

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		Deposits	
		No.	Share in Total (per cent)	Amount (Rs. crore)	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

Table IV.7: Distribution of UCBs by Size of Advances
(End-March 2008)*

Sr. No.	Size of Advances (Rs. crore)	No. of UCBs		Advances Outstanding	
		No.	Share in Total (per cent)	Amount (Rs. crore)	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		Total Assets	
		No.	Share in Total (per cent)	Amount (Rs. crore)	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.

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.9: Profile of UCBs
(End-March 2008)*

1	(Amount in Rs. crore)		
	Non-Scheduled	Scheduled	All
2	3	4	
Number	1,717 (97.0)	53 (3.0)	1,770 (100.0)
Assets	1,00,103 (55.8)	79,318 (44.2)	1,79,421 (100.0)
Deposits	80,580 (58.2)	57,916 (41.8)	1,38,496 (100.0)
Advances	53,363 (60.0)	35,619 (40.0)	88,981 (100.0)
Investments	33,961 (56.5)	26,162 (43.5)	60,123 (100.0)
Total number of deposits accounts	39,143,063 (73.0)	14,487,941 (27.0)	53,631,004 (100.0)
Total number of borrowal accounts	6,761,846 (85.6)	1,138,934 (14.4)	7,900,780 (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		Percentage Variations		
	2006	2007	2008P	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		Percentage Variations
	2007	2008P	
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
<i>of which:</i>			
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		Weaker Sections	
	Amount (Rs. crore)	Share in Total Advances (Per cent)	Amount (Rs. crore)	Share in Total Advances (Per cent)
1	2	3	4	5
Agriculture and Allied Activities	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

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	60,123	18.2
	(100.0)	(100.0)	
A. SLR Investments (i to vi)	42,742	51,452	20.4
	(84.0)	(85.6)	
i) Central Government Securities	26,826	30,648	14.2
	(52.7)	(51.0)	
ii) State Government Securities	3,633	3,937	8.4
	(7.1)	(6.5)	
iii) Other Approved Securities	918	1,001	9.1
	(1.8)	(1.7)	
iv) Term Deposits with StCBs	4,542	6,155	35.5
	(8.9)	(10.2)	
v) Term Deposits with DCCBs	6,382	8,980	40.7
	(12.5)	(14.9)	
vi) Others, if any	441	731	65.7
	(0.9)	(1.2)	
B. Non-SLR Investments	8,117	8,671	6.8
(in bonds of public sector Institutions/AIFIs, shares of AIFIs and units of mutual funds)	(16.0)	(14.4)	

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.

per cent (gross) and 7.5 per cent (net) at end-March 2008 (Table IV.16).

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				Percentage Variations	
	2005-06R	2006-07R	2007-08P	2006-07	2007-08P
1	2	3	4	5	6
A. Total Income (i+ii)	4,499	4,594	4,664	2.1	1.5
	(100.0)	(100.0)	(100.0)		
i. Interest Income	3,912	4,060	4,074	3.8	0.3
	(87.0)	(88.4)	(87.3)		
ii. Non-interest Income	587	533	590	-9.2	10.7
	(13.0)	(11.6)	(12.7)		
B. Total Expenditure (i+ii)	3,653	3,791	3,880	3.8	2.3
	(100.0)	(100.0)	(100.0)		
i. Interest Expenditure	2,516	2,489	2,524	-1.1	1.4
	(68.9)	(65.7)	(65.1)		
ii. Non-Interest Expenditure	1,137	1,302	1,356	14.5	4.1
of which:	(31.1)	(34.3)	(34.9)		
Wage bill	634	394	497	-37.9	26.1
	(17.4)	(10.4)	(12.8)		
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		Percentage Variations
	end-March 2007	2008P	
1	2	3	4
Total Investments (A+B)	22,873	26,162	14.4
	(100.0)	(100.0)	
A. SLR Investments (i to vi)	18,893	22,239	17.7
	(82.6)	(85.0)	
i) Central Government Securities	14,507	16,886	16.4
	(63.4)	(64.5)	
ii) State Government Securities	2,026	2,132	5.2
	(8.9)	(8.1)	
iii) Other Approved Securities	191	151	-20.9
	(0.8)	(0.6)	
iv) Term Deposits with StCBS	1,496	2,186	46.1
	(6.5)	(8.4)	
v) Term Deposits with DCCBs	622	755	21.4
	(2.7)	(2.9)	
vi) Others, if any	51	129	152.9
	(0.2)	(0.5)	
B. Non-SLR Investments	3,981	3,923	-1.5
(in bonds of public sector Institutions/AIFs, shares of AIFs and units of mutual funds)	(17.4)	(15.0)	

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 (29.9)	2,012 (30.3)	11.9
of which:			
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/AIFs, shares of AIFs 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	Branches#	Extension Counters	Number of UCBs operating	Unit UCBs	Branches#	Extension 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
<i>Memo Item:</i>						
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 institutions¹ 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 overdue 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

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.

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.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.