8.0	4.1	1.0
28.	Mehsana Urban Co-operative Bank Ltd.	6.7	6.6	2.7	3.1
29.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	7.4	7.5	3.0	2.8
30.	Nagpur Nagrik Sahakari Bank Ltd.	7.2	7.1	3.0	2.5
31.	Nasik Merchant's Co-operative Bank Ltd.	5.7	5.3	3.8	4.5
32.	New India Co-operative Bank Ltd., Bombay.	6.0	6.7	3.2	3.3
33.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	6.3	5.1	3.2	2.1
34.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad.	6.1	7.2	3.1	2.9
35.	Parsik Janata Sahakari Bank Ltd., Thane.	5.6	4.5	3.9	4.2
36.	Pravara Sahakari Bank Ltd.	8.2	4.3	2.3	2.1
37.	Punjab & Maharashtra Co-operative Bank Ltd.	7.1	8.1	3.4	3.3
38.	Rajkot Nagrik Sahakari Bank Ltd.	5.1	4.8	1.9	2.0
39.	Rupee Co-operative Bank Ltd.	4.8	4.6	1.2	1.1
40.	Sangli Urban Co-operative Bank Ltd.	8.9	7.9	2.8	2.5
41.	Saraswat Co-operative Bank Ltd., Bombay.	4.7	5.8	1.6	1.5
42.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	5.1	5.1	3.2	3.9
43.	Shamrao Vithal Co-operative Bank Ltd.	6.8	5.5	3.0	2.3
44.	Shikshak Sahakari Bank Ltd., Nagpur.	6.8	–	1.8	–
45.	Solapur Janata Sahakari Bank Ltd.	10.0	9.7	4.7	5.4
46.	Surat Peoples Co-operative Bank Ltd.	6.4	6.3	3.7	4.1
47.	Thane Bharat Sahakari Bank Ltd.	6.9	7.4	2.8	2.7
48.	Thane Janata Sahakari Bank Ltd.	5.7	5.9	3.9	3.1
49.	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	6.7	7.4	2.3	2.2
50.	The Akola Urban Co-operative Bank Ltd., Akola.	7.3	7.8	1.6	1.9
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	7.7	7.9	1.7	1.6
52.	Vasavi Co-operative Urban Bank LImited.	3.6	3.2	8.7	4.5
53.	Zoroastrian Co-operative Bank Ltd., Bombay.	6.4	6.9	3.1	2.6

Data are provisional; 0.0 = Negligible, '-' : Not available.

Appendix Table IV.5: Select Financial Parameters of Scheduled Urban Co-operative Banks

(At end March 2008)P

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 (Rs. Lakh)	Profit Per Employee (Rs. Lakh)	Business Per Employee (Rs.Lakh)
1	2	3	4	5	6	7	8	9	10
1.	Abhyudaya Co-operative Bank Ltd.	24.5	5.8	1.0	3.0	1.2	4.9	2.9	304.5
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	49.5	4.8	0.4	3.2	0.7	5.0	1.7	190.7
3.	Amanath Co-operative Bank Ltd. Bangalore.	-36.1	2.0	3.6	3.3	2.5	4.7	4.0	0.0
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	36.8	5.1	0.5	2.8	1.5	6.0	2.2	189.2
5.	Bassein Catholic Co-operative Bank Ltd.	23.8	2.6	0.5	2.0	1.9	4.1	8.0	461.9
6.	Bharat Co-operative Bank (Mumbai) Ltd.	15.8	3.0	0.3	0.7	1.3	5.1	4.1	547.6
7.	Bharati Sahakari Bank Ltd.	11.4	3.4	0.5	1.7	0.7	5.9	1.4	233.9
8.	Bombay Mercantile Co-operative Bank Ltd.	-7.0	2.1	0.6	0.0	0.1	5.1	0.2	127.9
9.	Charminar Co-operative Urban Bank Ltd.	-318.5	-	-	-	-1.1	0.0	-	-
10.	Citizen Credit Co-operative Bank Ltd., Dadar.	17.3	2.7	0.3	1.7	1.0	3.5	3.1	416.9
11.	Cosmos Co-operative Urban Bank Ltd.	12.6	2.5	0.5	1.6	1.1	6.0	4.4	511.6
12.	Dombivli Nagari Sahakari Bank Ltd.	14.6	3.5	0.6	2.5	0.9	5.1	2.7	380.2
13.	Goa Urban Co-operative Bank Ltd.	18.4	2.9	0.1	0.7	0.4	5.6	0.9	258.4
14.	Greater Bombay Co-operative Bank Ltd.	20.8	2.1	0.8	1.6	0.8	6.4	2.2	339.3
15.	Ichalkaranji Janata Sahakari Bank Ltd.	12.2	2.6	0.3	0.6	0.3	6.6	0.4	210.4
16.	Indian Mercantile Co-operative Bank Ltd., Lucknow.	20.4	2.0	0.7	1.4	0.4	7.1	0.6	168.2
17.	Jalgaon Janata Sahakari Bank Ltd.	7.9	–	–	–	–	–	–	–
18.	Janakalyan Sahakari Bank Ltd., Bombay.	-2.6	1.7	0.7	-0.2	0.3	6.0	0.7	382.8
19.	Janalaxmi Co-operative Bank Ltd.	16.7	2.5	2.5	3.4	0.1	6.6	0.1	115.0
20.	Janata Sahakari Bank Ltd., Pune.	-1.0	1.9	0.4	0.7	0.2	6.1	0.6	363.4
21.	Kalupur Commercial Co-operative Bank Ltd.	44.9	3.0	0.5	2.3	1.2	5.9	5.0	416.0
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan.	15.7	2.4	0.3	1.3	0.8	3.9	2.2	350.2
23.	Kapole Co-operative Bank Ltd., Bombay.	11.0	3.0	1.2	1.0	0.3	5.4	0.5	247.6
24.	Karad Urban Co-operative Bank Ltd.	10.3	2.8	0.3	1.0	0.2	5.9	0.3	188.5
25.	Madhavpura Mercantile Co-operative Bank Ltd.	-642.7	0.3	8.1	8.0	6.4	3.6	262.5	-
26.	Mahanagar Co-operative Bank Ltd., Mumbai.	14.8	4.0	0.5	1.2	0.1	5.3	0.2	243.0
27.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa.	-57.7	1.2	3.7	1.6	2.7	5.9	3.0	147.5
28.	Mehsana Urban Co-operative Bank Ltd.	14.5	3.1	0.4	1.7	0.8	6.4	2.6	433.1
29.	Nagar Urban Co-operative Bank Ltd., Ahmednagar.	14.9	3.0	0.5	1.1	0.5	7.0	0.9	214.9
30.	Nagpur Nagrik Sahakari Bank Ltd.	12.3	2.6	0.8	0.8	0.3	5.5	0.4	187.9
31.	Nasik Merchant's Co-operative Bank Ltd.	32.6	5.1	0.5	3.3	1.0	5.2	1.3	118.8
32.	New India Co-operative Bank Ltd., Bombay.	25.9	3.3	0.6	1.1	0.8	6.1	3.6	395.1
33.	North Kanara Goud Saraswat Brahmins Co-operative Bank Ltd.	12.4	2.1	0.2	1.3	0.7	4.6	2.7	557.0
34.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad.	38.1	2.9	0.6	0.7	0.7	5.5	1.6	281.6
35.	Parsik Janata Sahakari Bank Ltd., Thane.	23.2	4.3	0.4	2.9	1.5	3.4	3.8	325.4
36.	Pravara Sahakari Bank Ltd.	11.7	2.2	0.2	1.0	1.0	3.5	1.3	178.5
37.	Punjab & Maharashtra Co-operative Bank Ltd.	14.7	3.3	1.8	2.6	1.6	6.3	4.1	340.7
38.	Rajkot Nagrik Sahakari Bank Ltd.	25.4	2.7	0.5	1.6	0.7	6.5	2.5	337.5
39.	Rupee Co-operative Bank Ltd.	-79.2	1.7	0.3	0.1	-0.2	5.8	-0.5	229.9
40.	Sangli Urban Co-operative Bank Ltd.	11.4	2.8	0.8	0.6	0.1	6.9	0.1	82.9
41.	Saraswat Co-operative Bank Ltd., Bombay.	10.8	1.4	0.6	1.6	1.3	6.0	7.1	672.5
42.	Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd.	32.7	4.5	0.3	2.2	0.6	4.7	1.3	227.7
43.	Shamrao Vithal Co-operative Bank Ltd.	12.8	2.6	0.2	0.9	0.5	4.6	2.2	579.1
44.	Shikshak Sahakari Bank Ltd., Nagpur.	-1.1	–	–	–	–	–	–	–
45.	Solapur Janata Sahakari Bank Ltd.	11.2	5.8	0.5	2.4	0.9	7.5	1.4	220.4
46.	Surat Peoples Co-operative Bank Ltd.	20.2	4.1	0.4	2.3	0.8	5.6	2.3	350.7
47.	Thane Bharat Sahakari Bank Ltd.	10.5	2.8	0.7	1.2	0.4	6.3	1.0	295.8
48.	Thane Janata Sahakari Bank Ltd.	14.1	4.0	0.6	2.6	1.1	5.5	4.3	488.9
49.	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	10.1	2.3	0.7	1.4	0.4	6.8	0.6	216.3
50.	The Akola Urban Co-operative Bank Ltd., Akola.	9.7	2.0	0.5	1.1	0.2	7.4	0.5	332.5
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon.	-0.6	1.5	0.4	0.0	-2.3	7.5	-3.7	206.7
52.	Vasavi Co-operative Urban Bank Ltd.	-263.0	8.4	1.3	6.3	2.7	3.6	3.3	75.0
53.	Zoroastrian Co-operative Bank Ltd., Bombay.	14.9	2.7	0.3	1.7	1.4	6.5	5.7	557.0

- : Nil/Negligible; P : Provisional.

Appendix Table IV.6: Banks where Core Banking Solution (CBS) is in Operation

Sr.No.	Centre	Name of bank	Type of Bank
1.	Ahmedabad	Mehsana Urban Co-operative Bank Ltd.	Scheduled
2.	Ahmedabad	Nutan Nagarik Sahkari Bank Ltd.	Scheduled
3.	Mumbai	Zoroastrian Co-operative Bank Ltd.	Scheduled
4.	Mumbai	Abhyudaya Co-operative Bank Ltd.	Scheduled
5.	Mumbai	Bharat Co-operative Bank Ltd., Mumbai	Scheduled
6.	Mumbai	Cosmos Co-operative Bank Ltd.	Scheduled
7.	Mumbai	Dombivli Nagari Sahakari Bank Ltd.	Scheduled
8.	Mumbai	Greater Bombay Co-operative Bank Ltd.	Scheduled
9.	Mumbai	Jalgaon Janata Sahakari Bank Ltd.	Scheduled
10.	Mumbai	Kapole Co-operative Bank Ltd.	Scheduled
11.	Mumbai	Mahanagar Co-operative Bank Ltd.	Scheduled
12.	Mumbai	Nasik Merchants Co-operative Bank Ltd.	Scheduled
13.	Mumbai	New India Co-operative Bank Ltd.	Scheduled
14.	Mumbai	NKGSB Co-operative Bank Ltd.	Scheduled
15.	Mumbai	Punjab & Maharashtra Co-operative Bank Ltd.	Scheduled
16.	Mumbai	Saraswat Co-operative Bank Ltd.	Scheduled
17.	Mumbai	Shamrao Vithal Co-operative Bank Ltd.	Scheduled
18.	Mumbai	Solapur Janata Sahakari Bank Ltd.	Scheduled
19.	Mumbai	Thana Janata Sahakari Bank Ltd.	Scheduled
20.	Jaipur	Udaipur Mahila Samridhi Urban Co-operative Bank Ltd.	Non-Scheduled
21.	Mumbai	Chember Nagarik Sahakari Bank Ltd.	Non Scheduled
22.	Mumbai	Commercial Co-operative Bank Ltd.	Non Scheduled

Appendix Table IV.7: Banks where Implementation of Core Banking Solution (CBS) is in Progress

Sr.No.	Centre	Name of bank	Type of Bank
1.	Ahmedabad	Ahmedabad Mercantile Co-operative Bank Ltd.	Scheduled
2.	Ahmedabad	Kalulpur Commercial Co-operative Bank Ltd.	Scheduled
3.	Ahmedabad	Surat People's Co-operative Bank Ltd.	Scheduled
4.	Jaipur	Bhilwara Urban Co-operative Bank Ltd., Bhilwara.	Non-Scheduled
5.	Jaipur	Integral Urban Co-operative Bank Ltd., Jaipur.	Non-Scheduled
6.	Jaipur	Jalore Nagrik Sahakari Bank Ltd., Jalore.	Non-Scheduled
7.	Jaipur	Kota Nagrik Sahakari Bank Ltd., Kota.	Non-Scheduled
8.	Jaipur	Madhav Nagrik Sahakari Bank Ltd., Sirohi.	Non-Scheduled
9.	Jaipur	Nagaur Urban Co-operative Bank Ltd., Nagaur.	Non-Scheduled
10.	Jaipur	Rajsamand Urban Co-operative Bank Ltd., Rajsamand.	Non-Scheduled
11.	Jaipur	Udaipur Urban Co-operative Bank Ltd., Udaipur.	Non-Scheduled
12.	Lucknow	Mahamedha Urban Co-operative Bank Ltd., Ghaziabad.	Non-Scheduled
13.	Lucknow	Urban Co-operative Bank Ltd., Bareilly.	Non-Scheduled
14.	Mumbai	Parsik Sahakari Bank Ltd.	Scheduled
15.	Mumbai	Thana Bharat Sahakari Bank Ltd.	Scheduled
16.	Mumbai	Apna Sahakari Bank Ltd.	Non Scheduled
17.	Mumbai	Dattatratraya Maharaj Kalambe Jaoli Sahakari Bank Ltd.	Non Scheduled
18.	Mumbai	Excellent Co-operative Bank Ltd.	Non Scheduled

Appendix Table IV.8: 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	
		2006	2007	2006	2007	2006	2007	2006	2007
1	2	3	4	5	6	7	8	9	10
	NORTHERN REGION	**146.34**	**113.26**	**232.21**	**301.86**	**2.97**	**3.07**	**98.35**	**98.16**
1.	Chandigarh	1.57	3.98	4.15	4.80	24.65	22.66	66.19	67.40
2.	Delhi	16.17	9.09	32.78	36.74	15.85	13.06	81.09	89.72
3.	Haryana	37.00	25.63	5.22	5.26	0.22	0.18	99.84	99.86
4.	Himachal Pradesh	44.11	29.40	91.08	124.02	11.59	11.53	76.83	76.06
5.	Jammu & Kashmir	0.10	0.01	18.67	18.93	24.92	24.07	32.55	36.57
6.	Punjab	26.24	23.79	58.47	55.28	2.18	1.62	99.05	98.33
7.	Rajasthan	21.15	21.36	21.85	56.82	1.31	2.77	98.03	98.12
	NORTH-EASTERN REGION	**-13.73**	**-3.95**	**452.41**	**417.10**	**51.19**	**43.34**	**46.65**	**43.02**
8.	Arunachal Pradesh	-1.80	-4.00	149.06	131.00	95.22	93.30	56.37	14.37
9.	Assam	5.18	2.78	172.14	130.36	60.69	48.84	45.23	46.67
10.	Manipur	0.22	0.35	16.00	31.21	28.16	32.43	20.57	29.00
11.	Meghalaya	1.07	1.08	26.56	30.73	24.89	21.01	39.55	45.25
12.	Mizoram	1.71	6.04	17.81	21.04	18.56	18.81	62.52	72.20
13.	Nagaland	-4.11	-3.64	22.48	24.01	51.34	44.41	59.78	64.17
14.	Sikkim	0.87	1.00	0.77	1.68	5.31	9.49	63.64	66.76
15.	Tripura	-16.87	-7.56	47.60	47.06	37.80	36.51	35.92	37.12
	EASTERN REGION	**86.05**	**30.94**	**386.56**	**501.11**	**9.06**	**10.82**	**78.74**	**70.64**
16.	Andaman & Nicobar Islands	1.53	1.18	7.75	5.59	9.96	6.50	97.99	93.14
17.	Bihar	50.78	6.37	164.02	267.11	30.33	42.51	51.31	36.05
18.	Jharkhand $	-	-	-	-	-	-	-	-
19.	Orissa	19.69	9.16	116.71	129.27	6.94	6.67	87.71	77.86
20.	West Bengal	14.05	14.23	98.08	99.13	4.99	5.01	85.47	78.29
	CENTRAL REGION	**84.78**	**72.44**	**668.22**	**763.47**	**14.08**	**13.85**	**79.98**	**80.20**
21.	Chhattisgarh	-7.07	6.48	43.38	46.42	33.63	31.92	86.99	90.37
22.	Madhya Pradesh	57.56	31.41	177.21	185.38	10.55	8.85	92.31	93.49
23.	Uttarakhand	31.41	31.87	435.49	501.23	15.29	16.25	70.12	69.13
24.	Uttar Pradesh	2.88	2.68	12.13	30.45	14.07	16.39	94.86	94.69
	WESTERN REGION	**7.87**	**54.14**	**3,080.29**	**2,565.97**	**30.68**	**20.48**	**71.78**	**79.06**
25.	Goa	1.08	0.27	108.93	65.59	28.82	19.79	67.80	69.18
26.	Gujarat	5.29	5.51	123.43	133.18	6.08	6.09	83.11	97.33
27.	Maharashtra	1.50	48.36	2,847.93	2,367.20	37.30	23.65	66.79	73.15
	SOUTHERN REGION	**59.71**	**8.42**	**1,915.24**	**2,154.49**	**15.65**	**15.51**	**88.88**	**87.91**
28.	Andhra Pradesh	5.70	1.58	868.01	1,134.74	15.39	18.71	78.06	71.76
29.	Karnataka	27.28	13.35	315.60	242.09	17.67	10.82	92.05	92.05
30.	Kerala	-2.59	-28.96	430.77	504.48	26.08	22.94	96.23	87.23
31.	Puducherry	1.30	0.67	13.14	10.38	11.03	7.01	87.35	79.80
32.	Tamil Nadu	28.02	21.78	287.71	262.80	9.46	8.10	95.15	97.66
	ALL-INDIA TOTAL	**371.02**	**275.25**	**6,734.93**	**6,704.00**	**16.84**	**14.16**	**86.57**	**85.65**

- : nil/negligible.

Note : 1. Data for the year 2007 are provisional.

2. $ Jharkhand SCB is not yet started functioning.

3. Recovery data for Karnataka SCB is repeated from previous year.

Source : NABARD.

Appendix Table IV.9: Working Results of District Central Co-operative Banks-- State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	State	2006					2007					2006			2007		
		DCCBs (No.)	Profit		Loss		DCCBs (No.)	Profit		Loss		Total NPAs	NPAs as percent-age to Loans Outstan-ding	Recovery (per cent) As at end-June	Total NPAs	NPAs as percent-age to Loans Outstan-ding	Recovery (per cent) As at end-June
			No.	Amount	No.	Amount		No.	Amount	No.	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	NORTHERN REGION	**69**	**64**	**213.64**	**5**	**19.45**	**73**	**55**	**119.39**	**16**	**44.01**	**1063.81**	**7.53**	**72.94**	**1128.32**	**7.14**	**82.92**
1.	Haryana	19	17	25.16	2	7.00	19	10	11.12	9	25.59	244.71	5.34	57.58	246.22	4.75	75.71
2.	Himachal Pradesh	2	2	49.27	-	-	2	2	51.94	-	-	71.10	6.99	90.88	80.61	6.71	81.12
3.	Jammu and Kashmir	3	-	-	3	12.45	3	1	0.02	2	13.77	74.45	22.82	53.71	79.33	21.08	54.36
4.	Punjab	18	18	74.14	-	-	20	16	29.20	3	2.39	392.77	8.19	92.07	403.25	7.25	92.20
5.	Rajasthan	27	27	65.07	-	-	29	26	27.11	2	2.26	280.78	8.92	81.02	318.91	9.13	83.55
	EASTERN REGION	**64**	**50**	**96.14**	**14**	**35.43**	**64**	**45**	**42.78**	**19**	**59.39**	**1128.76**	**21.26**	**64.95**	**1240.80**	**20.75**	**64.36**
6.	Bihar	22	15	32.96	7	20.44	22	13	12.09	9	22.83	335.78	53.77	50.89	340.14	54.5	50.75
7.	Jharkhand	8	5	25.97	3	3.10	8	3	4.89	5	20.44	96.66	79.03	42.14	92.03	76.35	18.77
8.	Orissa	17	16	15.76	1	2.40	17	16	7.12	1	3.48	391.94	14.27	64.74	439.09	14.04	61.75
9.	West Bengal	17	14	21.45	3	9.49	17	13	18.68	4	12.64	304.38	16.77	76.73	369.54	17.55	77.01
	CENTRAL REGION	**104**	**74**	**158.91**	**30**	**174.01**	**105**	**71**	**121.16**	**33**	**186.00**	**2719.06**	**29.13**	**60.27**	**3118.04**	**30.16**	**61.57**
10.	Chhattisgarh	6	6	17.11	-	-	6	5	18.27	1	7.07	200.15	27.56	59.17	245.53	30.24	52.53
11.	Madhya Pradesh	38	34	77.32	4	9.27	38	34	59.43	4	9.96	1156.63	28.53	66.40	1281.18	28.32	69.63
12.	Uttar Pradesh	50	24	45.37	26	164.74	50	22	23.38	28	168.97	1277.33	33.29	51.37	1473.02	35.66	52.56
13.	Uttarakhand	10	10	19.11	-	-	11	10	20.08	-	-	84.95	11.85	86.80	118.31	13.54	87.83
	WESTERN REGION	**49**	**34**	**244.23**	**15**	**245.81**	**49**	**37**	**166.99**	**12**	**241.63**	**5834.28**	**23.54**	**62.47**	**6248.30**	**22.18**	**60.34**
14.	Gujarat	18	11	49.08	7	41.49	18	12	30.70	6	68.21	898.74	16.90	71.57	1191.53	20.73	70.03
15.	Maharashtra	31	23	195.15	8	204.32	31	25	136.29	6	173.42	4935.54	25.36	58.83	5056.77	22.55	56.97
	SOUTHERN REGION	**80**	**54**	**406.6**	**26**	**450.00**	**80**	**63**	**304.09**	**17**	**192.91**	**4963.03**	**18.63**	**77.29**	**4759.43**	**16.56**	**77.60**
16.	Andhra Pradesh	22	7	32.18	15	143.61	22	12	28.43	10	144.06	1044.05	13.41	70.41	1096.66	13.67	65.82
17.	Karnataka	21	21	226.14	-	-	21	17	60.52	4	26.76	781.57	18.88	79.24	815.72	16.84	74.78
18.	Kerala	14	14	52.86	-	-	14	13	57.86	1	5.89	1043.77	17.45	80.75	1159.80	17.21	83.29
19.	Tamil Nadu	23	12	95.42	11	306.39	23	21	157.28	2	16.20	2093.64	23.95	80.11	1687.24	18.48	88.66
	ALL INDIA	**366**	**276**	**1119.52**	**90**	**924.70**	**371**	**271**	**754.41**	**97**	**723.94**	**15708.9403**	**19.65**	**69.16**	**16494.89**	**18.53**	**71.08**

Note : 1. Data for 2007 are provisional and based on the reporting banks.

2. Profitability data for three new DCCBs, viz., Baran in Rajasthan, S.S. Nagar in Punjab and Udham Singh Nagar in Uttarakhand are not available for the year 2007.

Source : NABARD.

Appendix Table IV.10: Select Indicators of Primary Agricultural Credit Societies-State wise *(Continued)*

(As at March 31, 2007)

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	**12,720**	**83,547**	**7**	**113,790**	**10,973.06**	**3,983.00**	**28,421**	**244,324**	**1,009,072**
1	Chandigarh	16	22	1	800	2.86	1.00	3	3	11
2	Delhi	-	-	-	-	-	-	-	-	-
3	Haryana	571	7,053	12	23,736	2,838.00	1,760.00	5,954	29,848	423,022
4	Himachal Pradesh	2,086	19,388	9	6,077	1,030.00	145.00	3,932	65,434	8085
5	Jammu & Kashmir	937	7,396	8	11,168	465.98	160.00	850	50698	25,709
6	Punjab	3,981	12,329	3	24,310	2,149.00	15.00	10,418	76,310	317,601
7	Rajasthan	5,129	37,359	9	47,699	4,487.22	1,902.00	7,264	22,031	234,644
	NORTH-EASTERN REGION	**3,540**	**33,527**	**10**	**29,835**	**3,851.37**	**316.00**	**7,802**	**13,559**	**45,121**
8	Arunachal Pradesh	31	3,649	118	435	18.00	-	597	-	411
9	Assam	809	23,422	30	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	184	3,761	31	2,306	185.68	20.00	52	83	662
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	4	3,424	262.00	-	738	33	4,070
	EASTERN REGION	**22,160**	**196,754**	**9**	**847,274**	**79,083.97**	**33,551.00**	**185,532**	**544,095**	**3,286,938**
16	Andaman & Nicobar Islands	46	109	4	356	10.91	3.00	16	87	226
17	Bihar	5,969	45,098	8	9,036	3862	305.00	2,538	6,115	50,115
18	Jharkhand	208	5,185	25	10,050	121.11	22.00	587	1,268	349
19	Orissa	3,860	43,303	12	64,216	17,363.83	6,465.00	10,154	228793	171,601
20	West Bengal	12,077	103,059	9	180,198	11,844.46	5,332.00	29,379	100,811	149,108
	CENTRAL REGION	**15,265**	**192,554**	**13**	**511,636**	**38,909.64**	**17,970.00**	**122,072**	**142,839**	**2,645,282**
21	Chhattisgarh	1,257	19,899	15	19,808	1,987.49	972.00	4,382	20,854	45,220
22	Madhya Pradesh	4,633	53,951	12	51,974	4,984.53	2,482.00	16,404	43,328	225,037
23	Uttarakhand	446	5,900	13	3,480	2,748.00	171.00	938	2,925	6,187
24	Uttar Pradesh	8,929	112,804	13	139,112	2,748.00	4,078.00	8,045	6,820	97,076
	WESTERN REGION	**29,086**	**53,958**	**2**	**148,631**	**13,226.81**	**5,134.00**	**46,153**	**34,456**	**1,135,881**
25	Goa	77	206	3	1,344	78.00	6.00	315	1,997	537
26	Gujarat	7,956	16,289	3	50,408	2,434.81	1,292.00	16,662	18,816	351,908
27	Maharashtra	21,045	37,462	2	96,879	10,702	3,835.00	29,173	13,643	783,436
28	Dadra and Nagar Haveli	8	1	1	-	12	1.00	3	-	-
	SOUTHERN REGION	**14,453**	**76,762**	**5**	**5,033,641**	**52,071**	**18,647.00**	**74,188**	**1,645,067**	**1,436,456**
29	Andhra Pradesh	4,064	29,207	7	4,876,563	22,157.83	3,082.00	13,919	32,011	638,450
30	Karnataka	4,205	27,242	7	41,837	4,657.10	1,342.00	12,073	112170	200,404
31	Kerala	1,624	1,464	1	34,887	16,390.71	9,977.00	15,739	1246529	197,180
32	Puducherry	52	320	6	1,040	122.97	22.00	406	4,728	2,295
33	Tamil Nadu	4,508	18,529	4	79,314	8,742.14	4,224.00	32,051	249629	398,127
	ALL-INDIA TOTAL	**97,224**	**637,102**	**7**	**6,684,807**	**198,115.60**	**79,601.00**	**464,168**	**2,624,340**	**9,558,750**

Source: NAFSCOB.

Appendix Table IV.10: Select Indicators of Primary Agricultural Credit Societies-State wise *(Continued)*

(As at March 31, 2007)

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	**1,609,183**	**1,270,698**	**67,118**	**976,618**	**72,684**	**19.21**	**7,013**	**1,308,050**
1.	Chandigarh	23	288	11	5	11	0.19	14	498
2.	Delhi	-	-	-	-	-	-	-	-
3.	Haryana	533,774	465,277	8,358	394,110	29,377	52.27	189	182,409
4.	Himachal Pradesh	93,743	967	15,507	26,493	-	31.37	442	93,744
5.	Jammu & Kashmir	191,537	60,063	17,022	34,905	28,023	54.11	444	160,942
6.	Punjab	466,489	501,012	9,605	324,728	8,770	19.17	2,330	456,188
7.	Rajasthan	323,617	243,091	16,615	196,378	6,504	4.30	3,594	414,269
	NORTH-EASTERN REGION	**77,407**	**34,511**	**2,532**	**44,778**	**2,981**	**3.83**	**615**	**787,071**
8.	Arunachal Pradesh	1,636	-	77	87	-		20	2,456
9.	Assam	7,533	278	350	1,086	464	0.63	309	763,889
10.	Manipur	45,904	33,859	2,078	41,639	-	34.95	-	-
11.	Meghalaya	1,797	159	17	367	-	0.45	51	4,725
12.	Mizoram	175	-	-	67	-	0.09	59	6,997
13.	Nagaland	11,246	157	-	197	357	3.73	-	-
14.	Sikkim	146	54	-	19	-	-	56	579
15.	Tripura	8,970	3	10	1,316	2,160	0.12	120	8,425
	EASTERN REGION	**916,286**	**385,471**	**87,533**	**373,571**	**35,267**	**161.76**	**4,992**	**308,366**
16.	Andaman & Nicobar Islands	281	62	49	81	-	1.89	34	2
17.	Bihar	46,186	29,553	-	28,551	-	1.02	1,180	60,399
18.	Jharkhand	1,523	100	-	264	723	6.10	60	9,100
19.	Orissa	509,046	244,069	58,882	249,161	6,374	59.27	1,380	113,346
20.	West Bengal	359,250	111,687	28,601	95,512	28,170	8.35	2,338	125,519
	CENTRAL REGION	**598,873**	**284,152**	**16,929**	**273,997**	**16,100**	**208.54**	**7,125**	**984,108**
21.	Chhattisgarh	98,165	35,492	5,708	38,076	2,180	16.59	779	184,819
22.	Madhya Pradesh	362,951	165,384	9,450	154,590	13,504	9.35	1,786	611,240
23.	Uttarakhand	11,830	4,696	604	1,300	416	6.56	24	10,667
24.	Uttar Pradesh	125,927	78,580	1,167	80,031	-	0.76	4,536	177,382
	WESTERN REGION	**1,518,445**	**601,547**	**187,941**	**756,475**	**320,656**	**105.75**	**10,481**	**2,117,465**
25.	Goa	4,476	452	619	461	1,360	25.94	41	1,669
26.	Gujarat	490,635	288,456	25,203	349,902	6,491	2.37	3,339	956,458
27.	Maharashtra	1,023,270	312,638	162,119	406,112	312,805	0.65	7,095	1,159,337
28.	Dadra and Nagar Haveli	64	1	-	-	-	-	6	1
	SOUTHERN REGION	**3,275,675**	**1,503,502**	**519,627**	**1,113,881**	**825,708**	**113.82**	**3,757**	**1,984,298**
29.	Andhra Pradesh	564,084	203,789	35,614	352,962	11,110	7.88	867	161,192
30.	Karnataka	508,361	219,828	25,365	201,325	47,237	26.68	1,384	548,152
31.	Kerala	1,382,666	768,616	339,381	296,367	526,867	767.57	811	621,285
32.	Puducherry	8,177	4,767	1,917	649	5,780	90.92	26	90
33.	Tamil Nadu	812,387	306,501	117,350	262,578	234,714	55.37	669	653,579
	ALL-INDIA TOTAL	**7,995,869**	**4,079,881**	**881,679**	**3,539,320**	**1,273,398**	**120.82**	**33,983**	**7,489,358**

Source: NAFSCOB.

Appendix Table IV.10: Select Indicators of Primary Agricultural Credit Societies-State wise *(Concluded)*

(As at March 31, 2007)

Sr. No.	State	Societies in Loss No.	Societies in Loss Amount (in '000)	Overdues to Demand (%)	Viable	Potentially Viable	Dormant	Defunct	Others
1	2	20	21	22	23	24	25	26	27
	NORTHERN REGION	**3,538**	**1,073,867**	**152**	**9,045**	**2,787**	**607**	**245**	**36**
1.	Chandigarh	1	1,200	41	15	-	1	-	-
2.	Delhi	-	-	-	-	-	-	-	-
3.	Haryana	382	530,759	29	571	-	-	-	-
4.	Himachal Pradesh	318	8,358	34	442	1,593	22	-	29
5.	Jammu & Kashmir	403	178,059	10	453	226	50	208	-
6.	Punjab	1,183	145,793	13	3,229	261	476	12	3
7.	Rajasthan	1,251	209,698	26	4,335	707	58	25	4
	NORTH-EASTERN REGION	**850**	**1,070,194**	**703**	**1,864**	**449**	**706**	**429**	**92**
8.	Arunachal Pradesh	6	806	97	31	-	-	-	-
9.	Assam	419	990,860	98	583	170	5	39	12
10.	Manipur	108	20,100	43	186	-	-	-	-
11.	Meghalaya	128	51,165	84	157	12	5	10	-
12.	Mizoram	4	950	94	60	16	19	-	80
13.	Nagaland	-	-	91	457	228	655	379	-
14.	Sikkim	37	415	100	145	-	21	-	-
15.	Tripura	148	5,898	96	245	23	1	1	-
	EASTERN REGION	**12,379**	**718,888**	**211**	**8,918**	**5,939**	**1,584**	**1,199**	**520**
16.	Andaman & Nicobar Islands	-	-	20	35	-	6	3	2
17.	Bihar	3,962	6,402	40	1,836	2,840	770	522	1
18.	Jharkhand	-	-	90	60	85	29	-	34
19.	Orissa	2,387	506,171	21	2,992	674	50	20	124
20.	West Bengal	6,030	206,315	39	3,995	2,340	729	654	359
	CENTRAL REGION	**4,998**	**1,817,610**	**185**	**11,854**	**2,734**	**403**	**177**	**97**
21.	Chhattisgarh	474	387,274	36	1,074	171	-	-	12
22.	Madhya Pradesh	2,456	1,411,369	41	3,454	1,102	6	-	71
23.	Uttarakhand	100	3,671	65	211	192	15	14	14
24.	Uttar Pradesh	1,968	15,296	42	7,115	1,269	382	163	-
	WESTERN REGION	**16,599**	**7,552,900**	**110**	**17,336**	**10,665**	**748**	**187**	**150**
25.	Goa	35	1,247	37	67	8	2	-	-
26.	Gujarat	2,675	3,668,038	35	3,906	3,091	704	131	124
27.	Maharashtra	13,889	3,883,615	37	13,356	7,566	42	56	25
28.	Dadra and Nagar Haveli	-	-	-	7	-	-	-	1
	SOUTHERN REGION	**9,714**	**11,783,531**	**165**	**8,410**	**4,473**	**669**	**248**	**653**
29.	Andhra Pradesh	3,036	2,439,815	42	2,711	1,314	6	-	33
30.	Karnataka	2,447	971,910	44	2,912	1,025	152	94	22
31.	Kerala	754	1,487,883	19	1,303	270	39	12	-
32.	Puducherry	26	254	40	29	23	-	-	-
33.	Tamil Nadu	3,451	6,883,669	20	1,455	1,841	472	142	598
	ALL-INDIA TOTAL	**48,078**	**24,016,990**	**1,526**	**57,427**	**27,047**	**4,717**	**2,485**	**1,548**

Source: NAFSCOB.

Appendix Table IV.11: Working Results of SCARDBs-State-wise

(As at end- March)

(Amount in Rs. crore)

Sr. No.	All India / State	Number of Branches	Profit/Loss		Total NPAs		NPAs as percentage to Loans Outstanding		Recovery (per cent) As at end-June	
		2007	2006	2007	2006	2007	2006	2007	2006	2007
	NORTHERN REGION	**85**	**-17.96**	**6.24**	**981.14**	**1409.38**	**16.67**	**24.07**	**71.21**	**79.06**
1.	Haryana @	0	-48.15	-33.35	504.00	866.24	24.54	45.06	69.69	96.76
2.	Himachal Pradesh #	33	-4.39	4.12	85.72	98.49	31.41	35.87	48.66	52.67
3.	Jammu & Kashmir(2005)*	45	-8.83	-2.99	12.79	12.98	80.25	92.91	41.56	15.95
4.	Punjab @	0	33.01	25.32	0.00	0.72	0.00	0.03	94.12	90.97
5.	Rajasthan @	7	10.39	13.14	378.62	430.95	25.41	27.95	56.35	56.21
	NORTH-EASTERN REGION	**39**	**-0.40**	**0.97**	**18.57**	**17.45**	**64.11**	**58.73**	**23.99**	**22.92**
6.	Assam *	33	0.36	1.07	10.83	9.85	90.51	82.63	8.38	5.80
7.	Manipur(2005)*	1	0.00	0.00	0.61	0.61	100.00	100.00	NA	NA
8.	Tripura*	5	-0.76	-0.09	7.13	6.99	43.51	40.68	62.80	62.88
	EASTERN REGION	**158**	**-0.06**	**-1.61**	**266.28**	**374.56**	**29.51**	**40.70**	**25.01**	**31.33**
9.	Bihar*	151	0.00	0.00	69.71	83.45	68.60	89.69	1.87	16.00
10.	Orissa @	5	-0.58	-3.25	27.29	178.16	15.24	99.77	16.33	3.50
11.	West Bengal #	2	0.52	1.64	169.29	112.95	27.23	17.41	52.44	65.95
	CENTRAL REGION	**349**	**-1.04**	**-121.46**	**1602.26**	**2340.40**	**30.86**	**39.99**	**40.85**	**33.77**
12.	Chattisgarh **@	0	-2.80	-1.92	24.64	59.37	10.63	27.20	38.86	40.38
13.	Madhya Pradesh **@	7	0.12	0.19	211.49	213.46	13.67	13.87	38.25	40.46
14.	Uttar Pradesh *	342	1.64	-119.73	1366.13	2067.57	40.03	50.49	41.60	31.79
	WESTERN REGION	**181**	**33.81**	**218.41**	**1471.66**	**813.93**	**84.03**	**42.36**	**23.29**	**32.55**
15.	Gujarat *	181	18.67	22.96	327.29	328.29	53.99	53.08	36.26	42.88
16.	Maharashtra @	-	15.14	195.45	1144.38	485.64	99.93	37.28	15.90	30.12
	SOUTHERN REGION	**56**	**235.16**	**-12.88**	**1438.89**	**687.41**	**36.74**	**16.91**	**57.69**	**48.82**
17.	Karnataka @	23	206.61	1.15	330.69	304.25	27.45	23.65	49.14	36.89
18.	Kerala @	14	13.83	14.41	212.13	127.32	12.54	7.03	81.60	87.15
19.	Puducherry *	1	-0.81	-0.31	3.31	3.63	27.50	29.01	70.15	75.11
20.	Tamil Nadu @	18	15.53	-28.13	892.75	252.21	88.53	26.43	52.01	12.93
	ALL INDIA	**868**	**249.49**	**89.68**	**5778.81**	**5643.13**	**32.69**	**30.27**	**46.37**	**43.89**

* : Unitary Structure

@ : Federal Structure

\# : Mixed Structure

Note : Data are provisional

Source : NABARD.

Appendix Table IV.12: Working Results of PCARDBs-State-wise

(As on 31 March)

(Amount in Rs. crore)

Sr. No.	State	2005-06				2006-07				2006			2007		
		Profit		Loss		Profit		Loss		Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery (per cent) As at end-June	Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery (per cent) 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	**101**	**40.06**	**42**	**107.35**	**85**	**31.76**	**59**	**128.88**	**1718.67**	**1984.84**	**29.45**	**34.45**	**46.97**	**57.69**
1.	Haryana	1	0.66	18	72.53	5	2.47	14	62.38	769.02	869.48	38.31	46.20	39.22	69.01
2.	Himachal Pradesh	0	0.00	1	0.79	1	1.44	0	0.00	28.08	24.15	37.90	31.51	62.94	63.32
3.	Punjab	70	24.00	17	25.73	52	13.45	36	45.31	465.65	616.53	21.11	27.58	58.21	54.03
4.	Rajasthan	30	15.41	6	8.31	27	14.40	9	21.19	455.93	474.67	29.47	30.28	44.24	43.11
	EASTERN REGION	**13**	**2.96**	**61**	**73.41**	**11**	**4.52**	**55**	**22.27**	**198.84**	**228.86**	**31.74**	**33.62**	**46.92**	**51.01**
5.	Orissa	5	1.42	45	64.19	1	0.50	41	15.56	60.80	74.70	46.45	61.84	37.97	32.97
6.	West Bengal	8	1.54	16	9.22	10	4.02	14	6.71	138.04	154.16	27.86	27.53	47.84	53.40
	CENTRAL REGION	**11**	**1.68**	**39**	**108.87**	**20**	**4.04**	**30**	**53.39**	**475.73**	**555.77**	**29.72**	**37.51**	**44.94**	**56.71**
7.	Chhhattisgarh	4	0.91	8	2.38	7	1.11	5	2.29	50.07	55.85	23.68	29.08	60.42	52.64
8.	Madhya Pradesh	7	0.77	31	106.49	13	2.93	25	51.10	425.66	499.93	30.64	38.77	43.21	57.54
	Western Region	**0**	**0.00**	**29**	**159.70**	**3**	**22.19**	**26**	**183.28**	**490.46**	**456.01**	**46.58**	**48.00**	**10.04**	**23.75**
9.	Maharashtra	0	0.00	29	159.70	3	22.19	26	183.28	490.46	456.01	46.58	48.00	10.04	23.75
	SOUTHERN REGION	**245**	**291.69**	**158**	**69.62**	**231**	**356.43**	**172**	**178.57**	**1702.48**	**1090.55**	**45.34**	**33.00**	**57.52**	**53.95**
10.	Karnataka	169	267.63	8	2.54	83	65.15	94	81.98	373.84	291.00	36.10	25.49	63.41	54.19
11.	Kerala	30	11.82	16	15.66	25	37.68	21	18.47	610.42	603.67	36.03	33.07	50.84	63.56
12.	Tamil Nadu	46	12.25	134	51.42	123	253.60	57	78.11	718.22	195.87	70.07	57.94	52.16	24.82
	ALL INDIA	**370**	**336.39**	**329**	**518.95**	**350**	**418.94**	**342**	**566.38**	**4586.18**	**4316.03**	**35.64**	**35.44**	**47.62**	**52.22**

Source: NABARD.

Appendix Table IV.13: Sanctions and Disbursements Under Rural Infrastructure Development Fund - State-wise *(Continued)*

(At end-March 2008)

(Amount in Rs. crore)

NAME OF STATE	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI	
	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	**1,906.21**	**1,760.87**	**2,636.08**	**2,397.95**	**2,732.69**	**2,453.50**	**2,902.55**	**2,482.00**	**3,434.52**	**3,054.96**	**4,488.51**	**4,072.14**
Southern Region	**498.70**	**460.18**	**865.14**	**779.79**	**751.51**	**672.77**	**701.84**	**639.90**	**925.02**	**855.81**	**1,279.32**	**1,174.12**
Andhra Pradesh	227.09	215.13	337.23	307.71	281.53	251.61	286.82	272.78	379.21	358.50	559.43	511.48
Karnataka	175.68	158.79	195.21	180.08	171.29	161.74	172.34	167.37	173.18	164.57	291.74	274.87
Kerala	95.93	86.26	86.91	73.14	89.29	73.87	64.00	56.72	126.77	117.22	175.11	159.03
Tamil Nadu	-	-	245.79	218.86	209.40	185.55	178.68	143.03	245.86	215.52	253.04	228.74
Western Region	**344.74**	**322.19**	**358.66**	**318.81**	**408.05**	**380.82**	**425.83**	**380.08**	**572.31**	**511.36**	**964.05**	**880.84**
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	462.10
Maharashtra	186.81	169.87	231.66	204.47	254.31	245.96	301.98	280.30	350.28	332.08	439.17	409.77
Northern Region	**526.81**	**498.85**	**791.74**	**713.39**	**837.89**	**752.54**	**934.52**	**748.96**	**867.92**	**809.67**	**1,070.43**	**1,006.08**
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	127.86
Jammu & Kashmir	6.15	6.04	-	-	35.95	24.37	107.47	103.43	110.88	109.42	161.52	154.50
Punjab	60.50	60.50	62.50	62.05	88.85	84.77	96.00	74.76	102.79	91.28	229.37	199.53
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	295.72	281.89	460.86	407.12	414.48	389.15	474.97	388.67	317.10	300.36	233.23	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**	**309.92**
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	266.88
Eastern Region	**286.18**	**256.52**	**306.95**	**285.85**	**431.70**	**362.51**	**481.36**	**392.34**	**441.84**	**362.66**	**512.03**	**441.84**
Bihar	22.17	12.63	-	-	57.96	26.93	-	-	-	-	-	-
Jharkhand	-	-	-	-	4.35	2.48	118.50	81.72	91.42	81.73	-	-
Orissa	169.50	162.05	151.13	141.03	198.85	172.04	149.12	117.16	128.13	99.93	104.18	86.26
West Bengal	94.51	81.84	155.82	144.82	170.54	161.06	213.74	193.46	222.29	181.00	407.85	355.58
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**	**259.34**
Arunachal Pradesh	-	-	-	-	-	-	-	-	25.10	22.94	102.55	93.64
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	28.71
Mizoram	2.38	2.37	-	-	-	-	-	-	54.17	54.19	3.76	3.76
Nagaland	1.38	1.38	-	-	-	-	-	-	15.88	14.40	56.26	48.11
Sikkim	-	-	-	-	-	-	21.29	20.63	8.72	8.73	4.55	4.54
Tripura	-	-	-	-	-	-	21.70	21.27	43.94	21.74	35.40	28.07

Source: NABARD

Appendix Table IV.13: Sanctions and Disbursements Under Rural Infrastructure Development Fund - State-wise *(Concluded)*

(At end-March 2008)

(Amount in Rs. crore)

Name Of State	RIDF VII		RIDF VIII		RIDF IX		RIDF X		RIDF XI		RIDF XII		RIDF XIII		STATE TOTAL	
	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment	Sanct-ions	Disburse-ment
1	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
All India																
Southern Region	**1,388.48**	**1,256.14**	**1,714.91**	**1,456.83**	**1,791.23**	**1,371.61**	**2,850.81**	**1,975.43**	**2,606.41**	**1,353.27**	**2,371.47**	**904.63**	**3,479.03**	**563.42**	**21,223.87**	**13,463.89**
Andhra Pradesh	609.05	558.11	903.74	737.16	859.21	609.10	1,548.75	996.79	1,345.69	627.05	786.27	290.29	1,277.09	255.42	9,401.11	5,991.13
Karnataka	234.56	211.97	226.99	196.52	290.79	240.77	409.43	317.84	450.95	255.78	497.64	92.96	958.08	3.73	4,247.88	2,426.99
Kerala	191.76	158.60	196.21	166.50	93.50	50.16	234.91	135.80	206.21	88.84	260.50	99.10	287.03	57.00	2,108.13	1,322.24
Tamil Nadu	353.11	327.46	387.97	356.65	547.73	471.58	657.72	525.00	603.56	381.60	827.06	422.28	956.83	247.27	5,466.75	3,723.54
Western Region	**586.42**	**461.72**	**743.01**	**663.89**	**966.24**	**942.50**	**1,407.10**	**1,223.04**	**970.77**	**551.26**	**1,500.69**	**335.25**	**1,760.01**	**451.45**	**11,007.88**	**7,423.20**
Goa	15.79	9.91	16.10	10.29	-	-	-	-	-	-	-	-	27.27	5.35	94.03	50.07
Gujarat	40.90	22.24	283.82	276.79	899.21	891.09	1,311.69	1,158.06	869.96	518.23	987.60	182.81	649.03	229.35	6,316.77	4,405.70
Maharashtra	529.73	429.57	443.09	376.81	67.03	51.41	95.41	64.98	100.81	33.03	513.09	152.44	1,083.71	216.75	4,597.08	2,967.43
Northern Region	**1,438.76**	**1,355.32**	**1,559.86**	**1,383.10**	**1,386.98**	**1,124.95**	**1,771.11**	**1,385.66**	**2,193.03**	**1,283.41**	**3,205.08**	**1,130.16**	**3,687.53**	**716.20**	**20,271.66**	**12,908.29**
Haryana	149.92	139.63	268.50	232.63	152.77	122.78	171.48	123.74	196.81	123.00	257.11	103.90	311.75	81.09	1,875.20	1,260.42
Himachal Pradesh	168.24	174.61	169.29	151.06	141.70	101.90	91.64	66.37	224.67	117.21	273.87	92.17	299.40	60.03	1,812.49	1,194.93
Jammu & Kashmir	216.80	202.83	175.64	154.60	153.82	119.67	49.36	15.15	79.55	31.75	461.05	141.06	602.13	180.64	2,160.32	1,243.45
Punjab	231.52	206.07	206.55	195.47	288.18	225.63	312.63	277.42	286.85	159.49	552.66	318.68	419.28	58.95	2,937.68	2,014.59
Rajasthan	374.67	346.94	346.75	281.27	140.27	104.09	356.26	225.47	605.13	410.50	766.99	334.24	824.97	144.98	4,298.11	2,647.40
Uttar Pradesh	297.61	269.05	322.71	302.72	217.84	203.03	481.30	400.42	750.17	417.52	861.58	131.87	1,091.59	154.76	6,219.16	3,864.15
Uttranchal	-	16.19	70.42	65.35	292.40	247.85	308.44	277.09	49.85	23.94	31.82	8.26	138.41	35.77	968.70	683.35
Central Region	**395.64**	**322.16**	**856.53**	**676.35**	**709.33**	**518.96**	**596.04**	**379.46**	**560.08**	**241.14**	**779.72**	**426.00**	**1,339.74**	**296.62**	**6,885.36**	**4,349.39**
Chhattisgarh	84.59	69.65	281.30	209.89	432.88	313.35	62.53	33.95	116.84	49.02	51.00	11.68	66.29	0.41	1,398.19	970.23
Madhya Pradesh	311.05	252.51	575.23	466.46	276.45	205.61	533.51	345.51	443.24	192.12	728.72	414.32	1,273.45	296.21	5,487.17	3,379.16
Eastern Region	**671.55**	**543.70**	**966.25**	**677.06**	**538.01**	**378.18**	**1,368.31**	**602.09**	**1,423.02**	**645.65**	**1,932.12**	**499.16**	**2,121.39**	**286.01**	**11,480.71**	**5,733.57**
Bihar	58.20	37.69	198.69	154.50	97.24	51.28	290.91	41.54	459.41	181.22	589.80	123.06	621.68	118.46	2,396.06	747.30
Jharkhand	-	-	-	-	49.13	37.42	174.78	97.35	107.44	71.23	331.03	185.16	406.86	50.78	1,283.51	607.87
Orissa	148.88	137.19	246.83	195.60	185.11	138.22	375.66	189.31	396.95	151.27	497.93	58.17	508.96	-	3,261.23	1,648.23
West Bengal	464.47	368.82	520.73	326.96	206.53	151.26	526.96	273.89	459.22	241.93	513.36	132.78	583.89	116.78	4,539.91	2,730.17
North Eastern Region	**101.47**	**99.12**	**156.41**	**118.24**	**257.30**	**177.54**	**83.84**	**69.84**	**658.76**	**320.49**	**671.10**	**171.44**	**407.31**	**35.02**	**3,203.93**	**1,716.52**
Arunachal Pradesh	69.41	68.79	0.00	0.00	15.12	11.83	26.01	20.74	136.00	35.42	139.21	33.81	29.22	8.76	542.62	295.93
Assam	-	-	76.23	55.75	189.75	116.38	13.77	10.20	402.44	231.64	282.74	58.89	88.49	-	1,432.84	763.75
Manipur	-	-	-	-	-	-	0.53	0.28	27.59	-	6.89	5.49	-	-	45.09	14.63
Meghalaya	18.30	16.89	16.48	14.86	15.52	13.26	-	-	32.03	11.13	31.96	7.64	56.85	17.05	252.30	160.13
Mizoram	7.33	7.33	2.00	2.00	13.50	13.51	6.90	6.90	19.41	19.33	8.19	7.41	22.33	-	139.97	116.80
Nagaland	0.95	0.95	6.68	6.68	16.94	16.12	28.66	23.97	34.96	17.19	24.60	9.70	14.57	4.00	200.88	142.50
Sikkim	5.48	5.16	4.89	4.89	3.30	3.30	7.97	7.75	6.33	5.78	16.21	9.85	42.16	5.21	120.90	75.84
Tripura	-	-	50.13	34.06	3.17	3.14	-	-	-	-	161.30	38.66	153.69	-	469.33	146.94

Source : NABARD.

Appendix Table IV.14: Kisan Credit Card--State-wise Progress
(as on 31 March 2008)

(Amount in Rs. Lakh)

State/Union Territory	Co-operative Banks			Regional Rural Banks			Commercial Banks^		Total	
	No.	Cards Issued	Amount Sanctioned	No.	Cards Issued	Amount Sanctioned	Cards Issued	Amount Sanctioned	Cards Issued	Amount Sanctioned
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh**	22	-	-	5	193,062	45,515	1,021,520	3,71,459	1,214,582	4,16,974
Assam	1	5,266	656	2	25,701	13,155	17,269	5,638	47,638	19,448
Arunachal Pradesh #**	1	-	-	1	52	6	1,475	368	1,527	374
Bihar**	22	-	-	5	131,053	50,065	108,295	48,399	239,348	98,464
Gujarat	18	2,465	9,698	3	22,436	42,541	120,442	1,08,390	145,342	1,60,629
Goa $	1	210	581	-	-	-	715	658	925	1,239
Haryana	19	34,701	32,743	2	66,441	96,034	53,544	82,872	154,686	2,11,649
Himachal Pradesh	3	1,670	43	2	7,855	366	16,461	14,824	25,986	15,233
Jammu & Kashmir	4	2,008	634	3	3,067	3,516	1,271	1,158	6,346	5,308
Karnataka	21	18,300	262	6	150,550	1,721	201,690	1,57,194	370,540	1,59,177
Kerala	14	186,341	66,608	2	63,244	40,232	103,542	49,913	353,127	1,56,753
Madhya Pradesh	38	192,573	5,50,933	10	61,906	49,224	148,968	1,56,326	403,447	7,56,483
Maharashtra	30	596,766	8,23,537	7	35,626	23,076	248,925	1,32,082	881,317	9,78,695
Meghalaya #	1	2,103	333	1	5,032	1,106	1,245	397	8,380	1,836
Mizoram #	1	4	2	1	3,273	2,269	1,360	382	4,637	2,653
Manipur #	1	20	4	1	109	5	1,522	396	1,651	405
Nagaland #	1	159	9	1	51	13	1,570	283	1,780	305
Orissa	17	227,716	1,59,178	5	131,366	22,923	103,280	26,917	462,362	2,09,018
Punjab	19	30,426	74,678	3	20,647	25,577	69,798	1,33,199	120,871	2,33,354
Rajasthan	28	63,326	12,309	6	63,965	14,776	150,043	1,40,799	277,334	1,67,884
Sikkim #$	1	54	227	-	-	-	748	235	802	462
Tamil Nadu	22	62,037	39,044	2	48,957	13,144	355,669	1,41,696	466,563	1,93,084
Tripura #	1	247	42	1	6,389	969	6,288	1,256	12,934	2,267
Uttar Pradesh	51	383,454	2,169	13	545,722	3,20,397	497,285	3,19,403	1,426,461	6,41,969
West Bengal	20	202,809	2,10,366	3	88,888	91,050	94,689	31,380	386,386	3,32,796
Andaman & Nicobar islands #$	1	196	327	-	-	-	66	30	262	357
Chandigarh #$	-	-	-	-	-	-	317	24	317	24
Daman & Diu @#	-	-	-	-	-	-	183	156	183	156
New Delhi #$	1	130	106	-	-	-	8,951	7,909	9,081	8,075
Dadra & Nagar Haveli @$	-	-	-	-	-	-	207	178	207	178
Lakshdweep @$	-	-	-	-	-	-	27	7	27	7
Puducherry #$	1	223	859	-	-	-	4,342	1,752	4,565	2,611
Jharkhand**	8	-	-	2	48,581	620	35,386	8,658	83,967	9,278
Chhattisgarh	7	68,526	9,952	3	37,144	11,312	32,862	20,946	138,532	42,210
Uttarakhand	10	9,597	3,928		11,982	4,634	25,646	24,618	47,225	33,180
Other States	-	-	-	-	-		43	11	43	11
Total	**385**	**2,091,329**	**19,99,127**	**90**	**1,772,498**	**8,74,246**	**3,435,554**	**19,89,973**	**7,299,381**	**48,63,346**

- : Nil/Negligible
\# : SCB functions as CFA.
^ : Data relates to period upto December 31, 2006.
@ : No Cooperative Banks in these UTs.
$: No RRB in these States/UTs.
** : Co-operatives Data under reconciliation.

Source : NABARD.

Appendix Table V.1: Bank Loans Disbursed to SHGs by Commercial Banks During 2006-07 *(Continued)*

(Amount in Rs. lakh)

Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PUBLIC SECTOR BANKS				
1.	Allahabad Bank	6,492	31.42	3,122	12.29
2.	Andhra Bank	57,188	414.14	54,328	393.43
3.	Bank of Baroda	11,756	86.53	4,295	31.54
4.	Bank of India	14,129	104.83	10,126	79.59
5.	Bank of Maharashtra	8,858	53.00	6,263	39.11
6.	Canara Bank	17,429	119.29	15,259	113.46
7.	Corporation Bank	4,318	31.87	4,094	29.78
8.	Central Bank of India	16,159	109.91	14,382	91.83
9.	Dena Bank	3,000	18.47	1,220	7.48
10.	IDBI Bank	164	1.02	104	0.63
11.	Indian Bank	61,469	503.07	58,703	467.84
12.	Indian Overseas Bank	45,838	312.08	45,382	308.96
13.	Oriental Bank of Commerce	538	6.89	290	3.79
14.	Punjab and Sind Bank	497	3.68	292	2.05
15.	Punjab National Bank	13,235	59.51	7,962	28.46
16.	State Bank of India	170,350	936.48	147,919	764.24
17.	State Bank of Bikaner and Jaipur	5,123	25.56	4,648	22.44
18.	State Bank of Hyderabad	27,435	201.97	25,818	190.28
19.	State Bank of Indore	559	3.35	196	2.21
20.	State Bank of Mysore	23,126	167.96	21,970	159.56
21.	State Bank of Patiala	118	0.19	96	0.15
22.	State Bank of Saurashtra	28	0.42	8	0.09
23.	State Bank of Travancore	6,516	39.82	2,517	15.12
24.	Syndicate Bank	13,490	122.90	12,565	115.52
25.	Union Bank of India	3,159	15.59	2,683	14.35
26.	United Bank of India	7,807	14.82	6,724	NA
27.	UCO Bank	12,607	51.96	9,690	39.79
28.	Vijaya Bank	6,020	42.42	5,662	39.75
	Sub-Total-Public Sector Banks	537,228	3,479.13	466,318	2,973.74

Appendix Table V.1: Bank Loans Disbursed to SHGs by Commercial Banks During 2006-07 *(Concluded)*

(Amount in Rs. lakh)

Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PRIVATE SECTOR BANKS				
1.	Bank of Rajasthan	516	2.22	434	1.59
2.	Bharat Overseas Bank	NA	NA	NA	NA
3.	Catholic Syrian Bank	136	0.70	127	0.65
4.	Centurion Bank of Punjab	–	–	–	–
5.	City Union Bank	332	1.79	332	1.79
6.	Dhanalakshmi Bank	1,155	5.89	869	4.05
7.	Development Credit Bank	–	–	–	–
8.	Federal Bank	2,207	11.08	1,673	9.40
9.	Ganesh Bank of Kurundwad	NA	NA	NA	NA
10.	HDFC Bank	7,621	91.70	7,621	91.70
11.	ICICI Bank	18,082	296.15	18,082	296.15
12.	ING Vysya Bank	1,864	11.93	1,630	11.04
13.	IndusInd Bank	NA	NA	NA	NA
14.	Jammu & Kashmir Bank	103	0.85	–	–
15.	Karnataka Bank	767	4.14	680	3.56
16.	Karur Vysya Bank	134	2.70	129	2.68
17.	Kotak Mahindra Bank	–	–	–	–
18.	Lakshmi Vilas Bank	247	1.04	239	0.95
19.	Lord Krishna Bank	37	0.26	14	0.11
20.	Nainital Bank	82	1.09	2	0.01
21.	Ratnakar Bank	31	0.28	31	0.28
22.	SBI Commercial & International Bank	–	–	–	–
23.	South Indian Bank	133	0.46	127	0.48
24.	Tamilnad Mercantile Bank	909	7.36	760	6.14
25.	Axis Bank	52	0.17	52	0.17
26.	Yes Bank	NA	NA	NA	NA
	Sub-Total-Private Sector Banks	**34,408**	**439.81**	**32,802**	**430.74**
	Total - Commercial Banks	**571,636**	**3,918.94**	**499,120**	**3,404.48**

–: Nil/negligible.

NA : Not Available / Not Reported

Source : NABARD

Appendix Table V.2 : Savings of SHGs with Commercial Banks as on March 31, 2007 *(Continued)*

(Amount in Rs. lakh)

Sr. No.	Name of the Bank	Total Savings of SHGs in the Bank		Out of Total - Exclusive Women SHGs	
		No. of SHGs	Amount of Savings	No. of SHGs	Amount of Savings
1	2	3	4	5	6
	PUBLIC SECTOR BANKS				
1.	Allahabad Bank	46,228	24.97	28,615	14.12
2.	Andhra Bank	114,301	121.01	108,585	114.96
3.	Bank of Baroda	69,195	28.38	39,415	15.95
4.	Bank of India	93,117	49.93	75,115	91.80
5.	Bank of Maharashtra	36,719	14.18	23,996	8.05
6.	Canara Bank	150,078	179.31	126,216	165.90
7.	Central Bank of India	73,846	60.31	15,720	30.03
8.	Corporation Bank	17,296	31.49	56,221	49.25
9.	Dena Bank	13,026	7.54	5,918	3.57
10.	IDBI Bank	1,929	0.70	982	0.36
11.	Indian Bank	97,408	122.65	90,179	114.05
12.	Indian Overseas Bank	111,022	55.12	109,911	52.34
13.	Oriental Bank of Commerce	7,107	8.54	5,649	5.72
14.	Punjab and Sind Bank	3,616	4.11	1,064	2.17
15.	Punjab National Bank	127,009	55.90	71,387	31.07
16.	State Bank of Bikaner and Jaipur	24,224	9.82	607,292	533.86
17.	State Bank of Hyderabad	46,376	101.21	16,450	5.28
18.	State Bank of India	798,686	599.52	45,022	99.13
19.	State Bank of Indore	14,412	8.23	8,647	3.20
20.	State Bank of Mysore	23,250	93.00	21,500	86.00
21.	State Bank of Patiala	3,389	1.65	2,695	1.46
22.	State Bank of Saurashtra	2,286	1.91	1,157	0.96
23.	State Bank of Travancore	60,203	79.46	37,325	49.27
24.	Syndicate Bank	78,833	37.72	68,301	31.33
25.	UCO Bank	43,550	41.56	66,232	28.78
26.	Union Bank of India	91,296	41.80	30,378	NA
27.	United Bank of India	35,421	18.10	33,900	29.55
28.	Vijaya Bank	22,512	16.89	20,765	14.68
	Sub Total-Public Sector Banks	**2,206,335**	**1,815.00**	**17,186**	**1,582.86**

Appendix Table V.2 : Savings of SHGs with Commercial Banks as on March 31, 2007 *(Concluded)*

(Amount in Rs. lakh)

Sr. No.	Name of the Bank	Total Savings of SHGs in the Bank		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PRIVATE SECTOR BANKS				
1.	Axis Bank	52	0.17	52	0.17
2.	Bank of Rajasthan	2,795	2.34	2,014	1.62
3.	Bharat Overseas Bank	NA	NA	NA	NA
4.	Catholic Syrian Bank	1,336	0.67	1,114	0.60
5.	Centurion Bank of Punjab	–	–	–	–
6.	City Union Bank	2,397	1.15	2,397	1.15
7.	Development Credit Bank	–	–	–	–
8.	Dhanalakshmi Bank	15,431	32.99	13,776	29.17
9.	Federal Bank	11,749	8.56	9,364	8.19
10.	Ganesh Bank of Kurundwad	NA	NA	NA	NA
11.	HDFC Bank	7,621	3.81	7,621	3.81
12.	ICICI Bank	22,476	1.86	22,476	1.86
13.	IndusInd Bank	NA	NA	NA	NA
14.	ING Vysya Bank	8,359	5.53	7,525	5.35
15.	Jammu & Kashmir Bank	1,007	NA	160	NA
16.	Karnataka Bank	4,116	13.55	3,282	12.79
17.	Karur Vysya Bank	418	0.52	109	0.05
18.	Kotak Mahindra Bank	–	–	–	–
19.	Lakshmi Vilas Bank	1,295	0.38	1,221	0.35
20.	Lord Krishna Bank	546	0.27	385	0.23
21.	Nainital Bank	510	0.36	2	0.01
22.	Ratnakar Bank	476	0.31	278	0.09
23.	SBI Commercial & International Bank	–	–	–	–
24.	South Indian Bank	2,472	1.18	1,939	1.06
25.	Tamilnad Mercantile Bank	4,380	3.76	2,368	2.12
26.	Yes Bank	NA	NA	NA	NA
	Sub Total-Private Sector Banks	**87,436**	**77.42**	**76,083**	**68.61**
	Total-Commercial Banks	**2,293,771**	**1,892.41**	**1,794,720**	**1,651.47**

–: Nil/negligible.
NA: Not Available/Not Reported
Source: NABARD

Appendix Table V.3: Recovery Performance of Bank Loans to SHGs - Position as on March 31,2007

Sr. No	Name of the Bank	Percentage of Recovery *	Sr. No	Name of the Bank	Percentage of Recovery *
1	2	3	1	2	3
	PUBLIC SECTOR BANKS			PRIVATE SECTOR BANK	
1	Allahabad Bank	NA	1	Bank of Rajasthan	94.5
2	Andhra Bank	97.0	2	Bharat Overseas Bank	NA
3	Bank of Baroda	80.8	3	Catholic Syrian Bank	NA
4	Bank of India	77.0	4	Centurion Bank of Punjab	NA
5	Bank of Maharashtra	88.0	5	City Union Bank	NA
6	Canara Bank	NA	6	Dhanalakshmi Bank	100.0
7	Corporation Bank	95.0	7	Development Credit Bank	NA
8	Central Bank of India	51.5	8	Federal Bank	95.3
9	Dena Bank	93.0	9	Ganesh Bank of Kurundwad	NA
10	IDBI Bank	53.7	10	HDFC Bank	100.0
11	Indian Bank	98.7	11	ICICI Bank	86.9
12	Indian Overseas Bank	99.0	12	IndusInd Bank	NA
13	Oriental Bank of Commerce	79.0	13	ING Vysya Bank	90.0
14	Punjab and Sind Bank	89.9	14	Jammu & Kashmir Bank	88.0
15	Punjab National Bank	NA	15	Karnataka Bank	NA
16	State Bank of India	72.0	16	Karur Vysya Bank	98.9
17	State Bank of Bikaner and Jaipur	NA	17	Kotak Mahindra Bank	NA
18	State Bank of Hyderabad	92.0	18	Lakshmi Vilas Bank	85.6
19	State Bank of Indore	56.0	19	Lord Krishna Bank	NA
20	State Bank of Mysore	95.0	20	Nainital Bank	90.0
21	State Bank of Patiala	73.5	21	Ratnakar Bank	60.0
22	State Bank of Saurashtra	77.1	22	SBI Commercial & Internatinal Bank	NA
23	State Bank of Travancore	94.5	23	South Indian Bank	93.3
24	Syndicate Bank	94.0	24	Tamilnad Mercantile Bank	100.0
25	Union Bank of India	NA	25	Axis Bank	100.0
26	United Bank of India	92.0	26	Yes Bank	NA
27	UCO Bank	72.5			
28	Vijaya Bank	NA			

*: Percentage of recovery to demand of bank loans to SHGs (for all SHGs)
Source: NABARD

Appendix Table VI.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in Rs. crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others#				Total				Percentage variation over 2006-07	
	2006-07		2007-08		2006-07		2007-08		2006-07		2007-08		2006-07		2007-08			
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
A. All India Development Banks (1 and 2)	**11,071.6**	**10,199.2**	**16,151.2**	**15,072.7**	**-**	**-**	**-**	**-**	**30.7**	**26.1**	**29.5**	**24.9**	**11,102.3**	**10,225.4**	**16,180.8**	**15,097.6**	**45.7**	**47.7**
1. SIDBI	11,071.6	10,199.2	16,151.2	15,072.7	-	-	-	-	30.7	26.1	29.5	24.9	11,102.3	10,225.4	16,180.8	15,097.6	45.7	47.7
2. IIBI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Specialised Financial Institutions (3 and 4)	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
3. IVCF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. ICICI Venture	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
C. Investment Institutions (5 and 6)	**3,678.0**	**2,994.1**	**5,761.9**	**6,144.2**	**15,175.5**	**24,762.9**	**33,841.5**	**22,270.1**	**8.2**	**-**	**13.6**	**-**	**18,861.7**	**27,757.0**	**39,617.0**	**28,414.3**	**110.0**	**2.4**
5. LIC	3,635.0	2,937.7	5,741.9	6,123.0	14,491.9	24,079.3	32,712.6	21,141.2	-	-	-	-	18,126.9	27,017.0	38,454.5	27,264.2	112.1	0.9
6. GIC @	43.0	56.4	20.0	21.2	683.6	683.6	1,128.9	1,128.9	8.2	-	13.6	-	734.8	740.0	1,162.5	1,150.1	58.2	55.4
D. Total Assistance by All-India Financial Institutions (A+B+C)	**14,749.6**	**13,193.3**	**21,913.1**	**21,216.9**	**15,175.5**	**24,762.9**	**33,841.5**	**22,270.1**	**38.9**	**26.1**	**43.1**	**24.9**	**29,964.0**	**37,982.4**	**55,797.8**	**43,511.9**	**86.2**	**14.6**
E. State level Institutions (7 and 8)	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
7. SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
8. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**14,749.6**	**13,193.3**	**21,913.1**	**21,216.9**	**15,175.5**	**24,762.9**	**33,841.5**	**22,270.1**	**38.9**	**26.1**	**43.1**	**24.9**	**29,964.0**	**37,982.4**	**55,797.8**	**43,511.9**	**86.2**	**14.6**

S : Sanctions. D : Disbursements. - : Nil. .. : Not available.
* : Loans include rupee loans, foreign currency loans.
# : Others include guarantees.
@ : Data include GIC and its subsidiaries.
Note : All data are provisional.
Data for 2006-07 has been recalculated to exclude IFCI Ltd. and TFCI Ltd. as they are being regulated as NBFCs as on March 31, 2008.
Source : Respective Financial Institutions.

Appendix Table VI.2: Resources Raised by Select Financial Institutions*

(Amount in Rs. crore)

Institutions/Year	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10
EXIM Bank									
Resources Raised	1,281	565	1,098	4,923	6,881	5,301	7,446	10,620	14,558
Outstandings	3,842	4,068	5,303	9,154	12,752	11,771	15,836	21,662	29,326
SIDBI									
Resources Raised	635	1,076	1,557	1,547	2,972	2,434	3,489	2,176	5,084
Outstandings	10,756	10,442	10,074	9,607	10,535	9,346	11,030	10,928	14,665
NABARD									
Resources Raised	569	1,472	2,548	2,988	5,334	10,642	8,395	10,899	13,620
Outstandings	2,141	3,614	6,078	8,702	11,883	26,429	23,313	31,260	32,630
NHB									
Resources Raised	667	500	238	2,984	3,290	3,482	6,562	7,860	5,521
Outstandings	4,807	5,256	4,830	7,932	10,569	12,395	16,344	19,003	17,313
Total Resources Raised	**3,256**	**3,737**	**5,553**	**12,535**	**18,649**	**21,882**	**25,958**	**31,555**	**38,783**
Total Outstandings	**22,299**	**24,056**	**26,952**	**36,027**	**46,285**	**60,370**	**66,913**	**82,853**	**93,934**

* : Includes long-term (bonds and borrowings), short-term (CP, TDs, ICDs CDs and Term Money) and foreign currecny resources (bonds and borrowings).

Note : Data are provisional.

Source : Respective FIs.

Appendix Table VI.3: Sources and Deployment of Funds by Financial Institutions*

(Amount in Rs. crore)

Particulars	2006-07								Total		2007-08								Total	
	Quarter Ended										Quarter Ended									
	Jun-06		Sep-06		Dec-06		Mar-07				Jun-07		Sep-07		Dec-07		Mar-08			
	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
Sources of Funds	**25,787**	**100.0**	**40,191**	**100.0**	**39,894**	**100.0**	**55,931**	**100.0**	**1,61,803**	**100.0**	**60,891**	**100.0**	**72,660**	**100.0**	**27,980**	**100.0**	**52,423**	**100.0**	**2,13,954**	**100.0**
Internal	15,018	58.2	18,303	45.5	14,486	36.3	19,840	35.5	67,646	41.8	29,491	48.4	29,573	40.7	16,128	57.6	25,752	49.1	1,00,944	47.2
External	10,010	38.8	20,742	51.6	21,750	54.5	34,357	61.4	86,860	53.7	31,188	51.2	41,760	57.5	11,308	40.4	26,349	50.3	1,10,604	51.7
Others	759	2.9	1,146	2.9	3,658	9.2	1,732	3.1	7,295	4.5	213	0.3	1,328	1.8	543	1.9	322	0.6	2,406	1.1
Deployment of Funds	**25,787**	**100.0**	**40,191**	**100.0**	**39,894**	**100.0**	**55,931**	**100.0**	**1,61,803**	**100.0**	**60,891**	**100.0**	**72,660**	**100.0**	**27,980**	**100.0**	**52,423**	**100.0**	**2,13,954**	**100.0**
Fresh Deployment	17,465	67.7	25,520	63.5	20,914	52.4	31,322	56.0	95,221	58.8	28,110	46.2	39,425	54.3	20,769	74.2	37,217	71.0	1,25,522	58.7
Repayment of Past Borrowings	4,676	18.1	12,995	32.3	14,924	37.4	22,886	40.9	55,482	34.3	26,918	44.2	32,460	44.7	3,048	10.9	6,670	12.7	69,096	32.3
Other Deployment	3,646	14.1	1,677	4.2	4,056	10.2	1,722	3.1	11,101	6.9	5,861	9.6	775	1.1	4,161	14.9	8,536	16.3	19,333	9.0
of which: Interest payments	1,072	4.2	1,116	2.8	1,242	3.1	1,370	2.4	4,801	3.0	1,540	2.5	1,820	2.5	1,728	6.2	1,827	3.5	6,916	3.2

*: EXIM Bank, NABARD, NHB and SIDBI.

Source: Respective Fis.

Appendix Table VI. 4: Weighted Average Cost/Maturity of Resources Raised by Way of Rupee Bonds/ Debentures* by Select FIs

(Per cent)

Institutions/Year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank										
Weighted Average Cost	12.9	12.5	12.2	10.8	8.9	5.9	6.9	6.9	7.8	8.2
Weighted Average Maturity	5.6	4.2	3.6	6.4	6.1	6.7	5.1	4.6	3.7	3.0
SIDBI										
Weighted Average Cost	12.4	9.7	9.8	7.5	6.5	4.9	6.3	5.9	6.9	8.2
Weighted Average Maturity	10.0	2.6	1.3	1.0	2.3	2.8	7.0	3.9	6.5	1.0
NABARD										
Weighted Average Cost	11.2	10.6	9.5	8.0	6.1	5.4	6.6	5.8	8.7	9.5
Weighted Average Maturity	8.0	5.4	3.0	3.0	5.4	5.4	2.1	3.5	5.0	4.0
NHB										
Weighted Average Cost	11.2	11.1	10.2	8.7	6.4	5.4	6.5	6.4	7.4	7.7
Weighted Average Maturity	9.0	9.5	5.8	7.4	4.0	3.2	2.8	2.2	2.4	2.8

* : Includes only rupee resources and does not include foreign currency borrowings.

Note : Data are provisional.

Source : Respective FIs.

Appendix Table VI.5: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of 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
1	Securities Trading Corporation	2006-07	151	-61	9	99	105	17	121	-23	-14	-1.5
	of India Ltd	2007-08	56	10	6	72	39	8	48	24	16	3.8
2	SBI DFHI LTD	2006-07	90	-8	6	89	22	6	29	60	53	6.1
		2007-08	124	14	5	143	34	13	47	96	86	8.3
3	ICICI Securities Ltd	2006-07	197	106	122	425	149	86	235	190	133	32.3
		2007-08	266	196	55	517	203	103	307	211	140	31.6
4	PNB Gilts Ltd	2006-07	157	-35	5	126	103	6	110	16	16	3.2
		2007-08	151	-6	28	173	99	7	106	67	45	8.7
5	ABN AMRO Securities (India) Pvt Ltd	2006-07	57	-12	67	112	41	25	66	46	31	18.1
		2007-08	65	2	39	106	43	9	52	54	35	17.6
6	DSP Merrill Lynch Ltd	2006-07	205	22	736	964	164	466	631	333	223	19.3
		2007-08	135	10	2	146	106	15	121	25	17	5.8
7	Deutsche Securities (India) Pvt Ltd	2006-07	80	9	4	94	56	8	64	30	20	11.0
		2007-08	75	25	2	103	46	4	50	53	34	17.7
8	IDBI Gilts Ltd	2006-07	49	-39	31	41	27	31	58	-18	-18	-21.9
		2007-08	21	-1	1	20	14	4	19	1	1	0.4
9	Lehman Brothers Fixed Income	2006-07	-	-	-	-	-	-	-	-	-	-
	Securities Pvt. Ltd*	2007-08	21	6	0.5	28	11	17	27	0.4	-1	-0.4
	TOTAL	**2006-07**	**986**	**-17**	**979**	**1,950**	**668**	**645**	**1,314**	**636**	**444**	**9.5**
		2007-08	**914**	**255**	**138**	**1,307**	**595**	**180**	**776**	**531**	**373**	**10.8**

* : Lehman Brothers Fixed Income Securities Pvt. Ltd. started operations in India since November 1, 2007.

- : Not applicable

Source: Primary Dealers' Returns

Appendix Table VI.6: Select Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of the Primary Dealers	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)	
		2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
	1	2	3	4	5	6	7	8	9
1.	Securities Trading Corporation of India Ltd.	610	208	32	22	1,409	489	3,404	673
2.	SBI DFHI Ltd.	1,009	1,095	80	81	627	956	1,289	1,794
3.	ICICI Securities Ltd.	556	647	23	30	531	765	1,523	2,199
4.	PNB Gilts Ltd.	493	520	34	35	1,872	1,894	2,306	2,216
5.	ABN AMRO Securities (India) Pvt. Ltd.	149	177	34	26	306	948	578	1,151
6.	DSP Merrill Lynch Ltd.	675	370	25	21	2,053	947	3,468	1,065
7.	Deutsche Securities (India) Pvt Ltd	192	196	66	42	591	698	626	769
8.	IDBI Capital Market Services Ltd.	341	101	22	30	23	338	363	400
9.	Lehman Brothers Fixed Income Securities Pvt. Ltd*	-	297	-	77	-	549	-	615
	TOTAL	**4,026**	**3,611**	**33**	**38**	**7,412**	**7,584**	**13,557**	**10,882**

* : Lehman Brothers Fixed Income Securities Pvt. Ltd. started operations in India since November 1, 2007.
- : Not applicable.
Source: Primary Dealers' Returns.