Report on Trend and Progress of Banking in India for the year ended June 30, 2009 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 2008-09

RESERVE BANK OF INDIA

Sale Price:

In India	–	Rs. 350	(Normal)
	–	Rs. 425	(Inclusive of Postage)
	–	Rs. 260	(Concessional – at Counter)
	–	Rs. 335	(Concessional – Including Postage)
Abroad	–	US $ 36	(Inclusive of Air Mail Courier Charges)

Note: This publication is also available at M/s Jain Book Agency, C-9, Connaught Place, New Delhi – 110001. Ph: 011 23416390 upto 94, Fax:011 41513850, website www.jba.in, e-mail: sales@jba.in and at their dealer network.

Published by Gunjeet Kaur for the Reserve Bank of India, Mumbai 400 001 and designed and printed by her at Alco Corporation, A-2/72, Shah & Nahar Industrial Estate, Lower Parel (W), Mumbai 400 013.

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

गवर्नर
GOVERNOR

LETTER OF TRANSMITTAL

DEAP.DBD.5855/13.01.01/2009-10

October 22, 2009
Ashwina 29, 1931 (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, 2009.

Yours faithfully,

(D. Subbarao)

केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, मुम्बई - 400 001, भारत
फोन: +91 22 2266 0868 / 2266 1872 / 2266 2644 फैक्स: +91 22 2266 1784 ई-मेल: governor@rbi.org.in
Central Office Building, Shahid Bhagat Singh Marg, Mumbai - 400 001, India
Tel: +91 22 2266 0868 / 2266 1872 / 2266 2644 Fax: +91 22 2266 1784 E-mail: governor@rbi.org.in

Contents

List of Boxes

List of Tables

List of Charts

List of Appendix Tables

List of Select Abbreviations

ABS	Asset Backed Securities
ACH	Automatic Clearing House
AACS	As Applicable to Cooperative Societies
AD	Authorised Dealer
ADR	American Depository Receipt
AEBC	American Express Banking Corporation
AEBL	American Express Bank Limited
AFC	Asset Finance Companies
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.
ASIC	Australian Securities & Investment Commission
ATM	Automated Teller Machine
BC	Business Correspondence
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning Process
BCP	Basel Core Principles
BCSBI	Banking Codes and Standards Boards of India
BF	Banking Facilitator
BFS	Board for Financial Supervision
BIA	Basic Indicator Approach
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BLA	Bond Ledger Account
BO	Banking Ombudsman
BoP	Balance of Payments
BOS	Banking Ombudsman Scheme
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Payment and Settlement Systems
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange Ltd.
BSR	Basic Statistical Return
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CAR	Capacity Assessment Rating
CAS	Common Accounting System
CASA	Current & Saving Accounts
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CBS	Corporate Bond Spreads
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
CCP	Cheque Clearing Policy

CCR	Counterfeit Currency Report
CCTV	Closed Circuit Television
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDBS	Committee of Direction on Banking Statistics
CDF	Cooperative Development Fund
CDO	Collateral Debt Obligations
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CDS	Credit Default Swaps
CEM	Current Exposure Method
CEO	Chief Executive Officer
CEOBSE	Credit Equivalent Amount Off-Balance Sheet Exposure
CFCAC	Committee on Fuller Capital Account Convertibility
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statements
CFSA	Committee on Financial Sector Assessment
CFSP	Committee on Financial Sector Plan
CFSR	Committee on Financial Sector Reforms
CFT	Combating Financing of Terrorism
CGF	Credit Guarantee Fund
CGTMSE	Credit Guarantee Trust and Micro and Small Enterprises
CGTSI	Credit Guarantee Trust for Small Industries
CIBIL	Credit Information Bureau of India Limited
CIC	Credit Information Company
CIT	Cash-in-Transit
CLCC	Central Labour 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
CPE	Customer Premises Equipment
CPADS	Centralised Public Accounts Department System
CPC	Cheque Processing Centre
CPD	Collateralised debt obligation
CPI	Consumer Price Index
CPOS	Central Point of Supervision
CPGRAMS	Public Grievances Redress and Monitoring System
CPPAPS	Committee on Procedures and Performance Audit on Public Services
CPSS	Committee on Payment and Settlement System
CRAR	Capital to Risk-Weighted Assets Ratio
CRCS	Central Registrar of Cooperative Societies
CRE	Commercial Real Estate
CRISIL	Credit Rating Information Services of India Limited
CRM	Customer Relationship Management
CRR	Cash Reserve Ratio
CSA	Cooperative Societies Act
CSC	Common Service Centres
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.

DARPG	Department of Administrative Reforms and Public Grievances
DAPs	Development Action Plans
DCC	District Consultative Committee
DCC	District Coordination Committee
DCCB	District Central Cooperative Banks
DCRR	Department for Cooperative Revival and Reforms
DER	Debt Equity Ratio
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DLIC	District Level Implementation Committee
DLIC	District Level Implementation 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	Demand and Time Liability
DTL	Differed Tax Liability
DvP	Delivery *versus* Payment
EaR	Earnings at Risk
EBR	Export Bills Rediscounted
EBT	Electronic Benefit Transfer
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECM	Economic Capital Model
ECR	Export Credit Refinance
ECS	Electronic Clearing Service
EEFC	Exchange Earners' Foreign Currency
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
EoI	Expression on Interest
ESOP	Employee Stock Option Plans
ESRB	European Systemic Risk Board
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 Conglomerates
FCAC	Fuller Capital Account Convertibility
FCL	Flexible Credit line
FCNR	Foreign Currency Non-Resident
FCNR (B)	Foreign Currency Non-Resident (Banks)
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEDAI	Foreign Exchange Dealers Association of India
FEMA	Foreign Exchange Management Act
FFI	Foreign Financial Institution
FFMC	Full Fledge Money Changer
FI	Financial Institution
FITL	Funded Interest Term Loan
FIF	Financial Inclusion Fund
FII	Foreign Institutional Investments
FIMMDA	Fixed 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
FLCC	Financial Literacy and Credit Counselling Centres
FMC	Forward Market Commission
FMD	Financial Markets Department
FRA	Forward Rate Agreement
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System
FSA	Financial Service Authority
FSB	Financial Stability Board
FSAP	Financial Sector Assessment Programme
FSF	Financial Stability Forum
FSR	Financial Stability Report
FST	Financial Sector Technology
FVA	Fair Value Accounting
G 20	Group of Twenty
GAAP	Generally Acceptable Accounting principles
GB	Gramin 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 Lines of Credit
GSA	Graded Supervisory Action
HFC	Housing Finance Companies
HFT	Held for Trading
HTM	Held to Maturity
IADI	International Association of Deposit Insurers
IAS	Internal Accounting System
IASB	International Accounting Standard Board
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
ICD	Inter Corporate Deposits
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
IIFCL	India Infrastructure Finance Company Limited
IIP	Index of Industrial Production
IMD	India Millennium Deposit
IMGC	Indian Mortgage Guarantee Company
IMF	International Monetary Fund
INFINET	Indian Financial NETwork
IOSCO	International Organisation of Securities Commission
IPA	Issuing and Payment Agent
IPC	Irrevocable Payment Commitments
IPDI	Innovative Perpetual Debt Instrument
IPO	Initial Public Offering
IRAC	Income Recognition and Asset Classification

IRB	Internal Rating Based
IRDA	Insurance Regulatory and Development Authority
IRDP	Integrated Rural Development Programme
IRF	Interest Rate Future
IRS	Interest Rate Swap
IS	Information System
IT	Information Technology
ITES	Intra-Group Transactions and Exposures
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
KVIC	Khadi and Village Industries Commission
KYC	Know Your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation of India
LME	London Metal Exchange
LoC	Letter of Comfort
LOLR	Lender of Last Resort
LTCCS	Long-Term Cooperative Credit Structure
LTO	Long Term Operations
LTV	Loan-to-Value
M_3	Broad Money
MAP	Monitorable Action Plan
MBC	Mutual Benefit Company
MDB	Multilateral Development Bank
MEDP	Micro Enterprise Development Programme
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
MJT	Mobile Job Trainer
MLRO	Money Laundering Reporting Office
MMBCS	Magnetic Media Based Clearing System
MMS	Multi-Modal Settlement
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MoU	Memorandum of Understanding
MPLS	Multi-Protocol Layer Switching
MSE	Micro & Small Enterprises
MSME	Micro, Small and Medium Enterprises
MSOE	Minimum Standard for Operational Efficiency
MSS	Market Stabilisation Scheme
NABARD	National Bank for Agriculture and Rural Development
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NBFC-ND	Non-Deposit taking Non-Banking Financial Company
NBFC-ND-SI	Systemically Important Non-Deposit taking Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NCAF	New Capital Adequacy Framework
NCEUS	National Commission for Enterprises in Unorganised Sector
NCR	National Capital Region

NDC	No Due Certificate
NDS	Negotiated Dealing System
NDS-OM	NDS Order Matching
NDTL	Net Demand and Time Liability
NECS	National Electronic Clearing Service
NEDFi	North Eastern Development Finance Corporation
NEFIS	Nationwide Electronic Financial Inclusion System
NEFT	National Electronic Fund Transfer
NFA	New Financial Architecture
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
NIC	National Informatic Centre
NIMC	National Implementation Monitoring Committee
NOC	No Objection Certificate
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPCI	National Payments Corporation of India
NPFA	Non-Performing Financial Assets
NPL	Non-Performing Loan
NR(E)RA	Non-resident (External) Rupee Account
NRE	Non-Resident External
NREGA	National Rural Employment Guarantee Act
NRI	Non-Resident Indian
NSE	National Stock Exchange
OBE	Off Balancesheet 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	On-line Returns Filing System
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
PACS	Primary Agricultural Credit Society
PAIS	Personal Accident Insurance Scheme
PBR	Principles-based Regulation
PCARDB	Primary Cooperative Agriculture and Rural Development Bank
PCO	Public Call Office
PCPS	Perpetual Cumulative Preference Shares
PCR	Public Credit Registry
PD	Primary Dealer
PDI	Perpetual Debt Instruments
PDO	Public Debt Office
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
PMEGP	Prime Minister's Employment Generation Programme
PMLA	Prevention of Money Laundering Act

PMRY	Prime Minister Rojgar Yojna
PNCPS	Perpetual Non-cumulative Preference Shares
POS	Point of Sale
PPID	Pilot Project for Integrated Development
PPP	Purchasing Power Parity
PSB	Public Sector Bank
PSE	Public Sector Enterprise
PSLC	Priority Sector Lending Certificate
PSS	Payment and Settlement System
PV	Present Value
QIS	Quantitative Impact Study
RBA	Reserve Bank of Australia
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RCPS	Redeemable Cumulative Preference Shares
RCS	Registrar of Cooperative Societies
RDA	Rupee Drawing Arrangement
REGP	Rural Employment Generation Programme
RFA	Revolving Fund Assistance
RIDF	Rural Infrastructural Development Fund
RML	Reverse Mortgage Loan
RNBC	Residuary Non-Banking Company
RNCPS	Redeemable Non-Cumulative Preference Shares
RoA	Return on Assets
ROC	Registrar of Companies
ROE	Return on Equity
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
SAA	Service Area Approach
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
SBLP	SHG-Bank Linkage Programme
SC	Scheduled Caste
SCARDB	State Cooperative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
StCB	State Cooperative Bank
SD	Sustainable Development
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBI	Securities and Exchange Board of India
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SEZ	Special Economic Zones
SFAC	Small Farmers Agri-Business Consortium
SFC	State Financial Corporation
SFIO	Serious Frauds Investigation Office
SFMS	Structured Financial Messaging System
SGL	Subsidiary General Ledger
SGSY	*Swarn Jayanti Gram Swarojgar Yojna*
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIPS	Systemically Important Payment System
SJSRY	*Swarna Jayanti Shahari Rojgar Yojna*
SLA	Service Level Agreement
SLAF	Second Liquidity Adjustment Facility
SLBCs	State Level Bankers' Committees

SLEPCS	State Level Export Promotion Committees
SLR	Statutory Liquidity Ratio
SLRS	Scheme for Liberlisation and Rehabilitation of Scavengers
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SR	Security Receipt
SRF	Special Refinance Facility
SRMS	Self Employment Scheme for Rehabilitation of Manual Scavengers
SRP	Supervisory Review Process
SREP	Supervisory Review and Evaluation Process
SSC	Special Sub-Committees
SSI	Small Scale Industry
SSS	Securities Settlement System
ST	Scheduled Tribe
STC	Standing Technical Committee
StCB	State Cooperative Bank
STCCS	Short-Term Cooperative Credit Structure
STCRE	Short-Term Cooperative Rural Credit
STP	Straight Through Processing
STR	Suspicious Transaction Report
STR	Suspicious Transaction Report
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SWIFT	Society for Worldwide Financial Telecommunication
TACMP	Technical Advisory Committee on Monetary Policy
TAFCUB	Task Force for Urban Cooperative Bank
TFCI	Tourism Finance Corporation of India
UBB	Uniform Balance Book
UCB	Urban Cooperative Bank
UCC	Unsolicited Commercial Communication
UIA	United India Assurance Company Ltd.
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee
VaR	Value at Risk
VCF	Venture Capital Fund
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
WCTL	Working Capital Term Loan
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
YTM	Yield to Maturity

Chapter I

Perspectives

The starting point in any discussion of the challenges confronting the global financial architecture must be an appraisal of the key constituent factors that shaped the global financial system before the crisis hit. The global financial crisis and the following recession blemish the record of finance leading to growth. The global trends are throwing a number of important perspectives. They range from questioning the very role of financial innovation to a discussion on various aspects related to financial regulation. A legion of both policymakers and scholars have come out with their perceptions analysing the causes of the crisis and findings both immediate and longer term solutions. While there is a lot to learn from the global perspectives and lot to benefit from several global initiatives, Indian banking also has many practices worth emulating by other countries. Indian banking is a success story in the midst of the financially triggered global crisis of 2008 thanks to the regulatory environment in place and the structural banking drivers. It is the untapped potentials from within that provide a favourable outlook way ahead. There is a need to explore and consolidate upon these factors.

1. Introduction

1.1 The crucial role of the financial system is to allocate capital investment towards the most productive applications. The energetic growth and technological advance of the western economies suggest that our financial system has performed this task well over long periods. However, the global financial crisis and the following recession blemish this record. A time has come when questions like 'Does overmighty finance levy a tithe on growth?' are being asked. Also being discussed is the fundamental question about what our financial system is actually delivering to our economy and what it costs to do that. It is argued that the protracted debate over how to clean up after the financial crisis – and how to reform our accident-prone financial system to prevent another such episode – is stuck on the problem of how to regulate markets without undermining the benefits they bring.

1.2 It is well-recognised, particularly after the East Asian crisis of 1997, that in an environment of large cross-border capital flows, which increased dramatically in the past two decades, the financial sector must be resilient and well-regulated. The fact that advanced financial markets, with well tested monetary policy and regulatory frameworks, are also not free from such unexpected and extraordinary developments, has become very evident in the ongoing global financial crisis. Effective regulation is needed to realise the potential of open financial markets. Financial innovation and integration have increased the speed and extent to which shocks are transmitted across asset classes and countries, blurring boundaries between systemic and non-systemic institutions. But regulation and supervision have remained geared toward individual financial institutions. The regulatory mechanisms do not adequately consider the systemic and international implications of domestic institutions' actions.

1.3 Keeping the current global and Indian banking trends in view, Section 2 discerns the perspectives from global banking developments, Section 3 deals with emerging Indian perspectives and Section 4 concludes the chapter.

2. Perspectives from the Global Trends

1.4 The starting point in any discussion of the challenges confronting the global financial architecture must be an appraisal of the key constituent factors that shaped the global financial system before the crisis hit. Three groups of mutually reinforcing factors that did not receive adequate attention from regulators and monetary authorities arguably contributed to increased systemic risk. First, global macroeconomic imbalances resulted in lower interest rates during the past decade, inducing more risk-taking and contributing to the creation of asset price bubbles worldwide. Second, changes in financial sector structure and the failure of risk management to keep up with financial innovation - the trend towards securitisation, including the importance of the shadow banking system - during the past two decades rendered the system more prone to instability. And, third, leveraged financial institutions have inherent incentives to take on excessive risks without internalising systemic risk, which is the main reason they need to be regulated.

1.5 A legion of both policymakers and scholars have come out with their perceptions analysing the causes of the crisis and findings both immediate and longer term solutions (For example, the de Larosiere Report (2009), the Turner Review (2009), the Geneva Report (2009), the Group of Thirty Report (2008) and the IMF Lessons paper (2009)). The financial crisis has exposed weaknesses in the current regulatory and supervisory frameworks. The recent developments have made it clear that action is needed in at least four areas to reduce the risk of crises and address them when they occur. These are (a) finding a better way to assess systemic risk and prevent its build-up in good times; (b) improving transparency and disclosure of risks being taken by various market participants; (c) expanding the cross-institutional and cross-border scope of regulation while safeguarding constructive diversity; and (d) putting in place mechanisms for more effective, coordinated actions.

1.6 The scope of financial regulation needs to be revamped and the provision of liquidity improved. One key contributor to the global financial crisis was inadequate regulation—both in its fragmented nature and its lack of enforcement. Regulatory structures must be revamped to prevent another build-up of systemic risks, to provide a sounder footing for connecting global savers and investors through global financial intermediation, and to ensure a clear and consistent method of dealing with financial instability when it does arise. Several areas that require attention to prevent systemic crises:

- *the perimeter of regulation*, or which institutions and practices should be within the purview of regulators;
- *procyclicality*, the tendency for some regulatory and business practices to magnify the business cycle;
- *information gaps* about risk and where it is distributed in the financial system;
- harmonising national regulatory policies and legal frameworks to enhance *coordinated supervision* and resolution of firms and markets that operate across borders; and
- *providing liquidity* to markets to ensure the smooth flow of funds for investment and the effective transmission of monetary policy.

1.7 The Perimeter of Regulation: A lesson learnt from the latest crisis is that the perimeter of regulation needs to be expanded to encompass institutions and markets that were outside the scope of regulation and, in some cases, beyond the detection of regulators and supervisors. Some of these entities were able to obtain short-term debt to invest in longer-term assets and increased their leverage (the use of debt to purchase assets) to a degree that threatened the stability of the financial system when those short-term lenders recalled their funds. Coverage of all financial intermediaries, however, is not necessary and it is important to identify carefully the specific weaknesses that wider regulation would seek to address market failures. Through a two-perimeter approach, it can be achieved - financial institutions and activities would be in the outer perimeter to be subjected to disclosure requirements, while those that pose systemic risks would be moved to the inner perimeter and be subject to prudential regulations.

1.8 Procyclical Practices: The current financial crisis is an example of excess procyclicality in banking. It is well-known that lending mistakes are more prevalent during upturns: borrowers and lenders become overconfident about investment projects and tend to lower credit standards. During recessions, banks suddenly turn conservative and tighten lending standards. Moreover, if monetary policy remains lax for too long, it may increase the risk-taking incentives of banks as they search for yield.

1.9 Dynamic loan loss provisions can help deal with procyclicality in banking. By allowing earlier detection and coverage of credit losses in loan portfolios, they enable banks to build up a buffer in good times that can be used in bad times. Their anticyclical nature enhances the resilience of both individual banks and the banking system as a whole.

1.10 Another element in the new regulatory framework for the banking sector is revised capital rules. Capital buffers need to be sufficiently large in order to strengthen financial institutions by addressing the problem of procyclicality of capital rules. The new rules should oblige banks to increase regulatory capital in times when profits allow them more easily to do so, in order to provide a buffer to absorb losses and support continued lending to the economy during more difficult times.

1.11 The crisis has highlighted the role of leverage. In principle, risk-weighted capital requirements, which require more capital for riskier assets than for less risky ones, should control excess leverage. However, the inadequacy of risk models leading to under-estimation of capital requirements results in build-up of excess leverage. It is, therefore, helpful to apply a minimum leverage ratio (capital divided by assets) including off-balance sheet items as a relatively simple tool to limit overall leverage in financial institutions during an upswing[1].

1.12 Although fair value accounting methods, requiring institutions to value assets using current market prices, serve as a good benchmark in most situations, the crisis made it apparent that in periods of stress, they can accentuate downward price spirals. Accounting rules should allow financial firms with traded assets to allocate "valuation reserves," which grow to reflect overvaluations during upswings and serve as a buffer against any reversions to lower values during downturns. Similarly, values of assets used as collateral, such as houses, also tend to move with the cycle. More room is needed in the accounting rule book to allow the reporting of more conservative valuations, based on forward-looking and measurable indicators.

1.13 Another procyclical feature of the financial system is funding liquidity—that is, the ability of financial firms to obtain funds to lend. Funds tend to be more abundant during upswings

[1] Leverage ratio generally refers to Tier 1 capital as a per cent of total adjusted assets, wherein adjustments to assets include items that have already been deducted from Tier 1 capital, such as goodwill. This definition is used in countries, such as the US and has been spelt out by the World Bank (2009) in its concept note on the leverage ratio "Banking and the Leverage Ratio", available at www.crisistalk.worldbank.org.

and less so during downturns. Strengthened liquidity risk management techniques is the first line of defense in ensuring steady funding. It is better to rely more on less volatile forms of funding, such as retail deposits rather than short-term wholesale funding.

1.14 Plugging Information Gaps: One of the most troubling aspects of the crisis has been the inability to see what risks were distributed to various holders and who those holders were. Many of the new structured credit products were supposed to distribute risk to those who were supposed to be best able to manage it. But in many cases, supervisors and other market participants could not see where various risks were located as risks often were sliced and diced in ways that prevented the packagers of the risks and the purchasers from thoroughly understanding what risks they had sold or acquired. Probably most needed are data on the risk exposures of systemically important banks and nonbank financial institutions – their levels, concentrations of their exposures and the linkages among the institutions across borders and markets - for observing systemic risks and vulnerabilities.

1.15 Better disclosure rules covering financial institutions are required so as to make information more specific and consistent. In particular, reporting should cover both on- and off-balance-sheet items because much risk was kept off the balance sheet—hidden from investors and supervisors. Markets will function better if prices, transaction amounts, and other information (coverage, counterparty type, and overall market concentration) regarding Over-the-Counter (OTC) derivative markets are more readily available. Also better information on Credit Default Swaps (CDS) held as insurance policies by a host of interconnected parties are required. Centralised clearing facilities for CDS contracts, as are currently under construction, would help reduce counterparty risks and help in information collection.

1.16 Improving Cross-border Coordination: During the crisis, cross-border information flows and cooperation among regulators have been inconsistent. For the smooth handling of the systemic and global risks associated with crisis, supervision of globally and regionally significant financial firms requires that policymakers from countries where cross-border financial conglomerates operate must now act together to address inconsistencies in national legal frameworks. Secondly, ensuring that bank insolvency frameworks are compatible across home and host countries on a number of fundamental fronts is important. A consistent set of guidelines to initiate bank resolutions—including triggers, time frames, and procedures—could help preserve a firm's franchise value.

1.17 Cooperation across jurisdictions can be enhanced, for example, by setting up college of supervisors from countries in which a firm does business. The head of that college, the lead supervisor (typically from the country where the bank is domiciled), would be responsible for drawing a clear picture of risk concentration across the firm as well as its major strengths and weaknesses. A firm's permissible activities would be decided by the lead supervisor and other appropriate supervisors. The college would examine the firm's activities and collect information as the need arises.

1.18 Providing Liquidity to Markets: The crisis has triggered a variety of ways to provide liquidity to markets. Central banks have expanded the number of counterparties, broadened the types of collateral they will accept, and lengthened the maturity of liquidity support. In some cases, new facilities have been introduced. It is important that emergency liquidity and intermediation to needy borrowers should include some notion of how to discontinue those methods as conditions normalise. The timing of such an exit must be coordinated to avoid abrupt movement of liquidity and credit. exit strategies with incentives that gradually wean market participants from central banks back to normal liquidity providers are least likely to incur such bumps.

1.19 There is a need to weighing pros and cons of financial innovations. After four decades-worth of extraordinary financial innovation, the events of the past two years have raised an argument about the risks of financial innovation. The innovations that are most obviously useful have tended to come in retail finance. Those related to payments come closest to the ideal of being user-friendly without adverse side effects, like automated teller machines. Yet plastic cards, which make day-to-day transactions so much easier, are often instrumental in creating the worst consumer debt problems. In wholesale finance, innovative products - derivatives and securitisation - can have huge benefits and huge costs. They permitted the development of risk management to handle the volatility that became endemic after the breakdown of fixed exchange rates and the deregulation of interest rates in the 1970s. The best reason for regulators to be suspicious about innovation is that so much of it in the modern world is aimed at facilitating regulatory and tax arbitrage, like in the case of the banks' off-balance sheet securitisation activity. One of the options is to use the capital adequacy regime to address the problem, because (i) the social costs and benefits cannot be easily measured, (ii) a more fundamental point is that the real systemic damage in this, as in most previous financial crises, is done not by financial instruments but by leverage - one more reason to regard capital as the first and most important line of defence.

1.20 Corporate Governance: The financial crisis has revealed severe shortcomings in corporate governance. When most needed, it often failed to provide the checks and balances that financial institutions need in order to cultivate sound business practices. Failures in corporate governance played a clear role in some of the larger financial firms at the centre of the crisis. Governments have become major shareholders in the financial sector in the aftermath of the crisis. Hence, there is likely to be a conflict of interest as they exit from the emergency measures. International cooperation, including among private sector bodies, should be improved to ensure better coordination and implementation of agreed international corporate governance standards. Remuneration and incentive systems are supposed to align the interests of corporate officials with the long-term interest of the company and the shareholders. Distortions in these structures may lead to a short-term bias towards additional risk-taking, a tendency reinforced by tax provisions in many countries. Improvements and analysis are needed in the following areas: board oversight of risk management; board practices; governance of the remuneration process; and the exercise of shareholder rights (Box I.1).

Global Payment System

1.21 A great deal has been learnt from the international financial crisis and not all the experiences have been negative. The payment systems everywhere have functioned well both for retail customers and enterprises as well as for banks and other financial institutions. They have thus helped to maintain economic activity during a period when confidence in counterparties has been at low ebb (Box I.2).

International Accounting Standards

1.22 The financial crisis has highlighted the need for improvement in accounting standards. In July 2009, the Basel Committee issued a series of standards for higher capital for the trading book as it was recognised that the Basel II framework seriously underestimated the capital needs for the trading book. Therefore, the Basel Committee has introduced new trading book capital rules that substantially raise trading book capital requirements. It prescribes higher capital requirements for resecuritisations and exposures to off-balance

Box I.1: Financial Crisis and Corporate Governance

- Depending on the characteristics of the company, remuneration and incentive systems that should be the focus of board (and sometimes regulatory) oversight need to be considered broadly and not just focused on the chief executive officer and board members.
- The governance of remuneration/incentive systems have often failed because decisions and negotiations are not carried out at arm's length. Managers and others have had too much influence over the level and conditions for performance based remuneration with the board unable or incapable of exercising objective, independent judgement.
- In many cases it is striking how the link between performance and remuneration is very weak or difficult to establish. For example, companies have often used general measures of stock price rather than the relative performance of the individual firm. Factors not within the control of the CEO have often been emphasised.
- Remuneration schemes are often overly complicated or obscure in ways that camouflage the situation. This is particularly the case with hard to value pension schemes. They are also asymmetric with limited downside risk thereby encouraging excessive risk taking. Transparency needs to be improved which goes beyond simply more disclosure that has improved in recent years. Corporations should be able to explain the main characteristics of their performance related remuneration programs in concise and non-technical terms. This should include the total cost of the program; the performance criteria used, and; how remuneration is adjusted for related risks.
- The goal needs to be remuneration/incentive systems that encourage long term performance and this will require instruments that pay-out after the longer term performance has been realised. These might include share rather than cash payments with lock-up provisions, claw backs, deferred compensation *etc*. It is important to assess the programme ex-post. Such schemes are complex and it is not likely that legal limits such as caps and some fiscal measures will be able to achieve this purpose. There is also a risk of a shift towards excessive fixed remuneration components that would weaken alignment of incentives with the long term success of the company.
- Steps must therefore be taken to ensure that remuneration is established through a sound governance process where the roles and responsibilities of those involved, including consultants and independent directors, are clearly defined and separated. Any remuneration consultants might need to be hired by the nonexecutive members of the board rather than by management. Executive board members should not participate since they have an inherent conflict of interest.
- It should be considered good practice when remuneration policies are submitted to the annual meeting and as appropriate subject to shareholder approval.
- Financial institutions may follow the Principles for Sound Compensation Practices issued by the Financial Stability Forum.

Reference:

Kirkpatrick, Grant (2009), 'The Corporate Governance Lessons from the Financial Crisis', OECD paper http://www.oecd.org/dataoecd/32/1/42229620.pdf

sheet vehicles. The Basel Committee on Banking Supervision has also released a set of guiding principles to assist the International Accounting Standards Board (IASB) on book-keeping issues underlined by the financial crisis (Box I.3). The proposals focus on provisioning, fair value measurement and related disclosures.

Future of Regulation

1.23 Basel Committee has evolved principles for stress testing and valuation of complex products, as also for supervision and management of funding liquidity risk. It has incorporated the FSB compensation standards into the Pillar 2 supervisory review process and has enhanced Pillar 3 disclosures focusing on trading activities, securitisations and exposures to off-balance sheet vehicles.

1.24 The Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, met on September 6, 2009 to review a comprehensive set of measures to strengthen the regulation, supervision and risk management of the banking sector. These measures will substantially reduce the probability and severity of economic and financial stress and are essential as they set the

Box I.2: Global Trends in Large Value Payments and Their Key Drivers

Technological innovation, structural changes in banking, and the evolution of central bank policies are the three main reasons for the recent developments in large-value payments. First, technological innovation has created opportunities to make existing large-value payments systems safer and more efficient. Such innovation has also accommodated the industry's growing need for new types of systems that are not limited to a single country or a currency. Second, the financial sector has experienced immense growth over the last few decades accompanied by changes in the role of individual firms and the products they offer. In addition, financial institutions and their services have become increasingly globalised. These structural changes have affected how participants use large-value payments systems. Third, the role of central banks in large-value payments systems has changed significantly in recent years. Central banks have become more involved in payments systems and have created formal and systematic oversight functions. The main focus lies in promoting safety and efficiency in LVPSs and in maintaining overall financial stability. Central banks therefore have taken more active roles in monitoring existing and planned systems, in assessing systems according to international standards, and, if necessary, in inducing change.

Ten long-range trends in the settlement of large-value payments can be identified globally. These are: (1) Diffusion of Real-Time Gross Settlement Systems, (2) Take-off of Hybrid Systems, (3) Emergence of Cross-Border and Offshore Systems, (4) The Rise of Continuous Linked Settlement Bank, (5) Increasing Settlement Values and Volumes, (6) Shrinking Average Payment Sizes, (7) Falling Numbers of System Participants, (8) Extended Operating Hours, (9) Declining Transaction Fees, and (10) Adoption of Common Standards for Large-Value Payments Systems.

Future developments

The question is how these trends will evolve and what new developments can be foreseen.

- Currently, the diffusion of RTGS is well under way. RTGS and net settlement systems each have characteristics that make them desirable, thus the hybridisation of RTGS is likely to continue as long as liquidity is costly.
- Many central banks require collateral for intraday credit. With the ongoing development of financial markets, collateral is likely to find new, more profitable uses than payment settlement. This will likely drive the cost of liquidity up and, as a consequence, increase the demand for liquidity saving that netting and offsetting in conjunction with RTGS can offer. The trend toward greater hybridisation of systems is therefore likely to continue.
- The introduction of cross-border systems has been associated with unique events linked to the introduction of the euro and the establishment of CLS Bank. Cross-border systems are likely to remain rare in the future. However, remote participation may become more prevalent. Offshore systems that settle a foreign currency are presently small and serve niche markets—mainly a local FX market or the needs of banks in the area and time zone to settle payments in a foreign currency among each other. Such demands may arise in the context of the establishment of new financial centers, for instance, in the Middle East or China, where the People's Bank of China is developing a USD clearing system.
- Most existing or planned offshore systems are limited to a single country. With improvements in information and communications technologies, the fixed cost of setting up such systems is being reduced. As a consequence, we may see more offshore systems emerge, but they are likely to remain niche players, much like the existing ones are.
- Settlement values are likely to continue growing at the pace of GDP in the long run, and be cyclical to financial market activity in the short run—as they have done over the past ten years. The rapid growth in values attributable to financial deregulation and innovation in the 1980s and early 1990s has largely been absorbed. The average real value of payments processed in LVPSs has declined. As transaction prices seem to be declining too, it can be expected that the benefits of real-time settlement will outweigh the costs for a wider variety of smaller financial transactions. Thus, the average value of large value payments is expected to continue to fall.
- Consolidation in financial services is continuing. Especially in Europe, the process of cross-border mergers has not yet taken off. In addition, the introduction of TARGET2 and the consolidation of all the EU RTGS systems into a single entity will substantially reduce the number of LVPS participants, as banks operating in several EU countries will be better positioned to manage their payments centrally.
- Evidence from systems for which price data are available suggests that the cost of payments in LVPSs has declined rapidly. The underlying reasons are associated with regulatory changes, lower costs of information and communications technology, and perhaps competition between the public and private systems that operate side by side in some countries. These reasons are not likely to change, and the cost of making payments is likely to continue to fall.
- The final trend would be the standardisation of large-value payments systems through the use of common standards. The "Core Principles for Systemically Important Payment Systems" is already widely accepted and will continue to be applied around the world.

Reference:

Federal Reserve Bank of New York (2008): Economic Policy Review, September, Volume 14, Number 2; http://www.newyorkfed.org/research/epr/08v14n2/0809prei.pdf

Box I.3: Basel Committee on Accounting Principles (Chairman: Nout Wellink)

The Basel Committee on Banking Supervision has released a set of guiding principles to assist the International Accounting Standards Board (IASB) on book-keeping issues underlined by the financial crisis. The proposals focus on provisioning, fair value measurement and related disclosures.

As the IASB develops new financial instrument accounting standards, the principles will help it produce standards that improve the decision usefulness and relevance of financial reporting for key stakeholders, including prudential regulators, Moreover, the principles would ensure that accounting reforms address broader concerns about procyclicality and systemic risk.

In developing the principles, the Basel Committee closely examined the lessons learned from the financial crisis. One of those lessons is that any new accounting rules must be consistent with sound practices in risk management and enhance transparency to help supervisors, banks, investors and other stakeholders achieve their respective objectives.

The principles respond to recommendations made by G-20 heads of state in April for "the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards".

The IASB received the principles in July.

The principles note that the new standard should:

- reflect the need for earlier recognition of loan losses to ensure robust provisions;
- recognise that fair value is not effective when markets become dislocated or are illiquid;
- permit reclassifications from the fair value to the amortised cost category; which should be allowed in rare circumstances following the occurrence of events having clearly led to a change in the business model; promote a level playing field across jurisdictions;
- address particular concerns about procyclicality by providing for valuation adjustments to avoid misstatement of both initial and subsequent profit and loss recognition when there is significant valuation uncertainty; and
- ensure loan loss provisions are robust and based on sound methodologies that reflect expected credit losses in the banks' existing loan portfolio over the life of the portfolio.

Reference:

Bank for International Settlements (2009), Guiding Principles for the Replacement of IAS 39, August.

new standards for banking regulation and supervision at the global level The effort is toward the introduction of a macro-prudential overlay which includes a countercyclical capital and provisioning buffer, as well as practical steps to address the risks arising from systemic, interconnected banks (Box I.4).While reiterating the imperative of restructuring regulation, it is also important to keep in mind the need to strengthen the ability and willingness of supervisors to enforce these regulations in a timely and credible manner. Restructuring regulation will take time, but the impetus to move in the appropriate directions is strong.

International Financial Architecture

1.25 Through several initiatives, the current crisis has hastened the reform of the international financial architecture which on the way forward will create a 21st century international financial architecture (Box I.5).

1.26 To sum up, while thriving markets are critical for growth and prosperity, recent events demonstrate the importance of a strong and effective regulatory framework and proper supervision. Indeed, the crisis is the result of both market failures and policy failures. The task ahead is to build a sound governance and regulatory framework that will align incentives, while maintaining a healthy balance between markets on the one hand, and policy interventions on the other. To do so, Governments may need to strengthen their relevant institutions. As the financial crisis demonstrated, there are strong interrelationships between regulations on capital, deposit insurance, tax provisions,

Box I.4: Comprehensive Response to the Global Banking Crisis
The Group of Central Bank Governors and Heads of Supervision, Basel

The agreements reached were among 27 major countries of the world and are essential as they set the new standards for banking regulation and supervision at the global level. There is a need to work toward the introduction of a macro-prudential overlay which includes a countercyclical capital buffer, as well as practical steps to address the risks arising from systemic, interconnected banks.

The Central Bank Governors and Heads of Supervision reached agreement on the following key measures to strengthen the regulation of the banking sector:

- Raise the quality, consistency and transparency of the Tier 1 capital base. The predominant form of Tier 1 capital must be common shares and retained earnings. Appropriate principles will be developed for non-joint stock companies to ensure they hold comparable levels of high quality Tier 1 capital. Moreover, deductions and prudential filters will be harmonised internationally and generally applied at the level of common equity or its equivalent in the case of non-joint stock companies. Finally, all components of the capital base will be fully disclosed.
- Introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. To ensure comparability, the details of the leverage ratio will be harmonised internationally, fully adjusting for differences in accounting.
- Introduce a minimum global standard for funding liquidity that includes a stressed liquidity coverage ratio requirement, underpinned by a longer-term structural liquidity ratio.
- Introduce a framework for countercyclical capital buffers above the minimum requirement. The framework will include capital conservation measures such as constraints on capital distributions. The Basel Committee will review an appropriate set of indicators, such as earnings and credit-based variables, as a way to condition the build up and release of capital buffers. In addition, the Committee will promote more forward-looking provisions based on expected losses.
- Issue recommendations to reduce the systemic risk associated with the resolution of cross-border banks.

The Committee will also assess the need for a capital surcharge to mitigate the risk of systemic banks. The Basel Committee will issue concrete proposals on these measures by the end of 2009. It will carry out an impact assessment at the beginning of next year, with calibration of the new requirements to be completed by end-2010. Appropriate implementation standards will be developed to ensure a phase-in of these new measures that does not impede the recovery of the real economy. Government injections will be grandfathered.

These measures will result over time in higher capital and liquidity requirements and less leverage in the banking system, less procyclicality, greater banking sector resilience to stress and strong incentives to ensure that compensation practices are properly aligned with long-term performance and prudent risk-taking.

The Group of Governors and Heads of Supervision endorsed the following principles to guide supervisors in the transition to a higher level and quality of capital in the banking system:

- Building on the framework for countercyclical capital buffers, supervisors should require banks to strengthen their capital base through a combination of capital conservation measures, including actions to limit excessive dividend payments, share buybacks and compensation.
- Compensation should be aligned with prudent risk-taking and long-term, sustainable performance, building on the Financial Stability Board (FSB) sound compensation principles.
- Banks will be required to move expeditiously to raise the level and quality of capital to the new standards, but in a manner that promotes stability of national banking systems and the broader economy.

Supervisors will ensure that the capital plans for the banks in their jurisdiction are consistent with these principles.

Reference:

Bank for International Settlements (2009), Comprehensive Response to the Global Banking Crisis, BIS Press Release dated September 7.

corporate governance, competition policy, accounting rules and executive compensation, which produce the overall environment in which risk-taking occurs.

Box I.5: Reform of the International Financial Architecture

The current institutional framework for economic cooperation was designed in the 1940s, in the context of war, to promote the peaceful coexistence of nations which led to the creation of Bretton Woods institutions, namely the International Monetary Fund (IMF) and its sister institution, the World Bank. As a fallout of the ongoing global financial crisis significant international initiatives have been taken recently to strengthen the international financial architecture.

It may be recalled that the Asian crisis had sparked a broad, critical debate about the costs and benefits of globalisation and the need to reform and strengthen the international financial architecture. In 1999, to promote stability in the international financial system through enhanced information exchange and international cooperation in financial market supervision and surveillance, the Financial Stability Forum (FSF) was created with 12 member countries to assess risks and vulnerabilities affecting the international financial system and to encourage and coordinate action to address them. Consisting of national financial authorities (central banks, supervisory authorities and finance ministries) from the G-7 countries, Australia, Hong Kong, Netherlands, Singapore and Switzerland, as well as international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank, it brought together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

Back in mid-2007, the most salient issue in the international financial architecture was “governance,” in particular governance of the IMF, which involved, among other things, the selection of future Managing Directors, representation on the Executive Board and voting rights. The “legitimacy” of the IMF was said to be in doubt. Much has changed since mid-2007. The likelihood of worldwide recession has moved ‘governance reform’ to the back burner and made it more urgent to reform the international financial system substantively. The current crisis has hastened the reform of the international financial architecture.

The initiatives for reform of international financial architecture can be categorized under two heads: first, increase in the resources and revision of the instruments of the international financial institutions, and second, strengthening the international financial system. The following are the major actions taken or those underway:

- *The demand for IMF financial assistance*. In March 2008, following a prolonged contraction under way since the end of 2003, the stock of IMF non-concessional loans had fallen to a historic low of about 6 billion Special Drawing Rights (SDR), equivalent to euro 7 billion. In the second half of 2008 and in the first few months of 2009, the worsening of global economic conditions was reflected in a surge of applications from member countries for financial assistance. The IMF approved 19 new credit lines amounting to nearly SDR 100 billion (euro 115 billion).
- *Increase in the IMF’s lending capacity*. In the light of the increased demand for financial assistance from the IMF, in April 2009, the G-20 endorsed a tripling, from $250 billion to $750 billion, of the maximum amount of non-concessional loans that the Fund can grant.
  - The lending capacity also includes additional resources made available through bilateral loan agreements and the New Arrangements to Borrow (NAB). Nearly half of the amount will initially be made available with bilateral loans, which have been already offered by Japan ($100 billion), the EU countries ($100 billion, contributed on the basis of their respective Fund quotas), Switzerland and Canada ($10 billion each) and Norway ($4.5 billion). Subsequently, these loans will be incorporated into the NAB, extended to new participants and increased with further contributions of up to $250 billion. Recently, the United States committed to finance the increased NAB with up to $100 billion.
  - It was decided to bring forward the next General Quota Review to January 2011, so as to ensure that the Fund’s resources remain sufficient to meet members’ financial needs also in the medium term.
- *New allocation of Special Drawing Rights*. The G-20 pledged to approve a new general allocation of SDR worth $250 billion, of which $100 billion in favour of emerging and developing countries.
- *Revision of the IMF’s lending toolkit*. In response to the worsening of the world economy, the IMF has begun an overhaul of its lending toolkit. The main reforms concern: (a) the conditions that countries must satisfy in order to draw on the Fund’s resources; (b) the approval of a new facility, the Flexible Credit Line (FCL), and elimination of seldom-used facilities; (c) greater flexibility in the use of the Fund’s traditional Stand-by Arrangements; (d) simplification of cost and maturity structures; and (e) the doubling of access limits. Access limits to ordinary resources have been doubled, from 100 to 200 per cent of a country’s quota on an annual basis and to 600 per cent on a three-year basis.

(Contd. ....)

(....Concld.)

- *The Flexible Credit Line facility is based on crisis-prevention criteria.* It enables the Fund to disburse, even in the absence of a crisis and for purely precautionary purposes, loans of substantial size for six months or one year to countries with sound economic fundamentals and virtuous policies in place. Once granted, the FCL permits a country to draw the entire amount, possibly all at once, without further conditions. The facility is renewable and, unlike the other ordinary credit lines, does not have access limits.

- *The cost and maturity structures for loan repayment have been simplified.* In particular, the "time-based repurchase expectations policy", an administrative mechanism intended to induce early repayments, has been replaced by a new time-based surcharge policy, simplifying the repayment schedule.

- *Initiatives regarding the Multilateral Development Banks*. To counter the effects of the economic crisis in low-income countries, the G-20 decided to strengthen the financing capacity of the Multilateral Development Banks (MDBs) and to encourage the development of new instruments, targeted more closely to those countries' needs and intended to accelerate resource disbursement.

As of the second category of initiatives pertaining to strengthening the international financial system, the major initiatives are as follows:

- *The Financial Stability Board.* The G-20 decided in March 2009 that the Financial Stability Forum (FSF) should be expanded and re-established with a stronger institutional basis as the Financial Stability Board (FSB). Participation in the FSB was enlarged to include all the G-20 countries (including as new members the G-20 countries that were not there in the FSF, namely, Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey). In addition, Spain and the European Commission also became FSF members. In April 2009, the expanded FSF has been re-established as the Financial Stability Board (FSB) with a broadened mandate to promote financial stability. This would provide stronger institutional ground to strengthen its effectiveness as a mechanism for national authorities, Standard Setting Bodies (SSBs) and international financial institutions to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability. In addition to the tasks assigned to its precursor, the FSB and IMF will intensify their collaboration, each complementing the other's role as also collaborate in conducting Early Warning Exercises and an analysis of financial risks and vulnerabilities.

- *Measures in the field of supervision and financial standards*. All systemically important financial institutions, markets and instruments will have to be subject to appropriate regulation and supervision. The system of macro-prudential supervision will be improved.

- *Reform of the structure of representation and governance of the IMF and World Bank.* The G-20 endorsed an incisive reform of the governance of the Bretton Woods institutions. The goal is to give greater voice to poor and emerging countries in decision making, to change the criteria for the selection of top management, and to clarify the division of tasks and responsibilities between the institutions' governing bodies and technical staff.

- *The World Bank has launched a process intended to strengthen the representation of the developing countries.* The reform is divided into two phases. The first, already under way, envisages the doubling of basic votes, the assignment of some unallocated shares and the addition of a Board seat for Sub-Saharan Africa. The second phase calls for a revision of the member countries' voting powers according to their relative weight in the world economy and their individual contributions to development financing; it will also tackle some delicate governance issues regarding the effectiveness of the Board's activity, the diversification of World Bank staff by nationality and the procedure for selecting the President.

The future legitimacy, effectiveness and credibility of these institutions require tangible reforms to increase the voice of dynamic emerging economies and developing countries. It has been agreed for a shift of at least 5 per cent in quota share from countries currently over-represented at the IMF to countries that are currently underrepresented. This reform will give dynamic emerging market and developing economies a say in the IMF more in line with their weight in the current global economy. It has also been agreed to increase the voting power of emerging market and developing countries at the World Bank by at least 3 per cent. This will strengthen the World Bank's ability to fulfill its mission to reduce global poverty and its capacity to tackle challenges, such as climate change and food security, that require globally coordinated actions. In the emerging international financial architecture, G-20 has emerged as the premier global economic forum to reform global economic institutions to meet the needs of an interconnected global economy.

Reference:

Financial Stability Forum (2009), Press Releases dated March 12 and April 2, 2009.

Banca D'Italia (2009), 115th Annual Report, May 29. http://www.pittsburghsummit.gov.

3. Indian Perspectives

1.27 The modern economic system depends on a reliable flow of financing through intermediaries. Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and Governments. These institutions channel resources from those who save to those who invest, and they are supposed to transfer risk from those who cannot afford it to those who are willing and able to bear it. India too has a well-diversified financial system which is still dominated by bank intermediation, though the size of the capital market has expanded significantly with financial liberalisation in the early 1990s. Important components of the financial sector in India broadly fall into categories namely, commercial banks, co-operative banks, non-banking financial institutions (NBFIs) and the insurance sector. Commercial banks together with cooperative banks account for nearly 70 per cent of the total assets of Indian financial institutions.

1.28 Significant financial deepening has been taking place in Indian economy over the years as seen from Credit-GDP, M3-GDP ratios as well as flow of funds indicators. In contrast to a number of countries, a noteworthy feature discernible in Indian context is that the rise in indicators of financial deepening takes place along with a noticeable rise in the domestic savings rate. The rate of domestic savings has specially picked up in the recent period during 2003-04 to 2007-08 against the backdrop of financial sectors reforms, rise in total factor productivity and investment boom, which had led to acceleration in the growth performance.

1.29 As discussed subsequently in Chapter II, important contrasts characterise the banking trends internationally *vis-à-vis* India. The rather muted effect of the crisis on Indian banking is explained by two factors: (i) The effects arising out of direct exposures of foreign branches of Indian banks to the subprime mortgage is negligible. A few Indian banks with overseas branches, however, had invested in Collateralised Debt Obligations (CDOs)/bonds which had a few underlying entities with sub-prime exposures. Thus a few banks suffered on account of the mark-to-market losses caused by the widening of credit spreads due to adverse impact of the sub-prime episode on the term liquidity market. The additional provisioning requirements towards mark-to-market losses arising from widening of the credit spreads were, however, not significant for the banks concerned relative to the size of their balance sheets and level of profits. (ii) Indirect impact of the overseas crisis on Indian stock market and the consequent effect in the context of Indian banks' exposure to equity investments is estimated to be minimal as prudential limits on banks' exposure to capital markets is in place. With the rationalised norms on capital market exposure being applicable from April 2007, the regulatory limit on individual banks' total exposure to capital market is now capped at 40 per cent of banks' net worth as at end-March of the previous year. Further, the banks' direct investment in shares, convertible bonds/ debentures, units of equity-oriented mutual funds and all exposures to venture capital funds should not exceed 20 per cent of its net worth. Several regulatory requirements prescribed by the Reserve Bank ensure that the banks' participation in the capital market is within limits.

1.30 Moreover, as regards the impact on banking system's ability to lend, it may be mentioned that there had been high credit growth with credit deployment by the Indian banking sector growing rapidly at an average rate of around 30 per cent per year during three years before the international crisis surfaced. The Reserve Bank had initiated a conscious and judicious combination of monetary and counter-cyclical prudential measures to moderate the bank credit growth and build-up of asset bubbles in certain segments.

1.31 The Indian banking system has been relatively in good health. Balance sheets of the banks appear healthy and little affected by the unsettled conditions in financial markets. The asset quality and soundness parameters of the Indian banking sector have improved significantly in the recent period.

1.32 This notwithstanding, according to CFSA (2009), financial position of commercial banks shows that the global financial meltdown has led to a crisis of confidence in the global markets and is not without its echo in the Indian financial system. In contrast to the trend observed till 2007-08, there has been a reversal in capital flows to India during 2008-09. This has led to some disturbance in the Indian financial markets, particularly in the equity and foreign exchange markets. Against this background, the CFSA assessed the financial soundness of commercial banks and found that the banking sector has withstood the shocks of the global meltdown well and none of the key financial parameters in September 2008, namely capital ratio, asset quality, earning and profitability pointed to any discernable vulnerability.

1.33 Despite not being part of the financial sector problem, India has been affected by the crisis through the feedback loops between external shocks and domestic vulnerabilities by way of the financial, real and confidence channels. In evaluating the response to the crisis, it is important to remember that although the origins of the crisis are common around the world, the crisis has impacted different economies differently. Importantly, in advanced economies where it originated, the crisis spread from the financial sector to the real sector. In emerging economies, the transmission of external shocks to domestic vulnerabilities has typically been from the real sector to the financial sector. Countries have accordingly responded to the crisis depending on their specific country circumstances. Thus, even as policy responses across countries are broadly similar, their precise design, quantum, sequencing and timing have varied. In particular, while policy responses in advanced economies have had to contend with both the unfolding financial crisis and deepening recession, in India, the policy response has been predominantly driven by the need to arrest moderation in economic growth.

1.34 The measures put in place since mid-September 2008 have ensured that the Indian financial markets continue to function in an orderly manner. This sizeable easing has ensured a comfortable liquidity position starting mid-November 2008 as evidenced by a number of indicators including the weighted-average call money rate, and the yield on the 10-year benchmark Government securities and effective lending rates of commercial banks.

1.35 In retrospect, the key success of financial sector reforms in India since they were instituted in the early 1990s has been the maintenance of financial stability through a period marked by repeated financial crises across the world. The need of the hour is to have financial sector reforms in a recalibrated manner in light of the crisis. The fact that India has not gone through any financial crisis as a result of financial deregulation is not only remarkable, but a testimony to the appropriateness of the judgment that reforms to global standards need to be adjusted to local conditions.

1.36 India had put in place counter-cyclical prudential measures during the period of excessive growth in credit. Recognising that the sudden and significant turn of events could impair assets down the line, counter-cyclical measures such as higher risk weights and provisioning requirements for certain sectors witnessing very high credit growth, which had been put in place in 2006, were restored to their original levels. In order to preserve the economic and productive value of the assets affected by the sudden and sharp deterioration in external conditions, banks were asked to take action for the quick detection of weaknesses and a careful assessment of viability, and put in place, in a time-bound manner, restructuring packages for viable accounts. As a precaution, it was emphasised that the basic objective of restructuring is to preserve the economic value of units, not the ever-greening of problem accounts.

1.37 In India, strengthening and developing financial sector has been in tune with the needs of the real sector. Endeavour has always been to ensure harmonised development of all the sectors of the Indian economy. A number of measures based on the principles that are now accepted internationally were already brought into practice even before the crisis. These included restrictions on leverage for banking and non-banking institutions, stringent liquidity requirements, counter cyclical prudential measures, not recognising in Tier I capital many items that are now sought to be deducted internationally, recognising profits from sale of securitised assets to Special Purpose Vehicles (SPVs) over the life of the securities issued and not reckoning unrealised gains in earnings or in Tier I capital. The challenge is to facilitate the growth of the real sector through financial products and innovations subject to adequate safeguards and adoption of sound risk management policies.

Operations and Performance of Commercial Banks

1.38 The Scheduled Commercial Banks (SCBs) in India, unlike their global counterparts, showed considerable resilience against the backdrop of global financial crisis and its effects on India economy. Nonetheless, the balance sheets of SCBs shrank and their financial performance decelerated suggesting that the Indian banking system was not completely insulated from the effects of the slowdown of the India economy. While growth of both the credit and deposits of SCBs decelerated during 2008-09 *vis-à-vis* 2007-08, they remained significantly positive. Bank's lending to industries, personal loans and services sector witnessed a deceleration, while bank's lending to agriculture and allied activities increased substantially during 2008-09. The proportion of SLR investment in NDTL increased largely reflecting a higher Government market borrowing programme.

1.39 In a reversal of past trend, the Off Balance Sheet (OBS) exposures of SCBs, which had witnessed exponential growth in recent years, declined by 26 per cent during 2008-09. The income as well as the expenditure of SCBs decelerated, leading to deceleration in net profits. This deceleration in profit was partly due to the rising average cost of deposits and borrowings coupled with a declining return on investments notwithstanding a rise in the average return on advances.

1.40 The Indian banking system has withstood the pressure of global financial turmoil as reflected in the improvement in the Capital to Risk-Weighted Assets Ratio (CRAR). The overall CRAR of all SCBs improved to 13.2 per cent at end-March 2009 from 13.0 per cent at end-March 2008, thus, remaining significantly above the stipulated minimum of 9.0 per cent. Some slippage was observed in NPAs, as reflected in the marginal increase of gross NPAs to gross advances ratio. This was however on expected lines given the slowdown of the economy. On the whole, however, the Indian banking system performed reasonably well in this extraordinarily turbulent year. The gross Non-Performing Assets (NPA) to gross advances ratio remained unchanged at 2.3 per cent as at end-March 2009 from its level as at end-March 2008. The Return on Assets (ROA) also remained unchanged at 1.0 per cent at end-March 2009 over its level at end-March 2008 indicating no deterioration in efficiency with which banks deployed their assets. The Return on Equity (ROE) increased to 13.3 per cent as at end-March 2009 from 12.5 per cent at end-March 2008, indicating increased efficiency with which capital was used by banks.

Financial Inclusion

1.41 Financial inclusion, by enabling the financially excluded sections to access the formal financial system, facilitates economic development. It has been the endeavour of the Government and the Reserve bank to promote financial inclusion in India through various channels. The various measures undertaken till now towards financial inclusion and some of the concerns in achieving 100 per cent financial inclusion are summarised in Box I.6.

I.42 Looking forward, inclusive growth is critical for the development of the country and the banking system has an important role to play in the development process. Experience has shown that banks have contributed a lot in the development process but more needs to be done. The road to 100 per cent financial inclusion and inclusive growth is a difficult one. The situation envisages a bank account in each household which is desirous of having one. The response from the banks has been encouraging. However, many of the accounts opened have remained inoperative. Thus, there is a need for creating increased awareness among the populace through sustained financial education efforts.

I.43 Banks have to perceive financial inclusion as a commitment as well as an opportunity. Information Technology should be embraced by banks in a larger manner and with the appropriate use of the BCs, the outreach of the formal financial system should be enlarged to reach out to the unbanked and under banked areas.

Corporate Governance

1.44 Corporate governance in financial institutions has important implications for financial stability. Alongside external supervision, there is a need to strengthen corporate governance within financial institutions to provide greater internal supervisory comfort. The recent financial crisis once again highlighted the role of corporate governance in maintaining financial stability and has underlined the need to establish greater convergence in corporate governance practices and principles across regulatory authorities, various categories of financial institutions and countries.

1.45 Efforts have been underway to strengthen corporate governance standards in Indian banks and to bring these standards at par with the international best practices. The steps taken by the Reserve Bank of India in the recent past in this direction include *inter alia* the prescription of the 'fit and proper' criteria for elected directors of public and private sector banks, revision of calendar items for review and recommendation for strategy review for business plans by banks.

1.46 In order to further strengthen the corporate governance culture in the Indian financial system, there are certain issues that warrant attention. The Indian financial system is diverse in nature comprising various bank categories like, SCBs, Regional Rural Banks, rural and urban cooperative banks and Non-Banking Financial Companies, with each category of institution having unique governance related issues. For instance, the governance of urban and rural cooperatives is largely under the purview of State Governments, which is being presently addressed with the help of MoUs signed by the State Governments with the Reserve Bank/NABARD. Further, there is a need to harmonise the corporate governance standards across various categories of institutions, such as across public and private sector banks. The issue of standardisation of corporate governance practices across bank groups, particularly in the context of appointing professionals on bank boards was also underlined by the CFSA, 2009.

Risk Management Systems in Banks

1.47 Innovations involving complexity and sophistication of products and services, coupled with profitability and competitive considerations, have changed the dimensions

Box I.6: The Road Map to 100 per cent Financial Inclusion: Some Concerns

World over, recognising the importance of inclusive growth, there are efforts towards making the financial system more inclusive. In India, the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan) has suggested a National Mission on Financial inclusion and observed that financial inclusion must be taken up in a mission mode. Getting connected with the banking system would enable people to avail a range of transaction and payment services, access to affordable credit, insurance and safe savings products. It has been noticed that people without bank accounts are often the most vulnerable and impoverished. Not having a bank account excludes these people from simple credit products also, making them more likely to turn to predatory or even illegal lenders leaving them in perpetual debt.

In India, despite widespread expansion of the banking sector, particularly after nationalisation of major commercial banks in 1969 and 1980, a significant proportion of the households, especially in rural areas, are still outside the coverage of the formal banking system. These households have been dependent up on the informal money lenders for their credit needs and had few avenues for keeping their savings. A visit to the bank branch often resulted in their losing their wage for the day.

Various steps have been taken by the Reserve Bank and the Government to bring the financially excluded people to the fold of the formal banking system. The steps include efforts like nationalisation of banks, identifying priority sectors and setting up targets for the same, setting up of RRBs, LABs, credit delivery focus in rural areas through the Service Area Credit Plans, and enabling policy for microfinance by banks. Further, simplification of the KYC norms, introduction of no-frills accounts, Kisan Credit Cards, General Purpose Credit Cards, small overdrafts in no-frills accounts and permitting banks to use the business correspondent and the business facilitator models were specifically aimed to promote financial inclusion.

It has been announced in the Annual Policy Statement of Reserve Bank for the year 2005-06 that the Bank would implement policies to encourage banks, which provide extensive services while disincentivising those, which are not responsive to the banking needs of the community, including the underprivileged. Banks have been urged to review their existing practices to align them with the objective of financial inclusion.

In order to have focussed attention for the financial inclusion efforts, the State Level Bankers Committee (SLBC) has been advised to identify one or more districts for 100 per cent financial inclusion. Responsibility is given to the banks in the area for ensuring that all those who desire to have a bank account are provided with one by allocating the villages among the different banks. The 100 per cent financial inclusion drive is progressing all over the country. So far, 431 districts have been identified by SLBCs for 100 per cent financial inclusion. As on March 31, 2009, 204 districts in 18 States and 5 Union Territories have reported having achieved the target.

However, the path towards 100 per cent financial inclusion faces several issues. Some of the concerns in this endeavour are as follows:

Coverage: India's large size and population makes it difficult for any programme at a national level to reach out to everyone. The inclusion efforts in the urban centres and metros are difficult, especially in case of migrant labourers who do not have identity particulars at their place of work. The remittance of money by these migrant workers to their home town is often dependent on informal channels.

Infrastructure: Poor infrastructure in many parts of the country inhibits the development process. It is important there are adequate road, rail, digital connectivity and adequate power and infrastructure facilities which are important prerequisites for operation of a banking outlet.

Financial products: It is imperative that products that cater to the needs of the masses are available. Simple products rather than sophisticated instruments are required at affordable cost for the people. Flexibility is an important criterion and the products and services available should be flexible.

Delivery models: Efforts need to be taken to identify best delivery models/ business models for financial inclusion. The typical brick and mortar bank branches may not be feasible in all villages because of viability and other reasons. Banks have to adopt/experiment with all delivery models like satellite branches, mobile branches, business correspondents/POS, and mobile telephony services. The BC model, though a facilitating concept, is yet to scale up. The Working Group appointed by the Reserve bank to review the BC model has recommended new entities that could be appointed as BCs. The BC model, coupled with Information and Communication Technologies (ICT) solutions has the potential to reach out to the hitherto unreached.

Technology: Despite significant technological advancements there are issues of standardisation, inter operability and costs that inhibit smooth technology solutions. The financial services offered with the help of ICT should ideally be standardised, interoperable and cost effective. One of the major reasons for the slow progress in providing banking services in the hinterland is the high transaction costs associated with the low value large volume transactions. Technology can to a great extent reduce the cost of transactions.

Role of financial intermediaries: The banks are not uniformly geared up for financial inclusion. While the commercial banks have taken significant steps to facilitate inclusion, the RRBs and the cooperative banks need to gear up their efforts in this area.

Participative efforts: It is important that all the participative stakeholders work together to achieve the goal of financial inclusion. Banks, State Governments, technology providers, regulators and other developmental agencies need to work together in tandem to drive the efforts towards achieving total financial inclusion.

of risks faced by banks. With the advent of very large banking groups that engage in a variety of business activities, it becomes necessary for such organisations to clearly understand the dimensions of risks and their potential systemic impact. Merely managing risks individually in respect of each exposure does not suffice and it is important that they pay enough attention to aggregation of exposures across the entire organisation, *i.e.*, risks must be recognised and managed across the entire organisation.

1.48 The CFSA which made an assessment of India's financial sector in 2008 felt that the present global financial crisis has highlighted the limitations of the present Basel Core Principles in as much as the assessment does not specifically cover areas like SIVs/NBFCs or aspects like dynamic provisioning and countercyclical norms. Hence, the CFSA feels that the Basel Committee on Banking Supervision should revisit the Basel Core Principles to cover the new areas. Secondly, the CFSA notes that though BCPs are not strictly applicable to financial institutions other than commercial banks, the efforts to extend the scope of BCP assessment to other sectors are commendable in the current context of the potential linkages of such institutions and their impact on the stability of the financial system. The Reserve Bank has already been extending such principles to non-bank entities, subject to certain thresholds and the nature of their operations.

1.49 An issue which has assumed critical significance now is 'Risk Management' and its proper understanding. Banks' risks cannot be viewed at individual level in isolation all the time. It has also been argued that the emphasis on micro-prudential regulation may have contributed to the buildup of some macro risks. Collectively, systemic risk is becoming more and more prominent with the increasing complexities and the associated risk factors in the banking activities. The banks have to have a proper understanding of all the risk factors and at the same time they have to ensure that their customers also understand and appreciate the associated risks in their operations.

1.50 One of the most critical issues in risk management is of liquidity risk management in the banks in the wake of the crisis. A situation may arise where the liquidity may dry up and the banks and the financial institutions would face severe liquidity crunch due to adverse market conditions. In this scenario, the liquidity crunch might completely wipe out the capital of the bank as well leading to its failure. Another scenario may be where plenty of liquidity in the market may fuel inflation. Therefore, there is a need to be vigilant and monitor the market conditions more vigorously.

1.51 In recent times, increase in the banks' dependence on bulk deposits to fund credit growth has assumed significance as this could have liquidity and profitability implications. An increase in growth in housing loans, real estate exposure as also infrastructure has resulted in elongation of the maturity profile of bank assets. There is growing dependence on purchased liquidity and also an increase in the illiquid component in banks' balance sheets with greater reliance on volatile liabilities, like bulk deposits to fund asset growth. Simultaneously, there has been a shortening of residual maturities, leading to a higher asset-liability mismatch. There is a need to strengthen liquidity management in this context as also to shore up the core deposit base and to keep an adequate cushion of liquid assets to meet unforeseen contingencies. What needs to be borne in mind is that while at an individual customer level, retail deposits may be volatile, but for the bank and the banking system as a whole, it provides solid foundation for the banks to fund their longer term assets like infrastructure and similar business activities. How to cultivate this aspect in the business model and risk management process is a challenge.

1.52 A related issue is that of KYC and banks' risk management practices. Sound KYC policies and procedures not only contribute to a bank's overall safety and soundness, they also protect the integrity of the banking system by reducing the likelihood of banks becoming vehicles for money laundering, terrorist financing and other unlawful activities. There are three components here. 'Knowing their customers' is not enough for banks, they should also know the 'business' of their customers; and if the banks know the business of their customers, the banks must understand and assess the risks associated with each of their customers' businesses. This is not only an integral part of elementary risk management process but it also makes a good business sense. Regulatory intervention in this area can be expected to increase in future. The implementation of KYC norms in India will have its challenges in view of massive branch networks including mobile branches of major banks, the magnitude of customer-bases, and the complexity of proof of customer identity. In the context of greater thrust of financial inclusion and penetration, specific attention will have to be paid to align the objective of KYC and financial inclusion.

Customer Service

1.53 In India, the banks face a challenge of providing services to a broad range of customers, which varies from sophisticated corporates and high net worth individuals to low-end borrowers who are catered to by microfinance initiatives. Over time, a series of initiatives have been taken to improve the quality of customer service, including *inter alia*, grievance redressal through the Banking Ombudsman Scheme, and setting up Customer Service Committees at various hierarchal levels within the bank, setting up a Customer Service Department within the Reserve Bank. In spite of these initiatives, there are gaps in the implementation of guidelines which give rise to customer grievances. Going forward, there is a need for improving the customer service by banks through measures like financial education, credit counselling and improvement in information dissemination. The recent initiative by the Reserve Bank regarding setting up of financial literacy *cum* counselling centres is a step in this direction.

1.54 Developing a database of customers is essential in view of growing demand for tailor made services. However, the confidentiality of such data needs to be ensured. The CFSA stresses the intensive and focused use of technology to leverage the customer database, and relationship pricing to tailor products and services in line with customer demands. The CFSA has also recommended that banks which fail to achieve a threshold minimum rating on customer service may be denied privileges in terms of branch licensing.

1.55 There should be a blend of regulatory and market-based solutions to delivering fairness to customers. The key issue is the balance between these two. The issue of addressing the fair treatment of customers throughout the product life-cycle comprises:

- Product design and governance;
- Identifying target markets;
- Marketing and promoting the product;
- Sales and advice processes;
- After-sales information; and
- Complaint handling.

Derivative Instruments and Securitisation

1.56 Financial derivatives have extensively been used to hedge exchange rate and interest rate risks in the Indian financial markets. The derivative transaction volume exhibited fast growth in India in comparison with other countries. The CFSA notes that the spurt in off-balance sheet exposure of the commercial banks in India during the recent years is mainly on account of derivatives. The committee has pointed out that the current accounting standards do not clearly specify how to account for loss and profit arising out of derivatives transactions. The CFSA notes that the recent subprime turmoil has highlighted the need to have a centralised netting mechanism to mitigate the risks arising from complex derivative products.

1.57 With regard to derivatives, the Reserve Bank was indicated that banks should have a suitability and appropriateness policy. The market-makers should carry out due diligence regarding 'user appropriateness' and 'suitability' of products before offering derivative products to users. Each market-maker should adopt a board-approved 'Customer Appropriateness and Suitability Policy' for the derivatives business. In this regard, CFSA notes that strict adherence to the Reserve Bank's guidelines by banks remains a concern.

1.58 While there is no disagreement that securitisation helps the banks to cut their capital requirements, the success of securitisation lies in the pooling of high quality assets and a thorough understanding of the underlying structures and standards by all the concerned parties. It may be recalled that the inappropriate implementation of securitisation, with adverse selection and moral hazard, contributed to the financial turmoil in the US. Thus, financial turmoil underlined the need to enhance prudential and disclosure requirements for derivatives in the interest of overall stability of the system.

1.59 Recently, some leading international investment banks reported to have planned securitisation of assets for restructuring portfolios of assets to achieve risk, capital and funding efficiency in a transparent and less complex way. These banks claimed that these new securitisation schemes are different from the old securitisation schemes on account of two reasons: first, the new securitisation schemes involve the securitisation of banks' existing assets, rather than of new lending and second, the bankers argue that the new products do not disguise the transfer of risk. Further, these products will also be rated by a credit rating agency.

1.60 This reintroduction of securitisation has to be watched cautiously given the international experience with regard to the same. Some of the caveats to the new securitisation scheme include: (i) though, the banks claim that these new schemes are not for leverage, if the advantage in terms of lower requirement of capital from the securitisation process is high, it will prompt the banks to take advantage of the leverage; (ii) the banks can make use of internal information about their borrowers to their advantage while securitising the existing asset portfolio of the bank leading to the problem of adverse selection; and (iii) since the securitised assets are removed from the banks' balance sheet, the credit originating banks will no longer have the incentive to monitor these loan assets. It, thus, would raise the issue of moral hazard. The regulators need to be watchful of the invention of the new pooled asset derivatives, if they are perceived as a way to avoid regulatory capital requirements. It should be ensured that such schemes do not develop into a widespread form of capital arbitrage.

1.61 Some of the measures that have been adopted in the recent past since the London Summit in April 2009 with regard to securitisation include the removal of the shortcomings in the Basel capital framework that had earlier generated incentives for off-balance sheet securitisation for banks. Some of the weaknesses in the accounting practices that had encouraged off-balance sheet exposure have also been addressed. Apart from the measures already taken, further reforms are being thought of by the Basel Committee, which would be implemented by supervisors and regulators across countries. These include the efforts to build stronger capital buffers into the financial system covering capital, liquidity and provisioning. Further, measures decided by the Basel Committee to strengthen the capital treatment of securitisation would be implemented in the near future with higher risk weights on securitisation and re-securitisation, and improved disclosures of securitisation exposures.

Interest Rate Environment

1.62 Monetary transmission mechanism refers to the extent and speed with which changes in the central bank's policy rate are transmitted through the term structure of interest rates across markets. The impact is first transmitted to the short-term rates *viz.*, the call money rate and rates of short-term treasury bills. This impact is then transferred onto the rates having a long-term horizon, namely, long-term Government yields. It is these yields that impact the lending rates in the credit market and thereby impact economic growth through changes in savings and investment. In the Indian context, there has been striking efficacy with which policy rates have impacted money and government securities markets.

1.63 Following the deepening of the global financial crisis since September 2008, the Reserve Bank took several measures to bring down the policy rates to step up the liquidity in the system. The liquidity situation has thus turned comfortable with the call money rate remaining within or below the lower bound of the informal LAF corridor since early November 2008. However, the Government has resorted to a large fiscal stimulus during 2008-09 to revive the economy which would continue through 2009-10. Despite the Reserve Bank actively managing the liquidity in the system, the large increase in government borrowings has resulted in hardening of yields since January 2009. The major challenge that confronts the Reserve Bank in the medium-term is to manage the government borrowing programme in a non-disruptive manner. This is because the hardening of yields would go against the spirit of low interest rate regime that the economy requires in the current situation to revive economic growth.

1.64 Taking cue from the reduction in the Reserve Bank's policy rates and the easy liquidity conditions, all public sector banks, private sector and foreign banks have reduced their deposit and lending rates. The decline in lending rates, however, has come with a lag. Interest rates offered by public sector banks on deposits of all maturities showed moderate easing after October 2008. Further, a decline could also be seen in the deposit rates of all maturities of private sector banks and foreign banks after December 2008. Benchmark Prime Lending Rate (BPLR) of public sector and private sector banks too showed a decline since October 2008. However, BPLR of foreign banks showed considerable rigidity. Further, actual lending rates on non-export credit and terms loans above Rs.2 lakh eased for public sector banks but in the case of private sector banks and foreign banks, the rates somewhat firmed up between September 2008 and December 2008 notwithstanding the fall in policy rates and inflation, and declined between December 2008 and June 2009.

1.65 Rough estimates indicate that the effective average lending rate for SCBs has declined from 12.3 per cent in March 2008 to 11.1 per cent by March 2009. The effective lending rate is expected to have declined further in the first quarter of 2009-10.

NPA Management

1.66 The increase in the level of NPAs has a number of negative consequences. From the banking system's point of view, high loan loss provisions reduce net profits and tend to put pressure on the lending rates. High real lending rates discourage new and credit worthy borrowers from seeking loans from banks, with negative consequences for real economic activity. From a macro economic policy point of view, rigidities in lending rates that result from the large stock of NPAs dampen the effectiveness of monetary policy. In addition, to the extent that the public sector banks have to be recapitalised by the government because of the credit losses, the NPAs represent a source of quasi-fiscal liabilities.

1.67 There has been a consistent decline in NPA ratios over the years. In the context of high GDP growth high as well as credit growth in the past five years, given the well known leads and lags in the relation between credit growth and NPA trends, several analysts expect the level of NPAs to increase, particularly in the context of restructuring of loans.

1.68 While it is not unusual to expect NPAs to increase in a downturn, banks are well capitalised to cushion the impact of higher NPAs. Given the increase in banks' net worth over the past ten years and steady reduction in their NPAs, capital coverage for NPAs is at a prudent level.

Information Technology

1.69 Information Technology (IT) usage remains a key lever in the journey of Indian banking towards an efficient, effective, sensitive and user friendly financial system. IT and the innovations that it enables are strategic tools for enhancing the value of customer relationship. They reduce the costs of financial transactions, improve the allocation of financial resources, and increase the competitiveness and efficiency of financial institutions.

1.70 Even as the achievements of IT in the banking sector in India are impressive, there is a big agenda on the way forward. There is a need that current financial sector leaders still need to take greater advantage of new technologies and information-based systems and expand the coverage of the Indian banking and financial system. For instance, the potential of IT in extending banking services to under-served markets in rural and semi-urban areas is enormous. The use of Smart Card technology, mobile ATMs, coverage of post offices under electronic payments networks in out-of-reach areas – all could play significant roles in providing financial services to more people and thereby serve financial inclusion.

1.71 India is experiencing an explosion in the use of mobile communication technology. And this is a development that the financial sector can exploit. Mobile phone users belong to all strata of society, spread across metropolitan centres, towns and villages. Banks can take advantage of this expanded reach of telecom if they provide services through this medium. However, the expansion of such capabilities must be accompanied by a minimum level of essential security features and continued compliance with established covenants relating to privacy of customer transactions.

1.72 The need of the hour is leveraging technology in Indian banking for providing affordable and cost-effective banking services to the masses through multi-delivery channels. The range of services offered differs from bank to bank depending mainly on the type and size of the bank. The internet banking is changing the banking industry and is having the major effects on banking relationship. The potential of IT for near future also includes:

- Enabling differentiation in customer service;
- Facilitating Customer Relationship Management (CRM) based on available information, which can be stored and retrieved from data warehouses;
- Improving asset-liability management for banks, which has a direct bearing on the profits of banks;
- Enhancing compliance with anti-money laundering regulations; and
- Complying with Basel II norms.

1.73 Computing prowess of technology has undoubtedly made business processes highly efficient in terms of speed, cost reductions and accuracy. However, the operational risks associated with this development also solicits attention. Information Security (IS), therefore, places itself ahead in priority. The search for improved solutions for managing Information Security, building robust Business Continuity Plans (BCP) and Disaster Recovery (DR) set ups and IS Audit tools needs to continue.

Role of Public Sector in Banking

1.74 There are two models of ownership of banks, namely, the Anglo-Saxon model and Asian model[2]. The former refers to the model adopted by most of the developed countries, while the latter can be seen in some of the developing countries, such as India. Under the former model, the key decisions are taken by the top executives almost independently dictated by short-term considerations, and regulations may not be as stringent as required. As against this, countries like India have a financial system marked by substantial public sector ownership and a different incentive structure for the top executives. In this model, there is likely to be less financial innovation in the form of complex products and less incentives for risk taking. Thus, this sector is likely to be less innovative and less efficient but would be more steady. The advantage of this sector during times of crisis is the perceived sovereign backing which has been amply clear during the current crisis. While the former model came under pressure during the recent crisis, the latter model having substantial presence of public sector stood the Indian financial system in good stead. This was evident from the fact that the NPAs ratio for foreign and new private sector banks increased significantly during 2008-09 as an after-effect of the crisis, the NPA ratio declined for public sector banks during this period and was the lowest among all bank groups (refer to Table IV.30 in Chapter IV).

1.75 Public ownership has proved out to be a source of strength rather than a weakness for the Indian banking system. While discussing the perspectives about the role of public ownership in the banking system, there are certain issues that need to be noted. First, contrary to the belief that public ownership weakens the allocative efficiency, the analytical exercises by the Reserve Bank indicate that allocative, technical and cost efficiency of the public sector banks has been much higher than the private and foreign banks in India in the recent years. Secondly, the important aspect of public ownership of financial system in India has been the key role played by banks in the pursuit of social and redistributive objectives of developmental finance, which are vital to an emerging market economy like India.

Structural Growth Drivers in India in the Medium Term

1.76 Even as global financial markets face growth and asset-quality issues, Indian banks continue to offer a healthy growth trajectory with minimal balance sheet risks. In the past five years, banking sector deposits have seen healthy growth driven by a host of factors: acceleration in nominal GDP growth, rising savings rate, increasing proportion of bank deposits in total financial savings, and inflow of non-retail deposits. With most of these factors being close to their peak levels, retail deposit growth in future would depend on increased penetration of banks in semi-urban and rural areas. The levels of penetration in India are presently low, which can provide a medium-term structural growth driver for banks in India. A facilitating factor in this connection is the favourable

[2] Goodhart, C.A.E. (2009), 'Banks and the Public Sector Authorities', BIS Working Paper, August.

demographics, as evident from the fact that more than 30 per cent of Indians are below 15 years of age and over the next five to 10 years will enter in the "bankable population" category. The younger generation more open to consumer loans, financial products like insurance, mutual funds and wealth management, are expected to offer a much bigger revenue base for financial-service providers.

4. Conclusion and Way Forward

1.77 Globally, while policy action has rightly concentrated on dealing with immediate stability concerns, a comprehensive strategy is also needed to attenuate the impact of the current recession and put the global economy back on a sustained growth trajectory. This must include productivity enhancing reforms to support growth beyond the short term. The crisis demands tough decisions now, but it must not turn attention away from other serious structural challenges. An effective and sustainable global response will require the involvement of all major players, as well as better coordination and greater coherence among the major international organisations.

1.78 In retrospect, the key success of financial sector reforms in India since they were instituted in the early 1990s has been the maintenance of financial stability through a period marked by repeated financial crises across the world. The process of reforms is noteworthy not only for the turbulence around its path but also for the sheer dimensions of the change achieved from the position where the Indian banking system started. Way forward, the need of the hour is to have financial sector reforms in a recalibrated manner while distilling the lessons of the crisis. The policy challenge is to continue to ensure financial stability in India during this period of international financial turbulence, while achieving high growth with price stability.

1.79 The agenda that is being developed for strengthening of financial sector regulation and supervision is ambitious. The Reserve Bank has taken a number of steps and intends to take further steps. Contentious issues are expected to arise both at national and at the international levels on regulatory aspects. Whereas the principles underlying this regulatory overhaul are being increasingly accepted, many challenges will arise on their practicality and modes of implementation:

- First, there is a need to ensure that regulators and supervisors remain firm in their resolve to ensure that there is no build-up of risk in the system and that the principles and framework articulated are adhered to in letter and spirit.
- Second, the interconnectedness of the institutions and markets requires central banks, banking, securities and insurance regulators to work in close coordination with full exchange of information and frequent interaction to assess the systemic risks at any point of time.
- Third, several of the countercyclical proposals are dependent on the assessment of economic and banking conditions in national jurisdictions which will determine the capital buffer requirements – these will obviously vary from one jurisdiction to another as cycles would also vary. With banks operating across the globe, this will imply that capital requirement could vary across jurisdiction – parking the transaction in a more favourable jurisdiction cannot be ruled out. Coupled with complex structures and differential tax regimes, minimising regulatory and tax arbitrage will continue to be a challenge.
- Fourth, cross border resolution issues will continue to be daunting especially as national regulators will seek to protect domestic depositors and stake holders.

- Fifth, convergence toward international accounting standards will be a challenge in terms of not only bringing in the changes in standards that are appropriate for the country but also for putting in place systems and capabilities to facilitate convergence. Issues such as putting in place prudential filters for not distributing unrealised gains would also arise.
- Sixth, while there are discernible signs of recovery in the global financial markets, the real test of the resilience of the financial system will be its performance through the exit process. For the emerging market economies such as ours, the challenge will be to manage the impact of this process of global stabilisation.
- Seventh, an additional challenge for the EMEs is that they are exposed to the volatile international capital flows necessitating suitable regulatory policies depending on the macro economic conditions for ensuring financial stability.
- Finally, for countries like India, the advantages of coming in late is that while introducing new products and instruments they can have the benefit of the global experience so that the pitfalls can be avoided while reaping the gains of innovation.

Chapter II

Global Banking Developments

September 2009 marked the first anniversary of the global financial crisis. It was September 2008 when America's one of the biggest investment bank, Lehman Brothers, collapsed and triggered a chain reaction of economic, financial and psychological crisis which very soon engulfed the entire globe. The year 2008-09 turned out to be a year when hard-hit by the global financial crisis, the worldwide banking industry's future development has been sharply drawn into focus. Recognising that repairing the financial system remains a key priority, the rescue measures were undertaken globally. These have contributed to an avoidance of "worst case scenarios", in particular by reducing the default risk of major banks. From a period of volatility, the international financial markets are normalizing in Q2 of 2009. However, the global banking sector outlook remains difficult on both the sides of the Atlantic. Due to proactive and swift action of central banks and Governments and regulatory and supervisory policy initiatives, the adverse impact of the crisis remained under control. The global economy is slated to recover during 2010, which may facilitate revival of the global banking system.

1. Introduction

2.1 The global financial markets that remained under stress till Q1 of 2009, witnessed reduction in volatility and risk spreads in Q2 with rebound in activity in some market segments. Moderation in the pace of slowdown in real activity, better clarity in the rescue plans for the financial sector and on the extent of losses of some major banks, led to resumption of risk appetite and, hence, notable rally in stock prices in the advanced economies. Central banks across countries have continued with an easy monetary policy stance in Q1 2009, which has continued in Q2 2009. The well co-ordinated and concerted monetary measures by developed economies have begun to show results. Global credit spreads have tended to decline. There have been indications of moderation in negative growth rates in several countries, while growth in the credit to private sector has picked up. As per the Global Financial Stability Report, October 2009, the immediate outlook for the global financial system has improved markedly since its April 2009 outlook.

2.2 In this perspective, spread over six sections this chapter gives a bird's eye view of global macroeconomic scenario in the Section 2. Section 3 analyses the global banking trends. Outlook on the global banking trends has been provided in the Section 4. Section 5 gives a brief description about the Indian Banking System in the global context followed by conclusion in Section 6.

2. Global Macroeconomic Scenario

2.3 The deterioration in the global outlook that started in the middle of 2008 continued through the second quarter of 2009, although signs of stabilisation have begun to emerge. According to the World Economic Outlook, October 2009 by IMF, the global economy has been projected to shrink by 1.1 per cent in 2009, a shade lower than the contraction of 1.3 per cent projected in April 2009 and 1.4 per cent projected in July 2009 update. The global economy is, however, projected to recover and expand by 3.1 per cent in 2010 (Table II.1).

2.4 The IMF's WEO October 2009 issue has projected real GDP of the US to shrink by 2.7 per cent in 2009, a slight deterioration from a

Table II.1: Global GDP Growth

(Per cent)

Country / Region	2009	2010
1	2	3
US	(-) 2.7	1.5
UK	(-) 4.4	0.9
Euro Area	(-) 4.2	0.3
Japan	(-) 5.4	1.7
China	8.5	9.0
India	5.4	6.4
Advanced Economies	(-)3.4	1.3
Emerging and Developing Economies	1.7	5.1
World	**(-)1.1**	**3.1**

Source: IMF World Economic Outlook, October 2009.

contraction of 2.6 per cent projected in the July 2009 update of WEO. The main macroeconomic indicators continued to be adverse in Q2 of 2009 with the unemployment rate increasing to 9.3 per cent in June 2009 highest during last three decades. However, unprecedented monetary, financial and fiscal policy interventions are helping stabilise consumer spending and housing and financial markets, which points to renewed moderate growth in the second half of 2009. April-June 2009 output data of US shows the moderation in real GDP growth to decline of one per cent from decline in six per cent during first quarter of 2009. The outlook for the euro area is worse than that for the US. Euro area is expected to shrink by 4.2 per cent in 2009 and grow by 0.3 per cent in 2010 - an improvement of 0.6 per cent for both the years projected in July update of WEO. Improvement in growth prospects of euro area is mainly driven by the positive growth recorded by France and Germany. Measures of industrial production, consumption and export have improved in the second quarter of 2009. However, the recovery in the euro area may be subdued due to decline in private sector credit growth and rise in unemployment rate recorded during January-June 2009. Real GDP in Japan contracted by more than 10 per cent on an annualised basis in the two quarters following the Lehman Brothers bankruptcy in September 2008 due to the slump demand for durable goods faltered domestic demand, weakening labour markets, tightening financial conditions and rising spare capacity. However, subsequent data suggest that output is stabilising and consumer confidence is improving. The Japanese economy is projected to shrink by 5.4 per cent in 2009 before recovering by 1.7 per cent in 2010.

2.5 The IMF has projected the GDP growth of emerging and developing economies to decelerate to 1.7 per cent in 2009 from 6.0 per cent in 2008, before expanding to 5.1 per cent in 2010. The IMF, however, upgraded the growth outlook for developing Asia citing improved prospects in China, India and Asean-5 countries. In 2009 so far (up to July 2009), industrial production has picked up in a wide range of Asian economies. The most notable has been the strong recovery in China's industrial production following the very large increase in fixed capital investment by the public sector and strong credit growth. China has been able to at least partly neutralise the impact of contraction in exports by expanding domestic demand, especially Government investment demand. Industrial output in Korea and Taiwan also has recorded a significant upturn.

2.6 The October, 2009 issue of WEO further states that the global economy appears to be expanding again, pulled by the strong performance of Asian economies and stablisation or modest recovery elsewhere. A wide ranging public intervention has supported demand and lowered uncertainty and systemic risk in financial markets. The recovery is expected to be slow, as financial systems remain impaired, support from public policies will gradually have to be withdrawn, and households in economies that suffered asset price busts will continue to rebuild savings while struggling with high unemployment.

International Financial Markets

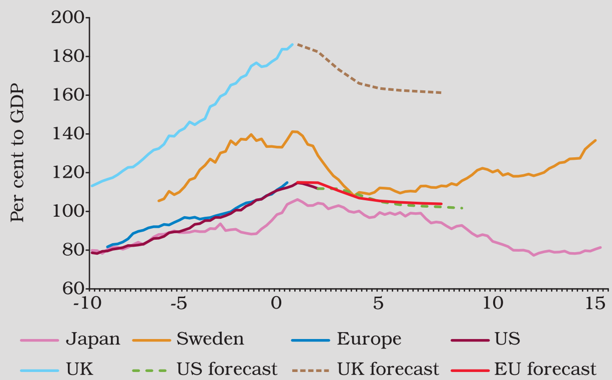
2.7 The global financial markets had experienced one of the most severe shocks during the last couple of years. The global financial markets that remained under stress till Q1 of 2009, witnessed reduction in volatility and risk spreads in Q2 with rebound in activity in some market segments. The flow of new macroeconomic data indicating possible moderation in the pace of slowdown in real activity, better clarity in the rescue plans for the financial sector and on the extent of losses of some major banks, led to resumption of risk appetite and, hence, notable rally in stock prices in the advanced economies. The expected bottoming out of the slowdown in some of the EMEs and the global trends led to a quick rebound in the equity markets across these countries. The comfortable liquidity conditions in money markets along with the further reduction in the policy rates in some of the advanced economies led to continued moderation in the money market rates and restored a semblance of normalcy in the various segments of the market with narrowing spreads. The improving investor risk appetite towards the EMEs was reflected in the significant narrowing of bond spreads. The Government bond yields although moderated in response to ample liquidity in the system, the retreat from safe haven concerns and worries about the ballooning deficits and public debt led to hardening of the long-term bond yields. There has been signs of stabilisation in Q2 of 2009 and early part of Q3 2009 with rebound in activity in some of segments of international financial markets. A series of policy induced measures contributed to waning of market uncertainty and helped to stabilise the financial markets. These include further steps by the central banks to ease monetary conditions, the action plan of the G-20 announced in April 2009, publication of the specific rescue package plans for banks, particularly in the US and the UK, and the release of the results of US Fed's bank stress-tests based action plan.

2.8 The EMEs, which showed considerable resilience in weathering the crisis up to September 2008, came under strain in the last quarter of 2008 through the spread of contagion mainly through three financial channels. The first was the exit of foreign portfolio equity investments, resulting in decline in stock markets which together with rapid decline in export demand, exerted significant pressures on the exchange rate. The second channel was the drying up of overseas lines of credit for banks and corporates, which shifted demand to the domestic credit market. Third, there was severe constraint on trade emanating from drying up of trade finance. Monetary policy actions by the EMEs, therefore, had to respond more to emerging problems of the real economy rather than financial sector problems.

Credit Market

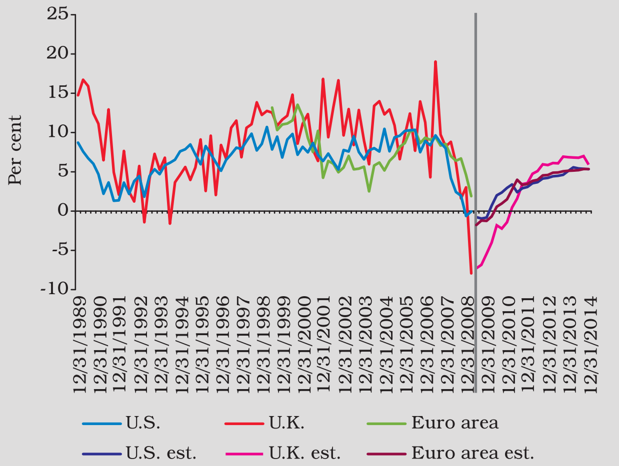
2.9 As per IMF's estimates, the global credit crunch would be deep and long lasting as deleveraging accelerates in advanced economies with corresponding balance sheet adjustment till end-2010. The buildup of leverage that preceded the recent crisis was substantial. The current trajectories for UK, US and European Union appear to be similar to that of 1990s crisis in Japan (Chart II.1). IMF further

Chart II.1: Bank Credit to the Private Sector
(As a percentage of nominal GDP)



Note: 1. Zero on the horizontal axis denotes the year in which bank credit to private sector attained the peak level in the respective country, left of zero is number of year prior to peak and right of zero is number of years ahead of peak for the respective countries.
2. The years in which the peak bank credit/GDP ratio attained by countries in the chart are: UK (2008), Sweden (1992), US (2008), Japan (1993), EU (2008)
3. Graph in dotted line represents estimates of respective country.
Source : IMF, Global Financial Stability Report, April 2009.

Chart II.2: Private Sector Credit Growth
(Borrowing as a percentage of debt outstanding, quarter-on quarter annualized, seasonally adjusted)



Note: Graph right of bar is IMF estimates.
Source: IMF, Global Financial Stability Report, October 2009.

estimates US and European private sector credit to contract at four per cent quarter on quarter annualised rate at its most negative reinforcing the deleveraging process (Chart II.2). Credit growth, while slowing remained in double digit (over year earlier levels) in many EMEs well in to the first quarter of 2009. In a number of EMEs, domestic bank credit remained stable or has been on an upward trend (Chart II.3)

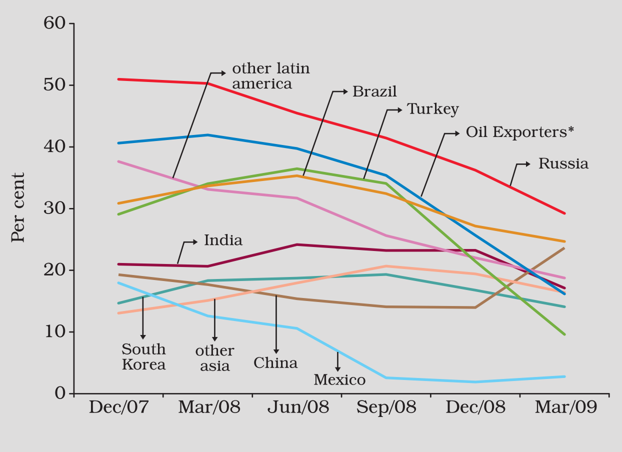
2.10 In the credit market, investor risk tolerance increased in Q2 with US banks' credit spreads declining upon public policy action and signs of stabilisation of markets EMEs. The spreads, however, continued to remain higher than the pre-Lehman level and weaknesses were evident in the asset backed securities (ABS) and commercial paper (CP) markets (Chart II.4).

Corporate Bond Market

2.11 The corporate bond markets are functioning more normally in the US as reflected in the yield of corporate bonds, which increased significantly as compared to 3 months US Treasury bill as well as 10 year US Government bond yield during the Q1 of 2009. The gap has, however, narrowed down during late Q2 of 2009 (Chart II.5).

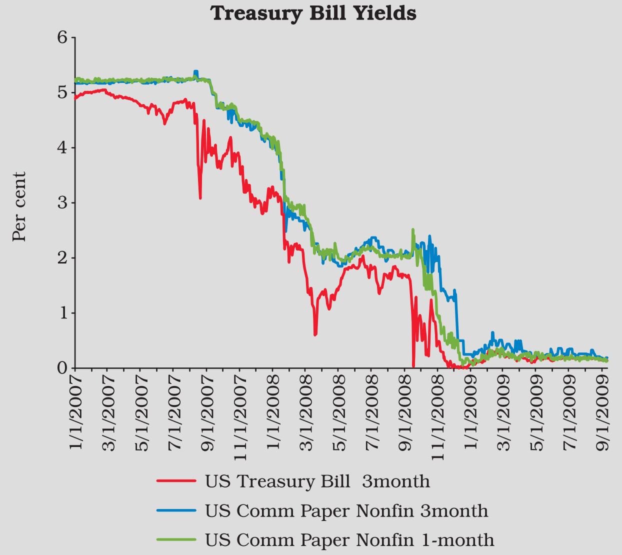
2.12 The emerging market corporate bond spreads (over Treasuries) also eased during early part of 2009. The spreads, however, continued to remain higher than the pre-Lehman level and weaknesses were evident in the ABS and CP markets. Improving outlook for defaults was reflected in narrowing CDS spreads in Q2 of 2009 across the developed markets (Chart 11.6).

Chart II.3: Domestic Bank Credit to the Private Sector
(in nominal and local currency terms, 2007=100)



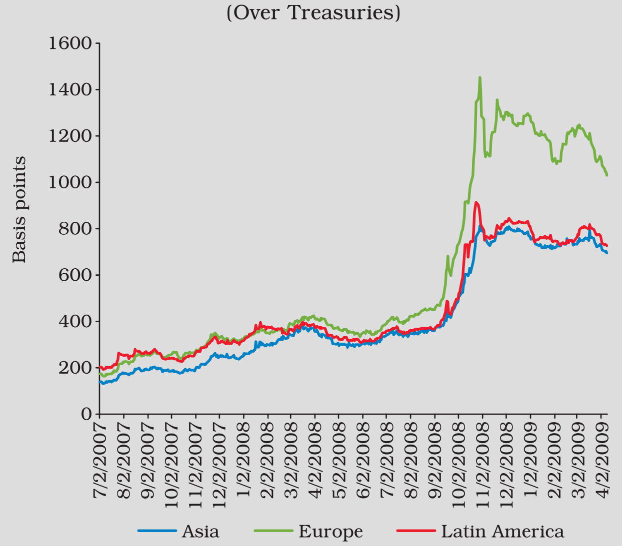
Note: Weighted average of oil exporting countries which include Algeria, Azerbaijan, Iran, Kazakhstan, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, 2005 GDP and PPP exchange rates
Source: International Monetary Fund; National Data.

Chart II.4: US Commercial Papers and 3-Month Treasury Bill Yields



Source: Thompson – Reuters Datastream.

Source: Thompson – Reuters Datastream.



Source: Thompson – Reuters Datastream.

Stock Markets

2.13 The year 2008-09 was characterised by depressed equity valuations. Equity price indices in several advanced and emerging economies witnessed large corrections in the range of 30-66 per cent (Table II.2). The volatility in the markets during the year was high as the

Table II.2: International Stock Markets

Country (Index)	Percentage variation (year-on-year)		Percentage variation		P/E Ratio			Coefficient of variation
	End-March 2008	End-March 2009	(end-Aug 2008 over end March 2008)	(end-Aug 2009 over end March 2009	End-March 2008	End-March 2009	End-August 2009	2008-09 (April-March)
1	2	3	4	5	6	7	8	9
Emerging Market								
Indonesia (Jakarta Composite)	33.7	-41.4	-11.5	63.28	14.7	14.8	29.82	26.6
Brazil (Bovespa)	33.1	-32.9	-8.67	38.03	13.8	12	23.48	25.3
Thailand (SET Composite)	21.3	-47.2	-16.23	51.39	16.4	15.1	26.57	27.9
India (BSE Sensex)	**19.7**	**-37.9**	**-6.9**	**61.37**	**16.2**	**10.4**	**18.86**	**24.2**
South Korea (KOSPI)	17.3	-29.2	-13.48	31.97	12.6	26	30.59	20.4
China	9.1	-31.7	-30.97	12.41	26.1	23.7	29.57	23.4
Taiwan (Taiwan Index)	8.7	-39.2	-17.81	31.42	14.3	65.6	159.7	27.6
Russia (RTS)	6.1	-66.4	-19.85	54.65	9.4	4.5	11.5	54.3
Malaysia (KLSE Composit)	0.1	-30.1	-11.78	34.58	13.7	14.6	22.74	15.4
Singapore (Straits Times)	-4.9	-43.5	-8.89	52.52	10.8	8.2	20.16	26.5
Developed Markets								
US (Dow Jones Industrial Average)	-0.7	-38	-5.87	24.8	15.2	14.1	13.64	19.3
US (Nasdaq Composite)	-5.9	-32.9	3.88	31.43	27.3	22.4	33.25	21.7
Euro Area (FTSE Eurotop 100)	-15.7	-40.1	-4.59	31.25	11.2	15.4	23.18	20.4
UK (FTSE 100)	-9.6	-31.1	-1.15	25.03	11.4	17.4	70.72	16.8
Japan (Nikkei 225)	-27.5	-35.3	4.37	29.39	15.1	26	-	23.9
Hong Kong (Hang Seng)	15.4	-40.6	-6.95	45.29	13.4	12.2	21.24	26.1
Memo:								
MSCI World	-5.1	-44	-6.44	34.82	14.2	15.1	25.55	24.9
MSCI Emerging	18.9	-48.4	-13.44	47.28	13.1	12	19.18	34

Source: Bloomberg and Bombay Stock Exchange Limited (BSE).

international equity markets oscillated between hope and despair - hope that the policies will succeed in stimulating the economies and despair that the problems during the current financial crisis continue to manifest themselves. However, the equity market have witnessed surge during 2009-10 so far (April–August) in emerging as well as developed countries. Indonesia, India, Russia, Singapore, Thailand led the emerging countries which experienced the surge in their equity market more than 50 per cent since end-March 2009.

2.14 The equity markets in developed countries as well as EMEs witnessed perceptible recovery since March 2009, with intermittent decline on negative news. Although activity in most economies continued to remain weak with declining output, markets rallied on the macroeconomic data that indicated moderation in the pace of deterioration in economic activity and some early indications of bottoming out in some economies. Most of the developed markets have registered increase in indices to the tune of more than 25 per cent during April-August 2009. MSCI Emerging market indices and MSCI World has recorded increase of 47.3 per cent and 34.8 per cent, respectively, during the same period (Chart II.7) US Stock markets also witnessed noticeable recovery in post-March 2009 (Chart II.8). The rally in the stock markets was somewhat broad-based covering financials, industrials and consumer durables, underpinned by improved corporate earnings expectations and reduction in uncertainty in the financial sector due to clear public policy actions.

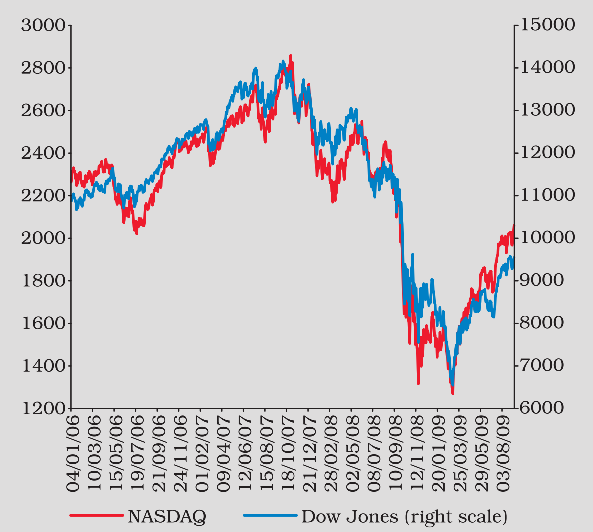
Foreign Exchange Market

2.15 The US dollar generally appreciated against most of the currencies, except Japanese Yen and Chinese Yuan, during 2008-09. The US dollar commenced the year on a weak note, exhibiting depreciating trend against most of the currencies during April-July 2008 due to factors such as slowing growth, lowering consumer confidence, weaker equity markets and downward nonfarm payroll employment. However, from early August 2008, the US dollar started strengthening mainly on account of decline in the risk appetite of the US investors induced by the financial crisis in the US resulting in liquidation of their positions in overseas equity and bond markets as part of ongoing deleveraging process in the financial markets and repatriation of the proceeds back to the US on flight to safety considerations.

Chart II.7: MSCI World and EME Indices

Source: Thompson – Reuters Datastream.

Chart II.8: US Stock Market Movements



Source: Thompson – Reuters Datastream.

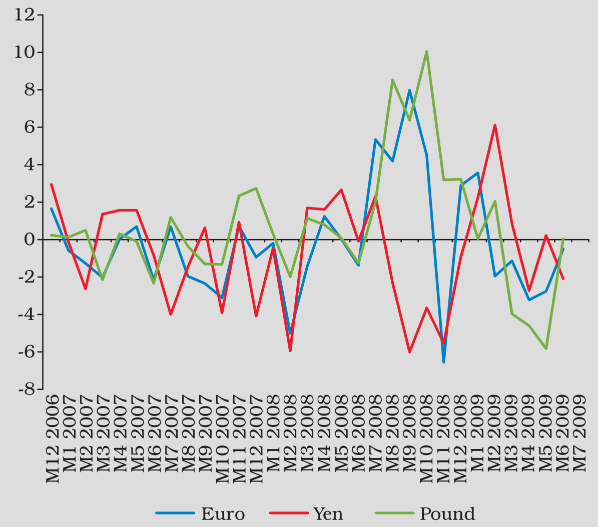
During 2009-10 so far, the appreciating trend has been reversed because of declining safe haven flows to the US, large-scale quantitative easing undertaken in the US in the recent period and change in the market sentiment against the dollar. Between end-March 2009 and end-August, 2009, the US dollar depreciated by 6.8 per cent, 12.2 per cent and 5.5 per cent against the euro, the pound sterling and the Japanese yen, respectively. Among the Asian currencies, it depreciated against the Indian rupee, Indonesian rupiah, Malaysian ringgit, South Korean won and Thai baht.

Over-the-Counter Derivatives

2.16 In the second half of 2008, the financial crisis resulted in a decline in the total notional amounts outstanding of Over-the-Counter (OTC) derivatives to US$ 592 trillion at end-year, an indication of reduced market activity. This is the first decline since 1998. Foreign exchange and interest rate derivatives markets both recorded their first significant contractions (Table II.3).

2.17 Despite the drop in amounts outstanding, significant price movements resulted in notably higher gross market values, which increased to US$ 34 trillion at end-2008. Gross market values, which measure the cost of replacing all existing contracts, can be used to capture derivatives related exposures. The higher market values were also reflected in gross replacement costs after taking into account bilateral netting agreements, also referred to as gross credit exposures, which grew by nearly one third to US$ 5 trillion. The market for interest rate derivatives contracted for the first time in the second half of 2008, with notional amounts outstanding of these instruments falling to US$ 419 trillion. Nonetheless, declining interest rates resulted in almost a doubling of the gross market value. The gross market value of interest rate swaps, by far the largest market segment, reached US$17 trillion. The most significant increase took place in the US dollar swap market, where the gross market value nearly tripled.

Chart II.9: Movement in Major Exchange rates *vis-à-vis* US dollar



Source: Source: International Financial Statistics, IMF.

2.18 Notwithstanding the improvement in global financial markets, the international financial system still remains fragile on account of heavy dependence on the public support, rising concerns emanating from mounting debt burden of countries, and the lack of clarity about the future exit strategies from monetary easing and fiscal support.

3. Global Banking Trends

2.19 Some of the possible factors behind the current global financial crisis may be traced in to the deeply flawed institutions and practices of New Financial Architecture (NFA) – a globally integrated system of giant bank conglomerates and the so-called 'shadow banking system' of investment banks, hedge funds and bank-created Special Investment Vehicles. These institutions were lightly regulated an arrangement of financial economics theory of efficient capital markets. The NFA has generated a series of ever-bigger financial crises that have been met by larger and larger Government bailouts.

Table II.3: Global Over-the-Counter Derivatives Markets Outstanding

(In US$ billion)

	Notional Amounts					Gross Market Values				
	Dec. 2006	June 2007	Dec. 2007	June 2008	Dec. 2008	Dec. 2006	June 2007	Dec. 2007	June 2008	Dec. 2008
1	2	3	4	5	6	7	8	9	10	11
Total	**4,18,131**	**5,16,407**	**5,95,341**	**6,83,725**	**5,91,963**	**9,791**	**11,140**	**15,813**	**20,353**	**33,889**
Foreign exchange	**40,271**	**48,645**	**56,238**	**62,983**	**49,753**	**1,266**	**1,345**	**1,807**	**2,262**	**3,917**
Forward and forex swaps	19,882	24,530	29,144	31,966	24,562	469	492	675	802	1,732
Currency swaps	10,792	12,312	14,347	16,307	14,725	601	619	817	1,071	1,588
Options	9,597	11,804	12,748	14,710	10,466	196	235	315	388	597
Interest rate	**2,91,581**	**3,47,312**	**3,93,138**	**4,58,304**	**4,18,678**	**4,826**	**6,063**	**7,177**	**9,263**	**18,420**
Forward rate agreements	18,668	22,809	26,599	39,370	39,262	32	43	41	88	153
swaps	2,29,693	2,72,216	3,09,588	3,56,772	3,28,114	4,163	5,321	6,183	8,056	16,573
options	43,221	52,288	56,951	62,162	51,301	631	700	953	1,120	1,694
Equity-linked	**7,488**	**8,590**	**8,469**	**10,177**	**6,494**	**853**	**1,116**	**1,142**	**1,146**	**1,113**
Forward and swaps	1,767	2,470	2,233	2,657	1,632	166	240	239	283	338
Options	5,720	6,119	6,236	7,520	4,862	686	876	903	863	775
Commodity	**7,115**	**7,567**	**8,455**	**13,229**	**4,427**	**667**	**636**	**1,899**	**2,209**	**955**
Gold	640	426	595	649	395	56	47	70	68	65
Other	6,475	7,141	7,861	12,580	4,032	611	589	1,829	2,142	890
Forward and swaps	2,813	3,447	5,085	7,561	2,471	...	...	...	...	...
Options	3,663	3,694	2,776	5,019	1,561	...	...	...	...	...
Credit default swaps	**28,650**	**42,580**	**57,894**	**57,325**	**41,868**	**470**	**721**	**2,002**	**3,172**	**5,652**
Single-name instruments	17,879	24,239	32,246	33,334	25,730	278	406	1,143	1,889	3,695
Multi-name instruments	10,771	18,341	25,648	23,991	16,138	192	315	859	1,283	1,957
Unallocated	**43,026**	**61,713**	**71,146**	**81,708**	**70,742**	**1,709**	**1,259**	**1,788**	**2,301**	**3,831**
Memorandum Items:										
Gross credit exposure	n.a.	n.a.	n.a.	n.a.		2,036	2,672	3,256	3,859	5,004

Source: Bank for International Settlement (2009), Quarterly Review, September.

2.20 Some of the structural flaws of this architecture may be described as: 1) regulators have accepted very weak and seriously misleading the theoretical foundation of the NFA *i.e.* efficient capital market; 2) in built moral hazard problem due to incentives embedded in the NFA which led to the excessive risk-taking in the financial markets; 3) some of the innovative financial products like mortgage-backed securities were so complex and non-transparent that they could not possibly be priced correctly and they collapsed once the excessive optimism of the boom faded; and 4) the NFA generated high leverage and high systemic risk, with channels of contagion that transmitted problems in the US subprime mortgage market around the world.

2.21 Overall, the above mentioned factors reflect the greater role played by large investment banks, institutional investors, and other financial institutions, as well the extensive use of securitisation. The loss of capital valuation of financial assets world-wide may have reached well over US $ 50 trillion. This loss in capital stock has been very significant, amounting to about equivalent of one year of world GDP[1].

[1] Loser, Claudio M (2009), Global Financial Turmoil and Emerging Market Economies: Major Contagion and a Shocking loss of Wealth?, Asian Development Bank.

Global Financial Crisis: Evolution and Stages

2.22 Deregulation allowed financial assets to grow more rapidly than the real sector in the US starting in the early 1980s, a process accelerated by the stock market boom in the second half of the 1990s, the mortgage-housing boom that began in the late 1990s, and the rapid pace of financial innovation in the past decade. Following a recovery from the chaos of the 1980s, financial sector profits relative to GDP grew rapidly from the early 1990s through the end of the decade, then took off after 2002.

2.23 The recent global financial crisis which surfaced in second half of 2007, may be usefully characterised in terms of five stages *viz.* (1) the prelude, leading up to the March 2008 takeover of Bear Stearns; (2) the gradual deterioration in financial conditions from mid-March to the failure of Lehman Brothers on 15 September 2008; (3) from mid-September to late October, a global loss of confidence, a massive flight to quality and the near collapse of the financial system; (4) from late October, the severe decline in the global economy; and (5) beginning in mid-March 2009, the deepening downturn and the first signs of stabilisation (Box II.1) and (Chart II.10).

Bank Profitability

2.24 The profitability of banks plunged last year owing to the realisation of losses on marked to market (securities) portfolios and the progressive deterioration of loan books as the economic slump deepened. Although the decline in bank profits was a global phenomenon, the way banks have been affected by the crisis has differed somewhat according to the circumstances in their respective home markets.

2.25 Banks in the United States saw their pre-tax profits in 2008 more than halved compared with the previous year (Table II.4). The full-year results, however, conceal the sharp deterioration in the second half. For example, one in three US banks lost money in the fourth quarter, and the sector as a whole recorded its first quarterly loss since 1990. Net interest margins also came under pressure, especially for smaller banks that found it hard to reduce their deposit rates. There was a surge in US bank failures in 2008. A total of 25 deposit-taking institutions failed, with combined assets of US$ 372 billion, about 10 times higher than during the previous peak in bank failures in 1993. The failure of Washington Mutual accounted for US$ 307 billion of the total and was the largest US bank failure in history. Besides the failed banks, the number of institutions on the US deposit insurer's list of problem banks swelled to 252 with total assets of around US$ 159 billion. Further large failures were averted as weakened institutions were acquired by others with healthier balance sheets.

2.26 In Europe, the general picture of bank performance in 2008 was broadly similar to that in North America. Profits plummeted across the board, and as a group the largest banks in the Netherlands, Switzerland and the United Kingdom registered a net loss. The size of the earlier residential property boom in Ireland, Spain and the United Kingdom posed an especially large challenge to banks in those countries once real estate markets slowed. Certain German banks were also affected by real estate exposures, *albeit* mainly indirectly through securities positions and exposures to commercial property. French and Italian banks were less affected by losses on structured finance investments, given their stronger focus on the domestic retail market. The profitability of Japanese banks remained poor, partly because of their structurally narrow net interest margins. Consequently, their capital base remained weak.

Composition of Bank Losses

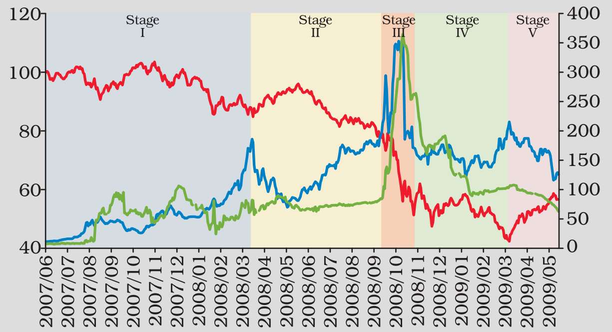
2.27 As the macroeconomic situation worsened over the course of the past year, institutions faced increasing pressure on

Box II.1: The Global Financial Crisis : Evolution and Stages

Stages of the crisis	Markets and institutions	Industrial economies		Emerging market economies	
		Macroeconomic conditions	Policy responses	Macroeconomic conditions	Policy responses
1. Pre-March 2008: prelude to the crisis	Subprime mortgage defaults create widespread financial stress. Uncertainty about size and distribution of losses. Crisis starts when interbank markets are disrupted in August 2007; waves of increasing intensity until March 2008.	Growth weakens.	Central bank (CB) rate cuts. Liquidity operations targeted at money markets.	Robust growth with inflation rising. Many inflation targeters above their targets.	Rate increases in response to high inflation.
2. Mid-March to mid-September 2008: towards the Lehman	Takeover of Bear Stearns in March slows decline, but bank losses and write downs accumulate as downturn weights on asset prices. More countries affected. Liquidity crisis reveals underlying solvency crisis, increasing pressure on financial institutions.	G3 economies contract even as oil prices fall steeply after August	Initially further rate cuts. Liquidity facilities grow. Government Sponsored Enterprises put into conservatorship in early September.	GDP growth slows after June but remains positive. Exports weaken in central Europe.	Further rate increases due to high inflation.
3. 15 September 2008 to late October 2008: global loss of confidence	Demise of Lehman Brothers on 15 September 2008 triggers a bigger run on key funding markets. More financial institutions fail or are rescued. Loss of confidence affects markets and countries globally. Reprieve only after unprecedented and broad-based policy intervention.	As confidence falls and financing conditions tighten, forecasts are revised down sharply.	Sharp rate cuts, CB swap lines expanded, rapid CB balance sheet growth. Large-scale bank rescues, deposit and debt guarantees.	Confidence slumps. Financing conditions tighten. Steep currency depreciations.	Rate cuts, more flexible provisions of central bank liquidity. Deposit and debt guarantees. Capital injections.
4. Late October 2008 to mid-March 2009: global downturn	Markets remain volatile, with increasingly dire economic data releases, weak earnings reports and uncertainties over ongoing Government intervention. Downturn means that credit losses keep mounting.	Spending drops, leading to declines in goods trade and GDP. Inflation falls, with the price level declining in some countries.	Rates cut to near zero, liquidity provision to non-banks. Outright purchases of public debt. Big fiscal stimulus packages.	GDP growth declines sharply in 04, 2008 as exports slump. Capital inflows reverse.	Further rate cuts, lower reserve requirements. FX intervention, CB swap lines. Large fiscal stimulus packages in some EMEs.
5. Since mid-March 2009: downturn deepens but loses speed	Asset prices recover somewhat after more policy action. But signs of market dysfunction remain, as official efforts have failed to fully restore confidence in the global financial system. Continued credit losses.	Consumption and production continue to decline, with possible signs of bottoming-out.	Further rate cuts in some countries. Accounting rules for banks eased.	Equity markets recover, and exchange rates stabilise.	Increased external official financing to support EMEs.

Source: Bank for International Settlement (2009), Annual Report, 2008-09.

Chart II.10: The Five Stages of Crisis to Date



Note: * : Morgan Stanley Capital International Index, in US dollar terms; June 1, 2007 = 100.
** : Equally weighted average of CDS spreads (in basis points) for 18 major international banks; including Lehman Brothers until September 15, 2008 and Merill Lynch until December 31, 2008.
***: Three-month US dollar Libor minus overnight index swap (OIS) rates, in basis points.
Source: Bank for International Settlement, 2009, Annual Report, 2008-09.

earnings and mounting losses on their credit risk exposures. The shifting composition of bank losses reflected the evolution in the character of the problems confronting the industry. During the first stage of the crisis, write downs were closely linked to traded portfolios of structured finance products and securitised exposures to the subprime mortgage market. Losses were exacerbated by illiquidity in the markets for those instruments, which led to substantial reductions in their marked to market valuations (Table II.5). While there was considerable uncertainty about the magnitude of the losses and their distribution across the system, they were perceived as being contained within a certain class of assets.

2.28 The general economic slowdown that ensued in the later stages of the crisis, in particular after the global crisis of confidence in September and October 2008, meant that bank losses became more closely connected to macroeconomic performance. In this period, the majority of write downs were more directly linked to a surge in borrower defaults and to anticipated defaults as evidenced by the increase in the amount and relative importance of provisioning expenses. Loan loss provisions as a fraction of bank assets were universally higher in 2008 than in previous years (Table II.5). Compared with 2007, the rate at least doubled for Australian, French, Swiss and US banks and jumped even higher in the case of German, Dutch and Swedish lenders. Credit costs are likely to continue on an upward trajectory as weakening economic activity will probably impair the private sector's ability to service debt.

Table II.4: Profitability of Major Banks
As a percentage of total average assets

	Pre-tax profits			Net interest margin			Loan loss provisions			Operating costs		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
1	2	3	4	5	6	7	8	9	10	11	12	13
Australia	1.54	1.42	0.95	1.87	1.70	1.66	0.12	0.13	0.26	1.56	1.38	1.51
Austria	1.48	1.12	0.66	1.72	1.95	2.10	0.34	0.24	0.45	2.17	2.11	2.29
Canada	1.22	1.12	0.48	1.52	1.48	1.42	0.09	0.13	0.21	2.37	2.27	2.00
France	0.73	0.41	0.05	0.59	0.49	0.70	0.05	0.09	0.21	1.20	1.19	1.23
Germany	0.43	0.25	–0.41	0.51	0.51	0.63	0.05	0.05	0.19	0.96	0.88	1.18
Italy	1.05	0.88	0.29	1.77	1.68	1.94	0.25	0.25	0.42	2.18	1.99	2.31
Japan	0.46	0.29	0.12	0.48	0.49	0.50	0.04	0.11	0.19	0.49	0.55	0.65
Netherlands	0.48	0.30	–0.79	1.03	0.85	0.96	0.10	0.09	0.27	1.13	1.01	1.33
Spain	1.37	1.44	1.10	1.64	1.72	1.83	0.31	0.37	0.53	1.75	1.77	1.89
Sweden	0.96	0.89	0.67	0.98	0.97	0.99	–0.02	0.02	0.11	0.99	0.96	1.00
Switzerland	0.80	0.38	–1.94	0.51	0.53	0.49	0	0.03	0.07	1.53	1.78	2.55
UK	0.90	0.74	–0.10	1.16	1.02	0.81	0.25	0.22	0.40	1.56	1.37	1.28
US	1.71	0.98	0.36	2.35	2.28	2.16	0.19	0.51	1.11	2.95	3.31	3.44

Source: Bank for International Settlement (2009), Annual Report, 2008-09.

Table II.5: Composition of Announced Bank Losses

In billions of US dollars

	2007 H2	2008 H1	2008 H2	2009 Q1
1	2	3	4	5
Securities	120.5	97.0	106.1	21.0
Provisions	39.2	96.9	149.3	43.9
Real estate	3.2	11.6	55.9	3.0
Leveraged Loan	8.3	16.4	10.4	2.0
Monolines	7.4	26.5	13.7	13.3
Other	27.4	47.7	100.4	10.6
Total	206.0	296.0	435.8	93.7

Note: Losses have been defined as write downs in original currency converted to US dollars at end-of-period exchange rates. The classification is based on disclosures by large international banks that may not be perfectly comparable across reporting institutions.

Source: Bank for International Settlements (2009), Annual Report, 2008-09.

Rating agencies expect corporate default rates to increase further. In addition, the performance of banks' household credit portfolios will depend on the length and depth of the contraction in incomes. Initial signs of problems in US banks' credit card portfolios indicate a stronger pass-through from unemployment to delinquencies than that suggested by historical experience. The close interdependency between financial sector performance, the supply of credit and the debt servicing capacity of borrowers implies greater uncertainty in the overall outlook for banks.

2.29 Modern financial system is immensely complex, where interconnections create systemic risks. The financial system is based on trust, and in the wake of the Lehman failure that trust was lost. Over the past few years, this essential and complex system of finance has been critically damaged. Evidence of serious trouble emerged when banks became less willing to lend to each other, because they were no longer sure how to value the assets held and the promises made – both their own and those of potential borrowers. For a time, central bank lending was able to fill the gap. But from August 2007 the stress in the financial system increased in waves. By March 2008, Bear Stearns had to be rescued; six months later, on September 15, Lehman Brothers went bankrupt; and by the end of September, the global financial system itself was on the verge of collapse.

2.30 While financial institutions in the US are at the heart of the problem, European banks face strikingly similar problems which shows how deeply interconnected national financial systems have become. European banks have been hit nearly as strongly as their American peers by losses from subprime mortgage investments, leveraged loans, failed financial hedges and, increasingly, by a surge in conventional credit losses. As per an estimate, banks on both sides of the Atlantic so far have had to cope with combined write-downs of more than US$ 1 trillion in this crisis; they may even have to take US$ 1.3 trillion more (Annex II.1).

2.31 Emerging countries have been increasingly integrated with the global financial markets but they have not developed the same complex financing structures as those in the US, but several countries have already suffered from severe external imbalances, caused by fiscal imbalances and/ or over-extended banking systems. These countries have become particularly vulnerable, as the crisis is transmitted through financial and trade channels (Table II.6). However, the specific channels of transmission may differ significantly across countries. The basic structure of the financial system is not expected to change significantly, as banks still play a dominant role and capital markets are generally less developed.

2.32 As per the BIS, in the wake of the failure of Lehman Brothers in mid-September 2008, the international banking trends are characterised by the following aspects:

- Banks trimmed their cross-border credit to emerging markets, but their local operations in many of these countries remained relatively stable. Reporting banks' cross-border claims on all four emerging market

Table II.6: Connecting the Financial System to the Real Economy

Channel	Mechanism
Funding costs	Higher interest rates, higher spreads and lower equity prices increase funding costs, reducing investment
Crediting availability	Tighter financial conditions reduce banks' and other financial institutions' willingness to lend
Risk aversion	Higher risk aversion drives up risk premia and leads to flights to quality
Firms' net worth	Lower equity and property prices drive down firms' net worth, increasing the problems of adverse selection and moral hazard
Household net worth	Lower equity and property prices reduce individuals' net worth worsening creditworthiness, making borrowing more difficult
Exchange rates	Flight to "safe haven" currencies, and reversals of capital flows, affect exchange rates, which have trade effects
Confidence	Consumer, business and investor confidence fall leading to a curtailing of their activities

Source: Cechetti, Stephen G *et al* (2009), Financial Crisis and Economic Activity, August, BIS.

regions *i.e.* emerging Europe, emerging Latin America, emerging Asia pacific, and emerging Middle East/Africa, declined in the fourth quarter by a combined US$ 282 billion (10 per cent), with claims on Asia-Pacific dropping the most. The declining trend continued during January-March 2009 recording a overall cross border claims on emerging markets to US $ 134 billion. In contrast to banks' cross-border claims, their claims extended from their foreign offices to local residents in local currency remained stable overall and actually increased in many countries.

- Balance sheets contracted amidst funding pressures. The stresses in the financial system in September 2008 carried over into the fourth quarter, contributing to the largest decline in banks' foreign positions on record. The BIS consolidated banking statistics (ultimate risk basis), which track the outstanding stock of foreign claims of national banking systems, show that, overall, total foreign claims fell by US$ 3.2 trillion (–11 per cent) to US$ 25 trillion in the fourth quarter of 2008. The decrease is partly explained by the significant appreciation of the US dollar against many currencies during the quarter, which leads to a fall in the outstanding stock of non-US dollar positions when expressed in US dollars. While most major banking systems reported declines, European banks' positions fell the most.
- Banks' funding sources showed signs of instability in the wake of the Lehman Brothers bankruptcy. By the end of the fourth quarter of 2008, international interbank claims had shrunk by a record amount (US$ 953 billion, excluding inter-office claims). Euro-denominated claims fell the most, primarily reflecting reduced intra-euro area interbank lending. By banking system, the BIS consolidated banking statistics indicate that European banks, notably Dutch, Swiss, German and UK banks, reported the largest reductions in their interbank positions.

2.33 Apart from monetary and fiscal stimulus measures countries implemented a wide range of crisis-management policies relating to the financial sector. Critical actions included the establishment of creditor protection programs and the injection of capital in banks (Appendix Table II.1). Additional actions included measures to address the deteriorating assets of the banks. The objective of policy measures evolved over the course of the crisis from an early emphasis on containment to subsequent restructuring and asset management.

2.34 In response to the crisis, since it intensified following the collapse of Lehman Brothers in September 2008, so far, policy responses by central banks and Governments to help money markets and financial institutions have been manifold and massive. Featured among them are monetary policy measures like liquidity injections, policy rate cuts, and changes to the structure of the financial safety net, such as increases in guarantees of private deposits and guarantees for bank loans or debt. While Central Banks across countries have continued with an easy monetary policy stance, financial sector rescue programmes have been undertaken by the Governments in advanced economies to provide support to banks and financial institutions, through both standalone actions directed at individual institutions and system-wide programmes. Governments became crucial during the crisis, as traditional sources of funding for financial institutions dried up. The measures introduced have consisted of: (i) capital injections to strengthen banks' capital base; (ii) explicit guarantees on liabilities to help banks retain access to wholesale funding; and (iii) purchases or guarantees of impaired legacy assets to help reduce banks' exposure to large losses. Measures have also included the establishment of funds to purchase commercial paper or mortgage bonds, and regulatory changes like bans or restrictions on short-selling. The objective of such intervention was to avoid widespread bankruptcies of financial intermediaries and to contribute to restoring a normal functioning of financial intermediation (Box II.2).

4. Outlook of the Global Banking System

2.35 The banking sector is undergoing significant changes as a result of the financial crisis. It is expected to become a less "fashionable" and even more heavily regulated industry with greater state involvement, increased investor scrutiny and substantially higher capital levels. This may lead to lower growth, lower profits and lower volatility for banks than during the past few decades – a trend that may be exacerbated in the medium term by the expected lack of major growth drivers. According to analysts, following the financial crisis, the global banking outlook is perceived to be uncertain. In the short-term, the outlook seems to be grim while the drivers for the long-term prospects show some sign of incipient recovery (Box II.3). Especially US banks might well face lean years due to low loan growth, higher credit losses and weaker revenues from capital-market activities. Secondly, while consolidation in banking may continue, there could be a possible re-orientation towards domestic markets rather than financial globalisation and market integration. Thirdly, a more general effect could be the vast destruction of confidence in banks and of their reputation. Given that the demand for banking services is relatively inelastic even though this may not have adverse consequences in the short run in the longer run, banks could feel strong negative repercussions. It will, therefore, be one of the greatest challenges for banks – apart from adjusting to a profoundly changed business environment – to repair their public reputation as soon as possible and regain the trust of clients, policymakers and the general public.

5. Indian Banking in the Global Context

2.36 Keeping in view the global developments, and the diverse channels of transmission, the developments in Indian banking needs to be analysed. Table II.7 provides Indian banking trends in the context of cross-country set up. In a cross-country perspective, although Indian banking sector has displayed healthy trends, the significant aspect is that India has so far never witnessed a banking crisis. Some of the reasons for India's insulation are: (1) the nascent stage of development of the credit derivatives market; (2) regulatory guidelines on securitisation do not permit immediate profit

Box II.2: Financial Sector Rescue Programme - An Assessment

The magnitude of the actions taken to support the banking system as a fall out of the global financial crisis has been unprecedented. As per a BIS estimate, the overall amount of resources committed to the various packages by eleven countries (namely, Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and the United States) totalled around euro 5 trillion or 18.8 per cent of GDP; the outlays have been euro 2 trillion or 7.6 per cent of GDP.

The size of the interventions varies greatly across countries: it is higher in countries such as the United Kingdom and the Netherlands, where outlays have reached 44.1 per cent and 16.6 per cent of GDP, respectively). In these countries the banking system is large relative to the real economy and is dominated by large institutions that have been severely hit by the crisis. It is lower in countries such as Japan (0.1 per cent of GDP) and Italy (0.6 per cent) where banks are more focused on traditional credit activities and so far have been less affected by the crisis. Actions for addressing capital shortages and funding difficulties have been widespread and have mostly taken the form of system-wide programmes. Measures for improving the quality of bank assets have been less common and have mainly targeted individual large institutions. However, some of the most recent initiatives include comprehensive schemes for dealing with illiquid or "bad" assets. Among banks that participate in both recapitalisation and debt guarantee programmes, the intermediaries that have received more capital in relation to shareholder equity have also issued more liabilities under guarantee (in relation to total liabilities). Moreover, most instances of asset purchase/guarantee occurred after earlier capital injections, suggesting that this option was used after a first phase of Government support failed to fully restore confidence in troubled institutions. The average uptake rate by eligible institutions (i.e, the ratio of outlays under a given programme to total commitments) is higher for capital injections (around 50 per cent) than for debt guarantees (less than 20 per cent). The United Kingdom has the highest participation rate for both capital injections and debt guarantees, possibly reflecting the relatively small number of major banks and the tailoring of Government programmes to their needs.

Governments around the globe have had to intervene to prevent a wholesale collapse of the financial system. They have injected more than US$ 200 billion in fresh capital into the top 20 banks alone besides the much larger asset and debt guarantees. It is clear that the developed countries' banking sectors to a large extent now depend on massive Government support. If the immediate value destruction in the global banking industry seems large, the scale of the challenges ahead is even bigger in terms of loss in GDP. The effects of the financial sector rescue measures can be summarised as follows:

- Government interventions have been effective in reducing banks' default risk, particularly over a short time horizon. On an average, the announcement of system-wide rescue packages was followed by a fall in CDS premia, especially for announcements of capital injections.
- There seem to be positive spillover effects across countries in terms of CDS spreads showing "early declines" after the announcements of packages by others.

Important perceptions are emerging from these developments. First, Government intervention has not been sufficient, at least so far, to trigger a "virtuous circle" for banks, such as a mutually reinforcing increase in capital and borrowing on the one hand and lending and profits on the other. For example, between the first and the second quarter of 2009, the portion of overall bank funding provided or guaranteed by Governments sharply declined. Secondly, the rescue measures have been effective in stabilising the financial system, but this has come at a price, represented by distortions and inefficiencies. This is an example of the trade-off that exists between the stability and the efficiency of the financial system.

Reference

Bank for International Settlements (2009), An assessment of financial sector rescue programmes, BIS Paper 48, July.

recognition; (3) perseverance of prudential policies which prevent institutions from excessive risk taking and financial markets from becoming extremely volatile and turbulent; and (4) close co-ordination between supervision of banks and their regulation.

2.37 Other significant differences can be noted between the global and Indian banking trends. One significant aspect is that unlike other countries where the adverse loop operated from the financial to real sector, in India the banking sector has got an impact from the real sector. Secondly, the fact that so far, financial sector reforms have been calibrated with a progressive integration into the world economy has paid us rich dividends. A key consideration in the choice of pace and sequencing has been the management of volatility in financial markets and implications for the conduct of monetary operations. The nuanced approach to financial sector reform has served India well

Box II.3: Global Banking Outlook after the Financial Crisis - Perspectives from Deutsche Bundesbank Research

The near-term prospects for US and European banks are apper to be grim with the global financial crisis bringing about significant changes to their operating framework. Growth and profitability of the banking sector as a whole are likely to decline with fundamental re-regulation of the industry, ownership structures shifting towards heavier state involvement and investor scrutiny rising strongly. Equity ratios will be substantially higher.

Lacking major growth drivers: As of US banks, performance improvements during the last 15 years have been mainly due to strong lending growth and low credit losses. As private households reduce their indebtedness, revenue growth in some European countries and especially the US may remain depressed. With weak loan growth and a return of higher loan losses as well as a diminished importance of trading income and modern capital market activities such as securitisation, banks may be lacking major growth drivers.

Consolidation may continue but with a different focus: While a considerable number of deals may be there, transaction volumes are likely to decline and restructuring rather than strategic Merger and Acquisition (M&A) may dominate. The probability of domestic deals has increased, while that of cross-border mergers has declined.

Internationalisation of European banks likely to slow: Uncertainty about the future prospects especially of foreign markets and strictly national banking sector stabilisation programmes are triggering a re-orientation towards domestic markets. This is more relevant for European banks that have greatly expanded into other European countries recently, while American banks overall may continue to target the national market rather than going abroad.

Following are the long term outlook on revenue and profit developments

- The boom in trading income that helped to push net income especially in the latest part of the up-cycle has turned to bust, inducing banks to cut back the resources devoted to proprietary trading. While trading income consists of more than proprietary trading and also includes, e.g., gains and losses on hedges, this nonetheless limits the potential for a large positive contribution of trading income to overall revenues even when markets return to normal conditions. In addition, the fundamental shift in ownership structures – towards much greater influence of public shareholders – will probably lead to lower the banks' inclination to assume risks in capital market activities.
- There is a greater accent for financial institutions to reduce their risk exposure particularly in trading segments, given the risks to financial stability. Fees and commissions also are likely to remain under pressure due to lower assets under management, a lower number of transactions and lower margins on those products clients may demand most. Client confidence in banks has suffered which has prompted clients to shift assets towards the most liquid and safe asset classes and to products that are rather simple, standardised and by and large "commodities" – thus facing strong competitive pressure and exhibiting relatively low margins. In addition, with lower nominal economic growth in future, overall revenue growth may be reduced in non-credit-related business areas like payment services where transaction volumes have a close correlation with overall GDP growth.
- **Significant differences between the US and European banking sectors:** A significant proportion of non-interest income of European banks is derived from fees and commissions for transaction and asset management services as most banks operate as universal banks, providing a wide range of services. In the US, on the other hand, banks, brokers, and asset management firms are often separate institutions. Hence, asset management fees and brokerage commissions tend to account for a lower share of American banks' income – notwithstanding moves of some banks into the asset management business, for instance, due to its stable revenue streams. At the same time, other fees, *e.g.*, from the usage of cards, ATMs, cheques and bank overdrafts as well as from servicing, play a more significant role in the US where many commercial banks focus almost entirely on retail banking activities.
- **Implications for the expected development of revenues over the next few years:** While European banks traditionally suffer from less benign conditions on capital markets – with lower valuations hurting assets under management and clients shying away from trading and investing – US banks' income from fees and commissions tends to be much more robust in a downturn. Net interest income, finally, has been boosted for a long time by a structural decline in interest rates, driven by lower pressure from inflation. Falling interest rates tend to be beneficial for banks as the pass-through of interest rate changes differs on the asset and liability side of the balance sheet as a result of differences in the levels of competition in the respective market segments.
- **A structural reversal could occur in the years to come but this is debatable:** The other major factor that helped banks to strengthen interest income, the long-term decline in interest rates, has also come to an end due to the low levels reached already. Governments around the world are incurring huge fiscal deficits to stabilise banking systems and cushion the recession. As most developed countries not even achieved balanced budgets in benign times, the delay of structural reforms will be felt sorely in the next few years. IMF projections e.g. for the US foresee a surge in the level of Government debt to GDP from 63 per cent in 2007 to 90 per cent in 2010, in the UK from 44 per cent to 69 per cent and in Germany from 65 per cent to 80 per cent. Government bond issuance has already picked up strongly since autumn 2008, especially for short maturities. Additional bonds under Government guarantees are issued by financial institutions. The surge in Government debt is a factor for a potential return of higher interest rate levels once market conditions normalise.
- **Expeted low credit losses:** Another factor that drove banks' profits to new heights - low credit losses - has also reversed its course already and is set to turn into a major burden for banks' profitability. If bad debt charges in Europe in the current crisis exceeded the levels reached in the early 1990s – which is not an unlikely scenario, and reached more than 2 per cent of total loans, this would virtually wipe out the entire net interest income of one year.

Reference:

Deutsche Bank Research (2009), Global banking trends after the crisis, June, www.dbresearch.com

Table II.7: Cross-Country Select Banking Indicators – A Comparison

(Per cent)

Country	Regulatory Capital to Risk-Weighted Assets (CRAR)				Non-performing Loans to Total Loans				Provisions to Non-performing Loans				Return on Assets (ROA)			
	2002	2006	2007	2008	2002	2006	2007	2008	2002	2006	2007	2008	2002	2006	2007	2008
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Developing Economies																
Argentina	-	-	16.9	16.8	18.1	3.4	2.7	2.5	73.8	130.2	129.6	130.9	-8.9	2	1.5	1.6
Brazil	16.6	18.9	18.7	16.6	4.5	4.1	3.0	2.9	155.9	152.8	181.8	170.9	2.1	2.5	2.9	2.0
China	-	-	8.4	8.2	26.0	7.5	6.7	2.5	-	-	39.2	115.3	-	0.9	1.0	-
India	**12.0**	**12.4**	**12.3**	**13**	**10.4**	**3.5**	**2.5**	**2.3**	**-**	**58.9**	**56.1**	**52.6**	**0.8**	**0.9**	**0.9**	**1.0**
Indonesia	20.1	21.3	19.3	16.8	24.0	13.1	4.1	3.5	130	99.7	87.7	98.5	1.4	2.6	2.8	2.6
Korea	11.2	12.8	12.3	10.9	2.4	0.8	0.7	1.1	89.6	175.2	199.1	155.4	0.6	1.1	1.1	-
Malaysia	13.2	13.5	13.2	12.6	15.9	8.5	6.5	5.1	38.1	50.7	77.3	86.9	1.3	1.3	1.5	1.6
Mexico	15.7	16.3	15.9	15.3	3.7	2.1	2.7	2.5	138.1	207.4	169.2	184	0.7	3.1	2.7	1.8
Philippines	16.9	-	15.7	15.5	26.5	18.6	5.8	5.2	30.1	37.4	81.5	84.1	0.8	1.3	1.3	1.1
Russia	19.1	14.9	15.5	14.5	5.6	2.6	2.5	2.5	112.5	159.3	144.0	140.0	2.6	3.2	3.0	1.6
South Africa	12.6	12.3	12.8	12.5	2.8	1.2	1.4	2.6	46.0	-	-	-	0.4	1.4	1.4	1.8
Thailand	13.0	13.8	14.8	15.3	15.7	7.5	7.9	6.5	62.9	79.4	86.5	-	-	2.3	0.1	-
Turkey	24.4	21.1	19.0	17.7	12.7	3.2	3.5	3.3	64.2	90.8	88.4	81.6	1.2	2.4	2.8	2.2
Developed Economies																
Australia	9.6	10.4	10.2	10.9	0.4	0.2	0.2	0.5	106.2	204.5	183.7	87.2	1.4	-	1.0	0.9
Canada	12.4	12.5	12.1	12.7	1.6	0.4	0.7	1.1	41.1	55.3	42.1	34.7	0.4	1.0	0.9	1.3
France	11.5	-	10.1	-	4.2	3.2	2.7	-	58.4	58.7	61.4	-	0.5	-	0.4	-
Germany	12.7	-	12.9	-	5.0	4.0	2.7	-	-	-	77.3	-	0.1	0.5	0.2	-
Italy	11.2	10.7	10.4	-	6.5	5.3	4.6	-	-	46	49.5	-	0.5	0.8	0.8	-
Japan	9.4	13.1	12.9	12.3	7.4	2.5	1.5	1.5	-	30.3	26.4	24.9	-0.7	0.4	0.2	0.3
United Kingdom	13.1	12.9	12.6	-	2.6	0.9	0.9	-	75.0	-	-	-	0.4	0.5	0.4	-
United States	13.0	13.0	12.8	12.5	1.4	0.8	1.4	2.3	123.7	137.2	93.1	84.7	1.3	1.3	0.8	0.3

Source: Global Financial Stability Report, April 2009, IMF.

with an accent on conscious gradualism in the implementation of coordinated and sequenced moves on several fronts. What have been ensured are appropriate safeguards to ensure stability, while taking account of the prevailing governance standards, risk management systems and incentive frameworks in financial institutions in the country. Overall, these progressive but cautious policies have contributed to efficiency of the financial system while sustaining the growth momentum in an environment of macroeconomic and financial stability. The policy challenge is to continue to ensure financial stability in India during this period of international financial turbulence, while achieving high growth with price stability.

2.38 Government and central banks continued to provide direct support to the financial sectors. However, while support measures have been large, immediate impacts on Government financing needs have been limited as guarantees do not require upfront Government financing, and institutions providing other support are generally outside the Government sector. Upfront Government financing needs connected with financial support operations are estimated to be 5.5 per cent of GDP for the advanced G-20 countries

Table II.8: Support for Financial and Other Sectors

(As of June 2009; in per cent of 2008 GDP unless otherwise noted)

	Capital Injection	Purchase of Assets and Lending by Treasury	Guarantees	Liquidity Provision and Other Support by Central Bank	Upfront Government Financing
1	2	3	4	5	6
G-20 Average	2.2	3.5	8.8	9.3	3.6
Advanced Economics	3.4	5.3	14.0	6.9	5.5
In billion of US$	1,149	1,937	4,646	2,514	1,849
Emerging Economies	0.2	0.3	0.1	13.6	0.4
In billion of US$	22	38	7	1,605	47

Source: Horton, Mark; Kumar, Manmohan and Mauro Paolo (2009), The State of Public Finances: A Cross Country Fiscal Monitor. IMF Staff Position Note, SPN/09/21.

and 0.4 per cent of GDP for the emerging G-20 countries (Table II.8). Financial sector support provided by Governments so far has generally been considerably less than originally announced. This outcome appears to reflect a variety of factors including the precautionary nature of initial announcements, indications of increasing stability and improved bank liquidity, and lags in implementation of programs for recapitalisation and purchase of assets. Central bank credit facilities appear also to have been taken up only to a limited extent in many countries, as conditions have turned out to be less dire than expected at the time of their announcement.

6. Conclusion

2.39 Notwithstanding critical financial sector rescue programme, which has its relative success as well as distortionary effects, the outlook on future global banking remains difficult being devoid of major structural growth drivers. Despite not being part of the financial sector problem, India has been affected by the crisis through the feedback loops between external shocks and domestic vulnerabilities by way of the financial, real and confidence channels. Impact on Indian banking, however, has been rather muted providing a relatively bright outlook way ahead if Indian banking can reap the structural drivers from within.

Chapter III

Policy Environment

This chapter documents monetary, banking (commercial and cooperative), regulatory and financial policy developments during the year 2008-09 and 2009-10 (up to September 2009). In the wake of the global financial crisis, the focus of recent policy initiatives was maintaining financial stability along with arresting the moderation in the growth momentum. Accordingly, the initiatives taken by the Reserve Bank were mainly aimed at strengthening the banking system and financial markets, while ensuring uninterrupted flow of credit to the different sectors of the economy. The prudential regulation and supervisory policies of the banking system were made stronger during the year. The on-going financial inclusion process was strengthened since it is sine qua non for achieving inclusive growth. Initiatives have been taken in the cooperative banking sector to strengthen the capital base of this sector as also to consolidate the sector through the process of merger of weak entities with stronger ones. Several measures were taken to make the banks more customer-friendly. The technological advancement in the banking system was given due priority with a view to facilitating financial inclusion and for increasing the overall efficiency of the banking system. Since the smooth functioning of payment and settlement system plays an important role in ensuring financial stability and also in the transmission of monetary policy, several measures were taken during the year to improve the operational efficiency of the same.

1. Introduction

3.1 The persistence of global recession is providing a testing time for the financial sector in general and banking sector in particular all over the world. Handling the spill-over effects of the financial turmoil has turned out to be more challenging for the Governments and central banks as the impact of the crisis has become wider and deeper. The unsettling conditions in the global financial markets warranted institution of swift and appropriate policy measures. While the Governments all over the world continue to pursue expansionary fiscal policies, central banks took several measures (conventional and non-conventional) to ease liquidity, stimulate demand and moderate the impact of the global downturn and credit crunch on their economies. The crisis once again brought to the fore the issue of financial stability and, thus, triggered a discussion on counter-cyclical fiscal, monetary and prudential measures. The 'originate to distribute' model, which is at the heart of the crisis, also received a relook from many angles. From the regulators' perspective, the crisis reiterated the need for strengthening the regulatory and supervisory framework to handle the risks posed by financial innovations by adapting appropriate capital, liquidity and disclosure requirements.

3.2 The Indian financial sector continues to remain largely resilient in the face of global financial turmoil. The Indian financial markets, though came under pressure following collapse of Lehman Brothers in mid-September 2008, were less volatile and continue to function in an orderly manner. During 2008-09, subsequent to the adoption of Basel II framework by the foreign banks and Indian banks having international presence, all the commercial banks in India have switched over to the simple approaches available in the Basel II framework. During the year, the Reserve Bank has taken several measures to impart liquidity in the banking system, while ensuring adequate flow of credit to the productive sectors of the economy. The Report of the Committee on Financial Sector Assessment (CFSA), which has attempted a comprehensive assessment of the financial sector of India, was released in March 2009. During the year, the Reserve Bank also announced restructuring schemes to protect the value of assets in the banking sector. With a view to enhancing transparency in the pricing of loan products, a Working Group on Benchmark Prime Lending Rate (BPLR) was constituted in the Reserve Bank. A model scheme of Financial Literacy and Credit Counselling (FLCCs) Centres was also prepared during the year to intensify the financial inclusion process. Guidelines for strengthening the functioning of payment and settlement system were issued, as a safe and efficient payment and settlement systems assumes significance as a conduit of monetary policy. Several measures have taken during the year for improving customer service in the banks.

3.3 This chapter provides a detailed account of various policy measures undertaken by the Reserve Bank during 2008-09 and 2009-10 (up to September 2009). The monetary policy measures during 2008-09 and 2009-10 (up to September 2009) 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 given in Section 5 and Section 6, respectively. Policy initiatives pertaining to Regional Rural Banks (RRBs) have been set out in Section 7. Policy initiatives with regard to cooperative banks both Urban Cooperative Banks (UCBs) and rural credit cooperatives are set out in Section 8. 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 9. This is followed by an account of measures initiated in the area of customer service by banks in Section 10. Policy measures relating to the payment and settlement systems and technological developments are outlined in Section 11 and Section 12, respectively. Section 13 gives the measures undertaken to strengthen the legal infrastructure and Section 14 draws broad conclusions.

2. Monetary Policy

3.4 During 2008-09, the conduct of monetary policy was confronted with several new challenges thrown out by the global financial and economic crisis. The evolving stance of monetary policy during these turbulent times was conditioned by the need to preserve financial stability on the one hand and arresting the moderation in growth momentum on the other. The stance of monetary policy underwent a shift from monetary tightening in the first half of 2008-09 reflecting the response to rising inflationary expectations to aggressive monetary easing in the second half using multiple, conventional and unconventional tools so as to minimise the impact of global crisis on India. Accordingly, the major policy initiatives taken by the Reserve Bank were aimed at providing ample rupee liquidity, ensuring comfortable dollar liquidity and maintaining a market environment conducive for the continued flow of credit to productive sectors. Measures aimed at expanding rupee liquidity included significant reduction in the cash reserve ratio (CRR) and statutory liquidity ratio (SLR), a special repo window under the liquidity adjustment facility (LAF) for banks for on-lending to non-banking financial companies (NBFCs), housing finance companies and mutual funds, and a special refinance facility (SRF) that banks could access against demand promissory notes covering the principal amount of advances and the prescribed rate of interest. The Reserve Bank also instituted the dollar swap facility for banks and roughly synchronised unwinding the market stabilisation scheme (MSS) securities with the Government borrowing programme. In addition, a special purpose vehicle (SPV) was set up to provide liquidity support to NBFCs.

3.5 The repo rate under the LAF was increased by 125 points from 7.75 per cent in April 2008 to 9.0 per cent by end-July 2008. In the subsequent period, however, it was reduced by 425 basis points to 4.75 per cent by April 2009. The reverse repo rate was also reduced by 275 basis points from 6.00 per cent in November 2008 to 3.25 per cent by April 2009. The CRR for scheduled banks was increased by 125 basis points from 7.75 per cent of the net demand and time liabilities (NDTL) of banks on April 26, 2008 to 9.00 per cent on August 30, 2008 but was subsequently reduced by 400 basis points during 2008-09 to 5.00 per cent of NDTL by January 17, 2009.

3.6 The Annual Policy Statement for 2008-09 was announced in the background of decelerating global growth, volatile global financial markets, intensified inflationary risks mainly from international prices of fuel, and prices of food and metal, and large swings in domestic market liquidity. The global financial markets in the context of the subprime crisis warranted more intensified monitoring and swift responses with all available instruments to preserve and maintain domestic macroeconomic and financial stability. In view of the lagged and cumulative effects of monetary policy on aggregate demand, the policy endeavour was to bring down inflation from the prevailing 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 First Quarter Review noted that the global developments such as decelerating global growth, waning business and consumer confidence, weak industrial activity, sustained threats to financial stability and inflationary pressures have implications for India's macroeconomic outlook with difficult challenges and dilemmas confronting the setting of monetary policy. The Review noted that the overriding priority for monetary policy is to eschew any further intensification of inflationary pressures and to firmly anchor inflation expectations. In this regard, monetary policy had to urgently address aggregate demand pressures which appeared to be strongly in evidence. The Reserve Bank continued with its policy of active demand management of liquidity through appropriate use of the CRR stipulations and open market operations (OMO) including the MSS and the LAF, using all the policy instruments at its disposal flexibly, as and when the situation warranted.

3.7 The Mid-term Review noted that the global economic conditions worsened and the future path of their evolution turned highly uncertain. Lowering inflation as soon as feasible to tolerable levels and anchoring inflation expectations remained a key concern. The developments in monetary conditions resulted in a tightening of liquidity conditions in domestic financial markets through the second quarter of 2008-09. Despite the expansion in bank credit, there was a perception of lack of credit availability, which could be attributed to reduced flow of funds from non-bank sources, notably the capital market and external commercial borrowings. At the time of Third Quarter Review, the Indian economy experienced a cyclical moderation in growth accompanied by high inflation in the first half of 2008-09 and there was distinct evidence of further slowdown as a consequence of the global downturn. The Reserve Bank continued to pursue the stance of ensuring ample liquidity in the market and maintaining the overnight money market rates within the LAF corridor by employing both conventional and unconventional measures. Along with extending credit to the productive sectors of the economy, the banks were also advised to monitor their loan portfolios to prevent delinquencies down the line, and thus to safeguard the improvement in asset quality achieved during the recent years.

3.8 The Annual Policy Statement for 2009-10 was set in the context of a deep global economic slump and financial market turmoil. The impact of the crisis on India was much more than expected earlier. Though the GDP growth rate moderated, there were some comforting factors such as well-functioning financial markets, robust rural demand, lower headline inflation and comfortable foreign exchange reserves, which cushioned the economy from the worst impact of the global financial crisis. On the basis of the overall assessment, ensuring a policy regime that would enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path was one of the stances of monetary policy. Keeping in view the global trend in commodity prices and domestic demand-supply balance, WPI inflation was projected at around 4.0 per cent by end-March 2010.

3.9 The First Quarter Review noted some progressive signs of recovery in India such as increase in food stocks, positive industrial production growth, improved corporate performance, optimism in business confidence surveys, among others. The negative signs included delayed and deficient monsoon, food price inflation, rebound in global commodity prices, continuing weak external demand, and high fiscal deficit. It was recognised that an uptrend in the growth momentum is unlikely before the middle of 2009-10. On inflation prospects, WPI inflation for end-March 2010 was projected higher at around 5.0 per cent from 4.0 per cent given in the Annual Policy Statement of April 2009. On the basis of the overall assessment, the stance of monetary policy for the remaining period of 2009-10 was stated to be as managing liquidity actively so that the credit demand of the Government is met while ensuring the flow of credit to the private sector at viable rates. Consistent with the assessment of macroeconomic and monetary conditions, the repo rate, the reverse repo rate and the CRR were kept unchanged. The Reserve Bank reiterated that it will maintain an accommodative monetary stance until there are definite and robust signs of recovery.

Liquidity Facilities

3.10 The Reserve Bank reintroduced the second liquidity adjustment facility (SLAF) with effect from August 1, 2008 on reporting Fridays with a view to fine tuning the management of bank reserves on the last day of the maintenance period. The salient features of SLAF are same as those of LAF, though the settlement for the LAF and SLAF is conducted separately and on gross basis. In September 2008, in view of the current liquidity conditions, the Reserve Bank decided to conduct SLAF on a daily basis.

3.11 The Reserve Bank, decided to conduct a special fixed rate term 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, in addition to the repo/reverse repo auctions conducted under LAF and SLAF. In November 2008, the Reserve Bank extended this special term repo facility on temporary basis and allowed the banks to avail liquidity support under the LAF at the extant repo rate through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. In April 2009, this facility was extended up to March 31, 2010 as also to conduct these 14-day term repo auctions on a weekly basis.

3.12 Further, the Reserve Bank allowed the scheduled banks to avail additional liquidity support under the LAF to the extent of up to one per cent of their NDTL as a temporary measure. However, if any shortfall arises in the maintenance of SLR out of the availment of this facility, the bank may apply to Reserve Bank in writing under sub-section (8) of Section 24 of the Banking Regulation Act, 1949 with a request not to demand payment of the penal interest thereon.

3.13 In November 2008, the Reserve Bank introduced a special refinance facility (SRF) under Section 17(3B) of the Reserve Bank of India Act, 1934. Under this facility, scheduled commercial banks (SCBs) (excluding RRBs) are eligible for refinance to the extent of up to 1.0 per cent of each bank's NDTL as on October 24, 2008 for a period of 90 days. Refinance under the SRF are provided at the repo rate under the LAF. Banks are also encouraged to use this facility for the purpose of extending finance to micro and small enterprises. This facility can be rolled over by the banks. In December 2008, the Reserve Bank decided to continue this facility up to June 30, 2009 and later on extended to March 31, 2010.

3.14 In November 2008, the eligible limit of export credit refinance (ECR) facility was enhanced from the existing level of 15 per cent to 50 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight. The rate of interest charged on the ECR facility will continue to be the prevailing repo rate under the LAF of the Reserve Bank.

3.15 For more effective liquidity management, the Reserve Bank widened the scope of OMO by including purchases of government securities through an auction-based mechanism in addition to operations through NDS-OM with effect from February 2009. Furthermore, with the change in the external accounts in the recent period resulting in attendant draining of primary liquidity reflecting the impact of the Reserve Bank's operations in the foreign exchange market, the MOU on the MSS was amended on February 26, 2009 to permit the transfer of the sterilised liquidity from the MSS cash account to the normal cash account of the Government.

3.16 The total amount of actual/potential liquidity provision so far (since Mid-September 2008) through various modes by the Reserve Bank is provided in Table III.1.

Table III.1: Actual/Potential Release of Primary Liquidity – since Mid-September 2008

(Rs.crore)

Measure/Facility	Amount
1. CRR Reduction	1,60,000
2. Unwinding/Buyback/De-sequestering of MSS Securities	1,55,544
3. Open Market Operations (Purchases)	80,080
4. Term Repo Facility	60,000
5. Increase in Export Credit Refinance	26,576
6. Special Refinance Facility for SCBs (Non-RRBs)	38,500
7. Refinance Facility for SIDBI/NHB/EXIM Bank	16,000
8. Liquidity Facility for NBFCs through SPV	25,000
9. **Total (1 to 8)**	**5,61,700**
Memo:	
Statutory Liquidity Ratio (SLR) Reduction	40,000

Note: 1. Item 3 includes Rs.33,439 crore of Open Market Operations purchases during 2009-10 so far (up to July 27) against the proposed OMO purchases of Rs.80,000 crore during the first half of 2009-10.
2. Item 8 includes an option of Rs.5,000 crore.

Source: First Quarter Review of Statement on Monetary Policy for the year 2009-10.

Interest Rate Structure

3.17 Interest rates have been progressively deregulated in India as part of the financial sector reforms initiated in the early 1990s. Presently, except interest rates on savings bank deposits, non-resident (External) Rupee Accounts [NR (E)RA] deposits, foreign currency non-resident (FCNR) (B) deposits, export credit and small loans up to Rs.2 lakh, all other interest rates are deregulated. This has enhanced competitiveness and efficiency in the resource allocation process in the financial system, while simultaneously improving the monetary transmission mechanism.

Deposit and Lending Rates

3.18 Deposit rates of SCBs across various bank groups showed a generally upward movement during the first half of the year 2008-09. Taking cues from the Reserve Bank monetary policy actions, the SCBs have reduced their deposit rates in the second half of 2008-09. The interest rate ceiling on NRE deposits for one to three year maturity was increased by 175 basis points during the period September- November 2008. The rate cut effected on interest rate ceiling on FCNR (B) deposits on April 24, 2007 was reversed on September 16, 2008, when following a review the interest rate 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 forex markets following the deterioration in the international financial environment, the interest rate payable on FCNR (B) deposits was increased by further 125 basis points during the period October-November 2008 to LIBOR/SWAP rates plus 100 basis points. In tandem with the deposit rates, the lending rates of SCBs have also exhibited a declining trend during 2008-09 (also see Table IV.20 in Chapter IV).

3.19 It has been proposed that payment of interest on savings bank accounts by SCBs (including RRBs) and UCBs would be calculated on a daily product basis with effect from April 1, 2010.

Working Group on Bench-Mark Prime Lending Rate (BPLR)

3.20 The concept of BPLR was introduced in November 2003 for pricing of loans by commercial banks with the objective of enhancing transparency in the pricing of their loan products. The Annual Policy Statement 2009-10 noted that BPLR has lost its relevance over time as a meaningful reference rate, as bulk of loans are advanced below BPLR. Further, this also impedes the smooth transmission of monetary signals and makes the loan-pricing system non-transparent. Accordingly, in order to review the present BPLR system and suggest changes to make credit pricing more transparent, the Reserve Bank has constituted a Working Group on Benchmark Prime Lending Rate (BPLR) (Chairman: Shri Deepak Mohanty) on June 11, 2009 with the following terms of reference: (i) Review the concept of BPLR and the manner of its computation; (ii) Examine the extent of sub-BPLR lending and the reasons thereof; (iii) Examine the wide divergence in BPLRs of major banks; (iv) Suggest an appropriate loan pricing system for banks based on international best practices; (v) Review the administered lending rates for small loans up to Rs.2 lakh and for exporters; (vi) Suggest suitable benchmarks for floating rate loans in the retail segment; and (vii) Consider any other issue relating to lending rates of banks. The Group is expected to submit the Report shortly.

3. Credit Delivery

3.21 The credit markets in India functioned normally even during these turbulent times in contrast to the intense credit freeze experienced by some of the advanced economies. However, there was a general decline in demand for credit due to the economic slowdown set in by the spill-over effects of global financial turmoil. In response to the financial turmoil, the Reserve Bank initiated several measures mainly to impart liquidity in the banking system and to channelise the credit to crisis affected sectors. The major policy initiatives by the Reserve Bank during 2008-09 for improving the flow of credit to specific sectors included inclusion of loans to Housing Finance Companies under the priority sector lending; simplification of the procedure for extending loans to agriculture and allied activities; and announcement of further reliefs under the Agriculture Debt Waiver and Debt Relief Scheme, 2008. The Reserve Bank also requested all the SLBCs to ensure that adequate attention is paid to the financial needs of MSE Sector in their respective States/UTs.

Priority Sector Lending

3.22 The objective of priority sector lending guidelines is to channelise credit to some of the vulnerable sectors of the economy, which may not be attractive for the banks from the point of view of profitability but are important for economic development. Loans granted to agriculture, micro and small (manufacturing and service) enterprises, micro credit, education and housing fall under the ambit of priority sector lending by the Indian banks. Apart from these sectors, the export credit also forms a part of the priority sector lending in case of foreign banks. In 2007, the guidelines on lending to priority sector were revised based on the Report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C. S. Murthy) and feedback received from the governments, banks, financial institutions, NBFCs, associations of industries, media, public and Indian Banks' Association. As per the extant guidelines, the domestic banks and foreign banks have to extend 40 per cent and 32 per cent, respectively of the adjusted net bank credit[1] (ANBC) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31st of the previous year to the priority sectors.

3.23 In December 2008, the Reserve Bank widened the scope of priority sector lending by allowing the banks to classify loans granted to Housing Finance Companies (HFCs), which are approved by National Housing Bank (NHB) for the purpose of refinance, for on-lending to individuals for purchase/construction of dwelling units. However, in such cases, the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. Further, the eligibility under this measure shall be restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. This special dispensation shall apply to loans granted by banks to HFCs up to March 31, 2010.

3.24 In order to ensure that the sub-target of lending to the weaker sections is achieved, the domestic SCBs were advised that the shortfall in lending to weaker sections as on the last reporting Friday of March of each year, would also be taken into account for the purpose of allocating amounts to the Rural Infrastructure Development Fund (RIDF) maintained with National Bank for Agriculture and Rural Development (NABARD) or funds with other Financial Institutions, as specified by the Reserve Bank, with effect from April 2009.

Credit to Agriculture and Allied Activities

3.25 Several measures were taken during the year to increase the flow of credit to agriculture and allied activities. The Union Budget for 2009-10 set a target of Rs.3,25,000 crore for agricultural credit for the year. Against this, banks (including co-operative banks and RRBs) disbursed Rs.92,070 crore forming 28.3 per cent of the target during April-July 2009.

3.26 In December 2008, the Reserve Bank modified the facility of temporary liquidity support for financing agricultural operations. The limits of the liquidity support availed by scheduled banks under Section 17 (3-B) of RBI Act 1934 and by NABARD under Section 17 (4-E) of RBI Act 1934 was Rs.7,500 crore and Rs.17,500 crore, respectively with effect from December 6, 2008. This facility was extended up to December 16, 2008.

Relief Measure for Agriculture – Interest Rate Subvention

3.27 The Union Budget for 2009-10 proposed to continue the interest subvention scheme to farmers for short term crop loans up to Rs.3 lakh per farmer at the interest rate of 7 per cent per annum. The budget also announced an additional subvention of 1 per cent as an incentive to those farmers who repay their short term crop loans on schedule. Thus, the interest rate for these farmers will come down to 6 per cent per annum.

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

Relief Measures for Poultry Industry

3.28 Keeping in view the loss of income suffered by the poultry industry due to the outbreak of avian influenza in some parts of the country, the Reserve Bank had announced several relief measures to this industry in February 2008. In addition to the above relief measures, Government of India also decided to grant interest subvention at 4 per cent per annum on the outstanding non-overdue loan amount as on January 1, 2008 to the Poultry Units of West Bengal for the period from January 1, 2008 to March 31, 2009. As a follow-up, the Reserve Bank, advised SCBs in February 2009 (and UCBs in March 2009), that the interest subvention on the outstanding non-overdue loan amount as on January 1, 2008 to the Poultry Units of West Bengal will be calculated at four percentage points on the term loans and working capital loans outstanding as on January 1, 2008. This will not include any part of the principal amount that had become overdue before notification of the first occurrence of the bird flu in the State.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

3.29 The Agricultural Debt Waiver and Debt Relief Scheme was announced in the Union Budget 2008-09 covering direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by SCBs, RRBs, Co-operative Credit Institutions and Local Area Banks (LABs). Under the Scheme, the total value of overdue loans being waived was estimated at Rs.50,000 crore and a one-time settlement (OTS) relief on the overdue loans at Rs.10,000 crore. The Government in consultation with the Reserve Bank and NABARD finalised the modalities of the scheme. It was announced that the cost of the scheme would work out to about Rs.71,680 crore. While the entire 'eligible amount' shall be waived in the case of a small or marginal farmer, in the case of 'other farmers', there will be a OTS scheme under which the farmer will be given a rebate 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'.

Norms for the accounts subjected to Debt Waiver and Debt Relief

3.30 As regards the small and marginal farmers eligible for debt waiver, the amount eligible for waiver, pending receipt from the Government of India, may be transferred by the banks to a separate account named "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008". The balance in this account should be reflected in Schedule 9 (Advances) of the Balance sheet. The balance in this account may be treated by the banks as a "performing" asset, provided adequate provision is made for the loss in Present Value (PV) terms, computed under the assumption that such payments would be received from Government of India in the following instalments: a) 32 per cent of the total amount due by September 30, 2008, b) 19 per cent by July 31, 2009, c) 39 per cent by July 2010, and d) the remaining 10 per cent by July 2011. However, the provision required under the current norms for standard assets, need not be provided for in respect of the balance in this account.

3.31 Under the scheme, in the case of 'other' farmers, the farmer will be given a rebate of 25 per cent of the "eligible amount", by the Government by credit to his account, provided the farmer pays the balance of 75 per cent of the 'eligible amount". The Scheme provides for payment of share of 75 per cent by such farmers in three instalments and the first two instalments shall be for an amount not less than one-third of the farmer's share. The last dates of payment of the three instalments will be September 30, 2008; March 31, 2009 and June 30, 2009, respectively. In March 2009, the Reserve Bank extended the last date of repayment of first instalment by the 'other farmers' under the Debt Relief Scheme from September 30, 2008 to March 31, 2009. The dates of payment of second and third instalments remain unchanged at March 31, 2009 and June 30, 2009. However, considering the late arrival of monsoon, the period was extended by six months up to December 31, 2009.

3.32 Where the farmers covered under the Debt Relief Scheme have given the undertaking, agreeing to pay their share under the OTS, their relevant accounts may be treated by banks as "standard"/"performing" provided – (a) adequate provision is made by the banks for the loss in PV terms for all the receivables due from the borrowers as well as the Government; and (b) such farmers pay their share of the settlement within one month of the due dates. The accounts subject to debt relief would stand classified as standard assets after receipt of the aforesaid undertaking from the borrowers. Accordingly, such accounts would also attract the prudential provisioning as applicable to standard assets.

3.33 The Government of India has decided to make the accounts of "other farmers" eligible for a debt relief of 25 per cent, even if they pay their entire share of 75 per cent in one single instalment, provided the same is deposited by such farmers till December 31, 2009. The banks will not charge any interest on the eligible amount till December 31, 2009. If the payments are delayed beyond December 31, 2009, the outstanding amount in the relevant accounts shall be treated as non-performing asset (NPA). The Government of India has also advised that the banks/lending institutions are allowed to receive even less than 75 per cent of the eligible amount under OTS, provided the banks/lending institutions bear the difference themselves and do not claim the same either from the Government or from the farmer. The Government will pay only 25 per cent of the actual eligible amount under debt relief.

Grant of Fresh Loans to the Borrowers Covered under the Debt Waiver and Debt Relief Scheme

3.34 A small or marginal farmer and other farmers will become eligible for fresh agricultural loans upon the eligible amount being waived. The fresh loan granted to 'small or marginal farmer' and 'other farmers' may be treated as "performing asset", regardless of the asset classification of the loan subjected to the 'Debt Waiver' and 'Debt Relief', respectively, and its subsequent asset classification should be governed by the extant income recognition and asset classification (IRAC) norms.

Capital Adequacy

3.35 The amount outstanding in the account styled as "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008" shall be treated as a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms. This treatment would apply under the Basel I as well as Basel II Frameworks.

Modifications to the Scheme

3.36 In September 2008, the Reserve Bank modified the procedures for reimbursement of claims and audit of claims under the scheme in view of the difficulties expressed by banks in respect of implementation. The banks were allowed to lodge separate consolidated claims for 'debt waiver' and 'debt relief under OTS' after actually passing on the benefits to the beneficiaries, as envisaged in the Scheme. However, the banks are not allowed to claim interest in excess of the principal amount, unapplied interest, penal interest, legal charges, inspection charges and miscellaneous charges either from the Central Government or recover from the farmer. All such interest/charges should be borne by the lending institutions. In view of this situation, the banks are allowed to utilise, at their discretion, the floating provisions held for 'advances' portfolio, only to the extent of meeting the interest/charges mentioned above. However, the floating provisions should not be utilised for any other provisioning requirements without the prior approval of the Reserve Bank. In November 2008, the Reserve Bank decided to pay interest payments on the second, third and fourth instalments at the prevailing yield-to-maturity rate on 364-day Government of India Treasury Bills. Further, the banks, including RRBs, need not make any provisions for the loss in PV terms for moneys receivable only from the Government of India, for the accounts covered under the Debt Waiver Scheme and the Debt Relief Scheme.

Credit to Micro and Small Enterprises Sector (MSE)

3.37 MSE sector assumes importance in the economy owing to its employment potential and regional dispersal. This sector also mobilises capital from the lower-middle class sections to invest in productive economic activity. Thus, it encourages the development of entrepreneurial skills and enhances export earnings through the production of a wide range of products. The Code of Banks' Commitment to MSEs was formulated to ease the difficulties faced by small manufacturing and services enterprises in accessing credit. To ensure the credit flow to this sector, especially in the context of the knock-on effects of the global financial turmoil, the Reserve Bank has taken several measures (Box III.1).

3.38 The Public Sector Banks (PSBs) are operationalising specialised MSE bank branches for ensuring uninterrupted credit flow to this sector. As at end-March 2009, PSBs have operationalised 869 specialised MSE bank branches.

3.39 To further ease the credit flow to this sector, the Reserve Bank in December 2008, requested all the SLBCs to ensure that adequate attention is paid to the financial needs of MSE Sector in their respective States/UTs. Further, they were also asked to discuss the problems faced by this sector in all SLBC meetings in future. The banks were also advised in August 2009 that they should not insist on collateral security for loans up to Rs.5 lakh for the MSE sector.

3.40 Further, in the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K. C. Chakrabarty) and the Banking Codes Standards Board of India's Code of Commitment for the MSE borrowers, the Reserve Bank asked the banks to undertake a review and put in place a loan policy governing extension of credit facilities, restructuring/ rehabilitation policy for revival of potentially viable sick units/enterprises as also a non-discretionary OTS scheme for recovery of non-performing loans. Subsequent to SCBs, the UCBs were also advised in June 2009, to consider speedy implementation of the recommendations made by the Working Group with regard to timely and adequate flow of credit to the MSE sector. The Regional Offices of the Reserve Bank have been advised in April 2009 to monitor the actions initiated by the State Governments/SLBC convenor banks in this regard and discuss the progress in the SLBC meetings.

3.41 The Union Budget for 2009-10 provided for a special fund worth Rs.4,000 crore to Small Industries Development Bank of India (SIDBI) to facilitate the flow of credit at reasonable rates to MSE sector. This fund will incentivise banks and State Finance Corporations to lend to MSEs by refinancing 50 per cent of incremental lending to MSEs during the current financial year.

Financing of Infrastructure by Banks and Financial Institutions (FIs)

3.42 In respect of infrastructure projects undertaken by public sector units, the banks and FIs may sanction term loans only to corporate entities subject to the condition that such loans are not in *lieu* of or substitutes but supplementary to the budgetary resources. Further, the banks and FIs may ensure that such loans for financing specific monitorable projects

Box III.1: Credit Flow to the Micro and Small Enterprises (MSE) Sector

Role of MSEs

Micro and Small Enterprises constitute an important segment of the industrial and services sectors of India due to their growth potential, employment generation capacity, export generation and their role as seedbed to new entrepreneurship. The contribution of MSEs in the Indian economic development has been immense. The sector currently accounts for about 39 per cent of the manufacturing output and around 33 per cent of the total exports of the country. There are approximately 1.3 crore MSEs which employ nearly 3 crore people. The sector contributes close to 7 per cent of our GDP. Thus, special thrust by the Government to the sector has been consistent with the objectives of employment generation, regional dispersal of industries and fostering of entrepreneurship.

Sources of Credit to the MSE Sector

The principal source of institutional credit of MSE sector is the public sector banks. Besides, credit is extended to this sector through the private sector banks (both new as well as old generation) and foreign banks operating in India. The RRBs and LABs supplement the efforts of the SCBs to some extent. Credit to this sector is also provided by UCBs, State and District Central Cooperative Banks, State Financial Corporations, NBFCs and Small Industries Development Bank of India (SIDBI).

Flow of Credit to the MSE Sector

i) Policy Announcements

On the basis of the Policy Package announced by the Union Finance Minister on August 10, 2005, PSBs were advised to fix their own targets for funding MSEs in order to achieve a minimum 20 per cent year on year growth in credit to MSEs. The objective is to double the flow of credit to the sector from Rs.67,600 crore in 2004-05 to Rs. 1,35,200 crore by 2009-10, *i.e.*, within a period of 5 years. This target was surpassed in the financial year ending March 2008 itself.

The outstanding credit to the MSE sector as at the end of years 2006-07, 2007-08 and 2008-09 by public and private sector banks and foreign banks is provided in the Table.

Table: The Outstanding Credit to the MSE Sector

As March 31 of	Public Sector on Banks	Private Sector Banks	Foreign Banks
2007	1,02,550 (24.40)	13,136 (26.05)	11,637 (38.04)
2008	1,51,137 (47.38)	46,912 (257.12)	15,489 (33.10)
2009 P	1,91,307 (26.58)	47,916 (2.14)	18,138 (17.10)

P : Provisional.

Note: Figures in brackets indicate the percentage growth as compared to the previous year.

Source: Reserve Bank of India.

ii) Refinance Facilities and Funding Support for MSEs

In the context of the global developments and the knock on effects in the domestic credit markets, Reserve Bank has taken several measures to enhance credit delivery to the employment intensive MSE sector. One of the measures was that a refinance amount of Rs. 7,000 crore was provided to the SIDBI under the provisions of Section 17(4H) of the Reserve Bank of India Act, 1934 on December 6, 2008 to enhance credit delivery to the sector. This refinance will be available against: (i) the SIDBI's incremental direct lending to MSE; and (ii) the SIDBI's loans to banks, NBFCs and State Financial Corporations (SFCs) against the latter's incremental loans and advances to MSEs. The incremental loans and advances will be computed with reference to outstandings as on September 30, 2008. This refinance facility will be available up to March 31, 2010. The utilisation of funds will be governed by the policy approved by the Board of the SIDBI. The outstanding amount of refinance availed by SIDBI stood at Rs 6,095 crore as on June 30, 2009.

In pursuance of the announcement made in the Union Budget 2008-09, MSME (Refinance) Fund and MSE (Risk Capital) Fund were set up with SIDBI in June 2008. Contributions to the Funds were made by SCBs which failed to achieve their priority sector lending targets. The present corpus of the MSME (Refinance) Fund stood at Rs.1,600 crore and MSE (Risk Capital) Fund stood at Rs.1,000 crore. Taking into account the need to ensure the growth momentum in the employment-intensive sectors of micro and small enterprises and as announced by the Governor, on November 15, 2008, a series of measures were taken for liquidity management and improving credit flow. The corpus of MSME (Refinance) Fund, 2008-09 was enhanced by Rs. 2,000 crore.

iii) Special Refinance Facility

In order to provide liquidity support to SCBs (excluding RRBs), a special refinance facility was introduced on November 1, 2008 under Section 17

(Contd...)

(....Concld.)

(3B) of Reserve Bank of India Act 1934, whereby banks were advised to draw up to 1 per cent of their NDTL as on October 24, 2008, for a period of 90 days. Banks were encouraged to use this facility for the purpose of lending to MSEs. This facility has been extended up to March 31, 2010.

iv) Focused attention in 388 Identified Clusters

Earlier, as part of the "Policy package for stepping up of credit to MSMEs", banks were advised to treat cluster based approach for financing MSE sector as a thrust area. The Reserve Bank's Annual Policy Statement for 2007-08 announced that banks were required to review their institutional arrangements for delivering credit to the MSE sector, especially in 388 clusters identified by United Nations Industrial Development Organisation (UNIDO) spread over 21 States in the country.

v) Working Group on Rehabilitation of Sick MSEs

In recognition of the problems being faced by the MSE sector, particularly with respect to rehabilitation of potentially viable sick units, the Reserve Bank constituted a Working Group under the Chairmanship of Dr. K.C. Chakrabarty. The Working Group, in its report submitted in April 2008, dealt with the entire gamut of issues and problems confronting the sector. The Group recommended setting up of several funds namely (i) Rehabilitation Fund, (ii) Fund for Technology Upgradation, (iii) Marketing Development Fund and (iv) National Equity Fund by the Government of India to facilitate credit flow to the MSE sector. These recommendations have been forwarded to the Government of India and SIDBI for their consideration and necessary action. Banks were advised to put in place Loan Policy on extension of credit facilities, restructuring/rehabilitation policy and non-discretionary OTS to the MSE sector.

vi) Formulation of "Banking Code" for MSE Customers

The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with MSEs as defined in the MSMED Act, 2006. It provides protection to MSEs and explains how banks are expected to deal with MSEs for their day to-day operations and in times of financial difficulty. The Code is expected to (a) give a positive thrust to the MSE sector by providing easy access to efficient banking services, (b) promote good and fair banking practices by setting minimum standards in dealing with MSEs, (c) increase transparency, (d) improve understanding of business through effective communication, (e) encourage market forces through competition, to achieve higher operating standards, (f) promote a fair and cordial relationship between MSEs and banks, (g) ensure timely and quick response to banking needs, and (h) foster confidence in the banking system.

Credit Guarantee Schemes

Availability of bank credit without the hassles of collaterals/ third party guarantees would be a major source of support to the first generation entrepreneurs to set up MSE of their own. Keeping this object in view, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To operationalise the scheme, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

The main objective of the scheme is that the lending institution should give importance to project viability and secure the credit facility purely on the primary security of the assets financed instead of insisting the secondary collateral. Any collateral/ third party guarantee free credit facility (both fund as well as non fund based) extended by eligible institutions, to new as well as existing micro and small enterprise, including service enterprises, with a maximum credit cap of Rs.1 crore, are eligible to be covered under the CGS. For the unit covered under CGTMSE and becoming sick due to factors beyond the control of management, assistance for rehabilitation extended by the lender could also be covered under the scheme provided the overall assistance is within the credit cap of Rs.1 crore.

As the Credit Guarantee Scheme of CGTMSE has not picked up, it was announced in the Reserve Bank's Annual Policy Statement for the year 2009-10 that the Standing Advisory Committee on MSEs will review the CGTMSE scheme so as to enhance the flow of credit to the MSE sector. Accordingly, a Working Group (Chairman: Shri V K Sharma) has been constituted to review the present CGTMSE scheme, identify the weaknesses and suggest measures to simplify the existing procedures for obtaining cover and lodging of claims under the scheme and to examine the feasibility of introduction of a whole turnover cover for the micro and small enterprises and modalities for the same. The Working Group is expected to submit its report shortly.

are not used for financing the budget of the State Governments in case the loan is extended to a SPV. The banks and FIs may also undertake a due diligence on the viability and bankability of the projects financed by such loans to ensure that the revenue stream from the project is sufficient to take care of the debt servicing obligations. The banks are advised to follow these instructions while making investment in bonds of sick State public sector undertakings as part of the rehabilitation effort.

3.43 The Union Budget for 2009-10 has given greater flexibility to India Infrastructure Finance Company Limited (IIFCL) to stimulate public investment in infrastructure. The budget stated that the IIFCL would, in consultation with banks, evolve a 'takeout financing' scheme which could facilitate incremental lending to the infrastructure sector. Government has decided that IIFCL will refinance 60 per cent of commercial bank loans for public-private partnership projects in critical sectors over the next fifteen to eighteen months. The IIFCL and banks are now in a position to support projects involving a total investment of Rs.100 thousand crore in infrastructure.

Financing the Export Sector

3.44 In June 2009, the Reserve Bank reiterated that the SLBC convenor banks have to set up a sub-committee under the SLBC to discuss exporters' problems in relation to export finance and other bank related issues at the State level and hold meetings at prescribed intervals for the captioned purpose. They were also requested to ensure that the intimation of the dates of convening forthcoming meetings are communicated to all concerned well in advance so that issues of the export sector are well represented.

3.45 The Government of India extended interest rate subvention of 2 percentage points with effect from December 1, 2008 till March 31, 2009 on pre- and post-shipment rupee export credit, for certain employment oriented export sectors as under: (i) textiles (including Handloom); (ii) handicrafts; (iii) carpets; (iv) leather; (v) gems and jewellery; (vi) marine products, and (vii) small and medium enterprises. Under this dispensation, banks were allowed to charge interest rates not exceeding BPLR minus 4.5 percentage points on pre-shipment credit up to 270 days and post-shipment credit up to 180 days on the outstanding amount for the period December 1, 2008 to March 31, 2009 to the above-mentioned sectors, which was extended later on to September 30, 2009 and subsequently to March 31, 2010. However, the total subvention will be subject to the condition that the interest rate, after subvention, will not fall below 7 per cent which is the rate applicable to the agriculture sector under priority sector lending. Banks are to ensure that the benefit of the 2 per cent interest subvention is passed on completely to the eligible exporters.

3.46 In view of the difficulties faced by exporters on account of weakening of external demand and in realising the dues within the stipulated time, in September 2009 it has been decided to dispense with the requirement of overdue export bills not exceeding 10 per cent of the previous year's export turnover, for one year, *i.e.*, from April 1, 2009 to March 31, 2010, under the Gold card scheme for exporters.

Relief Measures for Diamond Industry in Gujarat

3.47 A Task Force convened by the Reserve Bank of India to look into the distressed diamond industry in Gujarat, has recommended measures for expeditious restructuring which include, fresh financing of existing borrowal accounts as per the Reserve Bank's guidelines, financing diamond sector units not financed earlier, re-training/re-skilling/rehabilitation of displaced diamond workers and providing financial relief to diamond workers. These measures were recommended by the Task Force based on discussions with various stakeholders and deliberations in the meetings.

4. Financial Inclusion

3.48 Financial Inclusion by providing financial services at affordable cost to those who tend to be excluded from the formal financial system is vital for sustaining long term equitable development in India, since there exists significant sections of unbanked population and regions. Despite the expansion of the banking network during the last four decades, a sizeable proportion of the households, especially in rural areas, do not have a bank account. Thus, it has been the endeavour of the Government and the Reserve Bank to facilitate providing formal financial services to the hitherto unbanked/under banked areas. The Reserve Bank used the term 'financial inclusion' for the first time in its Annual Policy Statement of 2005-06. Since then, the Bank has taken several measures for promoting financial inclusion such as advising banks to open 'no frills' accounts, introduction of Business Correspondent (BC)/Business Facilitator (BF) model, promotion of financial literacy, and adoption of Information and Communication Technology solutions for achieving greater outreach (Also see Boxes IV.3 and IV.4 of RBI Annual Report 2008-09).

3.49 The Union Budget for 2009-10 stated that the SLBCs will identify the under-banked or unbanked areas in their respective States/UTs and formulate an action plan for providing banking facilities to all these areas within the next three years. The Budget proposed to set aside a one-time grant-in-aid of Rs.100 crore to ensure provision of at least one centre/Point of Sales (POS) for banking services in each of the unbanked blocks in the country.

3.50 In the Reserve Bank's Annual Policy Statement for the year 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. Accordingly, studies were conducted in 26 districts in the states of Andhra Pradesh, Gujarat, Himachal Pradesh, Karnataka, Orissa, Punjab, Rajasthan and West Bengal. Based on these studies, banks have been advised in January 2009 to ensure that steps are taken to provide banking services nearer to the location of the no-frills account holders through a variety of channels such as satellite offices, mobile offices, and BCs. Banks can also consider providing General Credit Card (GCC)/small overdrafts along with no-frills accounts to encourage the account holders to actively operate the accounts; conduct awareness drives so that the no-frills account holders are made aware of the facilities offered; review the extent of coverage in districts declared as 100 per cent financially included so as to meet the gaps, if any, in providing banking facilities to those desirous of obtaining such facilities; and efficiently leverage on the technology enabled financial inclusion initiatives being implemented in various States with Reserve Bank support.

3.51 In order to give an impetus to information technology (IT) enabled financial inclusion, the Reserve Bank formulated a scheme to quicken the pace of adoption of the biometric access/smart card based Electronic Benefit Transfer (EBT) mechanism by the banks and roll out the EBT system in the States that are ready to adopt the scheme. As per the Scheme, the Reserve Bank would partially reimburse the banks, for a limited period, the cost of opening accounts with bio-metric access/smart cards at the rate of Rs.50 per account through which payment of social security benefits, National Rural Employment Guarantee Act (NREGA) payments and payments under other government benefit programmes would be routed. The payment to banks would be dependent on the State Governments agreeing to pay to the transacting banks, a transaction fee which the State Governments and banks can mutually agree upon. The scheme was originally implemented in Andhra Pradesh for July 1, 2008 to June 30, 2009 and has since been extended all over the country up to June 30, 2010.

3.52 The Reserve Bank had in the recent past constituted Working Groups on Improvement of Banking Services in different States/Union Territories 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, Chhattisgarh, Himachal Pradesh, Jharkhand, Lakshadweep and those in the North-Eastern Region. These Working Groups have made specific recommendations for enhancing the outreach of banks and promoting financial inclusion, strengthening of financial institutions, improving currency and payments systems, and for revitalisation of the RRBs and UCBs in the respective regions. The recommendations of these Groups are under implementation.

3.53 The Report of Committee on Financial Sector Reforms (Chairman: Prof.Raghuram Rajan) also put forward a roadmap for further intensifying the on-going financial inclusion process in the country among other things. The recommendations of the Report with regard to financial inclusion are provided in Box III.2.

3.54 In August 2008, SCBs, including RRBs and LABs were advised that they could engage companies registered under Section 25 of the

Box III.2: The Report of the Committee on Financial Sector Reforms (CFSR) – Recommendations with Regard to Financial Inclusion

The Report of the Committee on Financial Sector Reforms has come out with several recommendations to intensify the process of financial inclusion in the country. Financial inclusion is not only about credit, but involves providing a wide range of financial services, including saving accounts, insurance, and remittance products. The Committee opined that the most important financial services to the poor are vulnerability reducing instruments. Thus, access to safe and remunerative methods of saving, remittances, insurance, and pensions needs to be expanded significantly.

The CFSR further recommended that an inclusive banking structure may be developed in an economy by creating and promoting small finance banks on the one hand and by creating strong linkages between large banks and small local entities. These linkages will facilitate the retailing of large banks' financial products to small clients. The CFSR reiterated the need to broaden the definition of "Business Correspondent" following the recommendations of the Rangarajan Committee on Financial Inclusion.

The opening of 'no-frills' accounts may be promoted further to provide 90 per cent of Indians access to formal financial system. These accounts can also be used for the disbursement of existing subsidies and cash transfers to the poor under different Government programmes such as NREGS. A nationwide electronic financial inclusion system (NEFIS) could also be created by linking the 'no-frills' accounts which will enable the electronic transfer of funds to these accounts.

The Committee opined that the priority sector lending requirements need to be made uniform for both the domestic and foreign banks. In view of the shortfall in meeting the priority sector lending targets by different banks, the CFSR proposed the introduction of priority sector lending certificate (PSLC). The Committee has indicated that the PSLCs would be issued by any registered lender such as MFIs, NBFCs, co-operatives, and registered money lenders for the amount of loans granted by them to various categories of priority sector, and also by banks for the amounts in excess of stipulated priority sector lending norms. These certificates could be traded in an open market and the banks having shortfall in achievement of priority sector lending targets could be permitted to buy such certificates and, thus, achieve the priority sector lending norms.

The Committee has, further, indicated that in the process of buying PSLCs by the banks, the actual loans would remain on the books of the original lender, unlike outright purchase of loan assets, and the buyer bank would show the amount in its priority sector lending requirements.

The Committee further opined that there is a clear need to increase the commercial viability of reaching the poor. Product innovation, organisational flexibility, and superior cost efficiency are essential in reaching the excluded and offering them financial services that they will want to use. The Committee, however, recognises that greater commercial viability cannot be truly achieved for all sections of the poor, and therefore, some kind of mandated coverage will always be required.

The Committee also opined that a significant investment in financial literacy is required if the poor are to make effective use of various initiatives to foster financial inclusion.

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. In April 2009, the Reserve Bank increased the maximum distance criteria for the operation of a BC for rural, semi-urban and urban areas from the existing 15 kms. to 30 kms.

3.55 Banks were advised in August 2008 that in case duly appointed BCs of banks desire to appoint sub-agents at the grass-root level to render the services of a BC, banks have to ensure that (i) the sub-agents of BCs fulfil all relevant criteria stipulated for BCs in terms of the Reserve Bank's extant guidelines (ii) the BC appointed by them carries out proper due diligence in respect of the sub-agent to take care of the reputational and other risks involved and (iii) the distance criterion of 15 kms./5 kms., as applicable, from the base branch should invariably be fulfilled in the case of all sub-agents. Banks were also advised that where individuals under the permitted categories have been appointed as BCs, they cannot in turn appoint sub-agents.

3.56 In view of the demand from various quarters for enlarging the eligible entities that can function as BCs, the Reserve Bank constituted a Working Group to review the Business Correspondent Model in the Annual Policy 2009-10. The Working Group (Chairman: Shri P Vijaya Bhaskar), *inter alia*, reviewed the experiences gained in implementing the BC Model and suggested measures to enlarge the category of persons/entities that can act as BCs of banks, after examining the various regulatory and other incidental issues relating to the Model (Box III.3).

Financial Literacy and Credit Counselling

3.57 The Reserve Bank has been taking a number of initiatives to promote financial literacy. 'Project Financial Literacy' has been undertaken to educate the common person on financial matters. The initiatives taken by the Reserve Bank to promote financial literacy, *inter alia*, include conducting essay/quiz/inter-school debate competitions for school children on topics related to banking and financial inclusion, distributing materials such as comic books, pamphlets and posters on financial literacy free-of-cost, participating in fairs/ exhibitions to disseminate information on the Reserve Bank's role as a central bank and educating the general public about the Reserve Bank's clean note policy, security features of currency notes and detection of forged notes. The Reserve Bank has undertaken a project for setting up a permanent exhibition centre on financial education in Mumbai. A pilot project on developing and including chapters on financial education as part of the curriculum in schools has been undertaken in collaboration with the Karnataka Government.

3.58 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 Counselling Centres' on April 3, 2008. Based on the feedback received, a Model Scheme for FLCCs has been formulated and communicated to banks in February 2009. The main objective of the model Scheme is to provide free financial literacy/education and credit counselling. The specific objectives of the scheme, *inter alia*, include financial counselling services through face-to-face interaction, educating people with regard to various financial products and services, and making the people aware of the advantages of being connected with the formal financial sector (Box III.4) (also see Box IV.6 of RBI Annual Report 2008-09).

Box III.3: Working Group to Review the Business Correspondent (BC) Model: Major Recommendations

As announced in the Annual Policy Statement for the year 2009-10, a Working Group was constituted (Chairman: P. Vijaya Bhaskar) to examine the experience to date of the BC model and suggest measures, to enlarge the category of persons that can act as BCs, keeping in view the regulatory and supervisory framework and consumer protection issues.

The Working Group submitted its Report on August 18, 2009. The major recommendations of the Working Group are summarised below:

Additional Eligible Entities as BCs

The following entities may be considered for appointment as BCs in rural and semi-urban areas, in addition to the entities presently permitted: (i) Individual kirana/medical /Fair Price shop owners (ii) Individual Public Call Office (PCO) operators (iii) Agents of Small Savings schemes of Government of India/Insurance Companies (iv) Individuals who own Petrol Pumps (v) Retired teachers and (vi) Authorised functionaries of well run Self Help Groups (SHGs) linked to banks. Further, non-deposit taking NBFCs in the nature of loan companies whose microfinance portfolio is not less than 80 per cent of their loan outstanding may be permitted as BCs in the financially excluded districts as identified by the Committee on Financial Inclusion(Chairman: Dr.C.Rangarajan), only for liability products.

As regards the North Eastern Region, Reserve Bank may issue suitable instructions to banks to implement the recommendation made by the Committee on Financial Sector Plan (CFSP) for the North Eastern Region (Chairperson: Smt. Usha Thorat) that where a local organisation/association, which does not fall under any of the forms of organisation listed in the Reserve Bank guidelines, is proposed by a bank, after due diligence and is recommended by DLCC for being approved as Business Correspondent, the Regional Office of the Reserve Bank may be given powers to grant suitable exemption from the Reserve Bank guidelines.

Ensuring Viability of BC Model

Banks may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model. Suitable guidelines may be issued by the Reserve Bank in this regard, especially keeping in view the profile of customers using these services.

Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.

In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges.

Banks may need to have a relook at the compensation structure for BCs. The range of services to be delivered through the BC should be ramped up to include suitable small savings, micro-credit, micro-insurance, and small value remittances.

Regulatory Issues

Reserve Bank may permit banks to allow, with suitable safeguards, the BCs in the North Eastern Region to account for the transactions in the bank's books by the end of the second working day from the date of the transaction.

As regards cases referred to DCCs for relaxation of distance criteria, they should give their decisions at the earliest and in any case within a period of three months from the date of reference to them. In case no decision is conveyed by DCCs within this period, the banks may be permitted to treat it as a 'no objection' for relaxation of the distance criterion.

Financial Education and Consumer Protection

Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. For this purpose, extending necessary financial support from the Financial Inclusion Fund administered by NABARD may be considered.

Information regarding BCs engaged by banks may be placed on the banks' websites. The Annual Reports of banks should also include the progress in respect of extending banking services through the BC model and the initiatives taken by banks in this regard. Banks may also use print and electronic media (including in the vernacular language) to give wide publicity about implementation of BC model by them.

The banks need to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the BCs.

Banks may put in an appropriate grievance redressal mechanism, which should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer.

Risk Mitigation Measures

To address the various risks involved in rendering banking services through the BC model, banks need to put in place suitable and adequate risk mitigation measures. Further, banks may be guided by the instructions contained in the guidelines on ' Outsourcing of Financial Services' issued by the Reserve Bank on November 3, 2006, as relevant, while implementing the BC model.

Others

The Reserve Bank may issue suitable clarification to the banks to the effect that in case the customer desires, he may be allowed to carry out the transactions at the base branch.

Box III.4: Financial Literacy and Credit Counselling (FLCC) Centres

Financial education/literacy has assumed great importance in the recent years, as financial markets have become increasingly complex and there is also an information asymmetry leading to making informed choices difficult for the common person. In India, the need for financial education is greater considering the low levels of literacy and the large section of the population, which is still out of the formal financial set-up. Banks, as financial intermediaries can play an important role in providing financial education to its customers as well as others.

A model scheme on financial literacy and credit counselling (FLCC) centres was formulated and communicated to all SCBs and RRBs in February 2009 with the advice to set up the centres as distinct entities maintaining an arm's length from the bank so that the FLCC's services are available to even other banks' customers in the district.

The salient features of the Scheme are as under:

Objectives

The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling. The specific objectives of the FLCCs would be:

(i) To provide financial counselling services through face-to-face interaction as well as through other available media like e-mail, fax, and mobile as per convenience of the interested persons, including education on responsible borrowing, proactive and early savings, and offering debt counselling to individuals who are indebted to formal and/or informal financial sectors;

(ii) To educate the people in rural and urban areas with regard to various financial products and services available from the formal financial sector;

(iii) To make the people aware of the advantages of being connected with the formal financial sector;

(iv) To formulate debt restructuring plans for borrowers in distress and recommend the same to formal financial institutions, including cooperatives, for consideration;

(v) To take up any such activity that promotes financial literacy, awareness of the banking services, financial planning and amelioration of debt-related distress of an individual;

FLCCs should not, however, act as investment advice centres /marketing centres for products of any particular bank/banks. Counsellors may refrain from marketing/ providing advice regarding investment in insurance policies, investment in securities, value of securities, and purchase/sale of securities, or promoting investments only in bank's own products.

Organisational/Administrative Set-up

To start with, banks may set up Trusts/Societies for running the FLCCs, singly or jointly with other banks. A bank may induct respected local citizens on the Board of such a Trust/Society. Serving bankers may not be included in the Board. The trust may also be represented by senior citizens.

To begin with, FLCCs may be fully funded by the bank/s. Initially, if the branch premises are used to minimise cost, the FLCC should be kept completely separated with a separate entrance, and different look and feel from that of the bank's branch so as to maintain a distinct identity from the parent bank. The banks' officers may, for effective supervision and monitoring of activities of such Trusts/Societies, make dummy calls or incognito visits.

It is necessary that these centres should not be perceived as recovery or marketing agents of the bank concerned, and the general public/banks' constituents should feel comfortable in voluntarily approaching the centres. The independence of the counselling centres has to be ensured so that non-partisan and objective guidance is provided to the customers.

Coverage

While credit counselling services may be provided in rural, semi urban, urban and metropolitan areas, banks may adopt a segmented approach specific to different categories of borrowers, rather than broad-based generalised one. For instance, the centres in rural and semi urban areas could concentrate on financial literacy and counselling for farming communities and those engaged in allied activities.

In order to have maximum coverage, FLCCs may need to be set up at all levels, *viz*., block, district, town and city levels. However, to begin with, lead banks may take the initiative for setting up FLCCs in the district headquarters. The SLBCs could oversee the activities of FLCCs and provide support and guidance wherever required.

FLCCs may not take up cases of wilful defaulters.

Charges

Counselling and debt management services may be provided free of charge to the customers so as to put no additional burden on them.

(Contd...)

(....Concld.)

Infrastructure

Proper infrastructure would have to be put in place by banks with adequate communication and networking facilities.

Types of Credit Counselling

Debt counselling/credit counselling can be both preventive and curative. In case of preventive counselling, the centres could provide awareness regarding cost of credit, and availability of backward and forward linkages, where warranted. The clients could be encouraged to avail of credit on the basis of their repaying capacity. Preventive counselling can be through the media, workshops and seminars.

FLCCs may consider introducing a generic financial education module in vernacular language. Broadly, the module content can include the need for savings, budgeting, advantages of banking with formal financial institutions, concept of risk and rewards and time value of money, various products offered by banks, and insurance companies.

Since promoting awareness is one of the primary objectives, the FLCCs should give due emphasis to customers' rights under fair practices code, benefits of nomination facilities, and operation of accounts.

In the case of curative counselling, the clients may approach the counselling centres to work out individual debt management plans for resolving their unmanageable debt portfolio.

Preventive counselling may be made mandatory for individual borrowers based on their income level or size of loan. Such mandatory credit counselling could be made a part of fair lending practice of banks.

Mechanism for Credit Counselling and Debt Settlement

Banks may encourage their own customers in distress or customers of any bank to approach the FLCCs set up by them. Information about such FLCCs can be provided through the various fora available under the Lead Bank Scheme. Banks may evolve trigger points to refer cases, where there are early warning signals, to the counselling centres before taking measures for recovery.

The counsellors should be mandated to refer cases to banks and work out Debt Management Plans for distressed borrowers with a view to facilitating restructuring/rescheduling their debts.

The choice of finally accepting or rejecting a debt restructuring proposal suggested by the FLCCs may be left to the bank/banks concerned.

The FLCCs would, however, not involve themselves in recovering and distributing money. This may be left to the bank concerned, or the bank having the largest exposure to act on behalf of all the banks.

Qualification and Training of Counsellors

It is necessary that only well qualified/trained counsellors are selected to man the centre on a full time basis. The FLCCs could consider appointing people with domain knowledge in agriculture for counselling related to agriculture and allied activities.

To ensure that there is no conflict of interest, persons managing the FLCC should not be staff of the bank.

Individuals such as retired bank officers, and ex-servicemen may be allowed to be appointed, among others, as credit counsellors.

The Reserve Bank's College of Agriculture Banking, Pune, Bankers' Institute of Rural Development, Lucknow or the training colleges of banks may consider conducting training programmes for the counsellors.

Types of Interface

Counselling centres should be equipped to deal with requests received in person, by phone, e-mails, and post. They should have a toll free line, e-mail and fax facilities for easy contact.

Monitoring

The functioning of the FLCCs in each State may be monitored by a Committee headed by the Regional Director of the Reserve Bank of India and feedback provided to the banks on a regular basis. The Committee may comprise SLBC convenor bank, other banks, NABARD, IBA, consumer organisations, and NGOs working in the area.

Transparency/Disclosure of Information

To help the customers make informed decisions, all banks may display on their websites necessary information regarding fees, and charges. The details of the services offered by the FLCCs opened by the banks may also be placed on the websites of banks concerned.

Publicity

Banks may ensure that the list of counselling centres is appropriately publicised.

Progress

Banks have reported setting up 148 credit counselling centres in various States of the country up to March 2009.

Lead Bank Scheme

3.59 The concept of 'Lead Bank Scheme (LBS)' was first mooted by the Gadgil Study Group, which submitted its report in October 1969. Pursuant to the recommendations of the Gadgil Study Group and Nariman Committee suggesting adoption of 'area approach' in evolving credit plans and programmes for development of banking and the credit structure, the LBS was introduced by the Reserve Bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.

3.60 During 2008-09 (July-June) and 2009-10 (up to August 2009), the eight newly formed districts in six States and one UT were assigned to various SCBs, to function as Lead Banks, *viz.*, (i) Narayanpur and Bijapur in Chhattisgarh to State Bank of India (ii) Alirajpur and Singrauli in Madhya Pradesh to Bank of Baroda and Union Bank of India; (iii) Palwal in Haryana to Oriental Bank of Commerce; (iv) South Andaman, and North and Middle Andaman (Andaman was bifurcated into two districts), to State Bank of India; (v) Tiruppur in Tamil Nadu to Canara Bank; and (vi) Kanshiram Nagar in Uttar Pradesh to Canara Bank, respectively.

High Level Committee to Review the Lead Bank Scheme

3.61 Pursuant to the announcement made in the Reserve Bank's Mid-term Review of the Annual Policy Statement for 2007-08, a High Level Committee (Chairperson: Smt. Usha Thorat) was constituted in November 2007, to review the LBS and improve its effectiveness, with a focus on financial inclusion and recent developments in the banking sector. The Committee had several rounds of discussions with different State Governments, banks and other stake holders, including academicians, micro finance institutions and NGOs. The broad view that had emerged was that while greater banking and credit penetration by the formal financial institutions for facilitating inclusive growth should be the primary objective of the scheme, it would also be necessary to strengthen the institutions and processes through which the scheme is implemented. The Committee submitted its draft report on May 21, 2009 and it was placed on the Reserve Bank's website for public comments. Based on the feedback/ comments/ suggestions received from the public, banks, institutions, the Committee submitted the final report on August 20, 2009, which was placed on RBI website on August 24, 2009. The major recommendations of the Committee are furnished in the Box. III.5 (also see Box IV.2. 'Draft Report of the High Level Committee to Review the Lead Bank Scheme' in RBI Annual Report 2008-09).

Special Task Force in North-Eastern Region

3.62 A Special Task Force (Chairperson: Smt. Usha Thorat) was constituted in order to give a fresh impetus for setting up of banking facilities at additional centres in North-Eastern region perceived as essential as per public policy. A scheme of providing financial support to banks by the Reserve Bank for setting-up banking facilities (currency chests, extension of foreign exchange and Government business facilities) at centres in the North-Eastern region, which are not found commercially viable by banks, was formulated, requiring the State Governments to make available necessary premises and other infrastructural support. The Reserve Bank as its contribution would bear one time capital cost and recurring expenses for a limited period of five years as per the lowest bid offered by a bank.

3.63 To begin with, bids were invited for the 'agreed centres' identified by the State Government of Meghalaya, on pilot basis. The Government of Meghalaya agreed to the proposal of providing premises and security. Bids have been received from the PSBs for setting-up branches at eight centres and these have been allotted to the lowest bidder.

Box III.5: Report of the High Level Committee to Review the Lead Bank Scheme

Background: The Lead Bank Scheme (LBS) was introduced by the Reserve Bank in 1969. Over the four decades since the introduction of the LBS, several changes have taken place in the country, especially after 1991 with the beginning of globalisation and liberalisation of the Indian economy. The reforms have encompassed all sectors including the financial sector. The commercial banks are much more focused today on their financials and have improved their competitiveness and efficiency. Although priority sector obligations have continued to be in force for both private sector and PSBs, attention has increasingly been drawn to the fact that large sections of the population remain outside the formal banking structure and the real and financial sectors continue to lag behind in certain regions. While policies are in place to facilitate flow of credit to the more vulnerable sectors/sections of society, there is a need to ensure greater dissemination and implementation of these policies at the grass root level, besides getting timely information and better assessment of outcomes.

A need was, therefore, felt for a comprehensive review of the LBS. Accordingly, as announced in the Reserve Bank's mid-term review of Annual Policy for the year 2007-08, a Committee was constituted (Chairperson: Smt. Usha Thorat) to review the LBS with focus on financial inclusion and the recent developments in the banking sector.

Roadmap for Financial Inclusion: The Committee noted that it is critical that banking services is seen as a public good and is accessible to all sections of population and regions of the country at affordable cost. The Committee, therefore, recommended the overarching objective of LBS shall be to enable banks and State Governments work together to achieve inclusive growth.

Considering the overarching need to provide a banking outlet at locations closer to the rural population, the Committee recommends that in every district, a Sub-Committee of the DCC may draw up a road map to provide banking services through a banking outlet at every village with population of over 2000 at least once a week on a regular basis through various forms, *viz.*, mobile banking, extension counters, satellite offices as also BCs. By March 2010, the Sub-Committee should come out with a time frame within which this can be achieved and the time frame needs to cover all villages having population of more than 2000 with a banking outlet not later than March 2011. In States where the existing penetration is good, the targets could be brought forward appropriately.

A monitoring system may be instituted by the DCC to periodically assess the position regarding achieving the roadmap and report the same in each meeting of the DCC.

IT based Financial Inclusion: In achieving banking penetration, banks need to take the maximum advantage of available IT solutions. Since State Governments are also keen to disburse NREGA and social security funds through bank accounts, partnerships can be explored between banks and State Governments and leverage the same infrastructure for achieving financial inclusion. The funding arrangements available under Financial Inclusion Technology Fund (with NABARD) or other options such as the support offered for distribution of Government payments by the Reserve Bank may be explored for this purpose.

Role of State Governments: The role of the State Governments ranges from ensuring conducive law and order situation, water supply and irrigation facilities, road and digital connectivity, developing proper land records, to assist in the identification process, publicity drives, and recovery. In centres where bank branches are required as per public policy for general banking, currency, forex and government business, but banks are constrained to open the branches due to lack of infrastructure, absence of viability and security concerns, State Governments will need to extend support by providing premises, and security. State Governments should also be able to leverage on the benefits of undertaking government business accruing to banks to incentivise their involvement in Government sponsored schemes and programmes which may not always have business benefits.

State Level/District Level Development Plan: The Committee has recommended preparation of a one-time comprehensive State Level/District Level Development Plan (SDP/DDP) for each State and district on the lines prepared for the North Eastern Region by the Committee on Financial Sector Plan for North Eastern Region. This plan should identify the 'enablers' and 'impeders' in banking development and lending to the priority sectors, besides delineating the role and responsibilities of banks, State Governments and other stakeholders for taking specific actions, to be monitored periodically at the State Level Banker's Committee (SLBC) and District Consultative Committee (DCC). The State level plan may be prepared by a sub-committee headed by convenor of SLBC and include officials from the State Government, the Reserve Bank and NABARD besides the major participating banks. At the district level, a sub committee of the DCC with the LDM as convenor and members comprising the DDM of NABARD, district level government officials, bank functionaries and others may prepare such a plan. Regional offices of the Reserve Bank may provide necessary guidance.

(Contd. ....)

(....Concld.)

SLBC and DCC Machinery: More time of the SLBC/DCC machinery may, therefore, be utilised to discuss specific issues inhibiting and enabling financial inclusion as delineated in the State Level/District Level Development plan, rather than narrowly on the government sponsored schemes.

In view of the large membership of the SLBC, it is desirable for the SLBC to constitute sub committees for specific tasks. These sub committees may examine the specific issues in-depth and come out with solutions/ recommendations for consideration of the SLBC.The secretariat/offices of SLBC should be sufficiently strengthened to enable the SLBC convenor bank to effectively discharge its functions.At the DCC level, sub committees as appropriate may be set up to work intensively on specific issues and submit reports to the DCC for its consideration.

An annual conference of Chief Secretaries/Development Commissioners, CMDs of SLBC convenor banks may be convened by the Reserve Bank to discuss important policy issues in the area of financial inclusion and priority sector lending at the national level.

A small committee, comprising representatives of RBI, Central Office, IBA, Regional Director, the Reserve Bank and Chief General Manager, NABARD of the State concerned may review the performance of the SLBC Convenor banks and lead banks so as to bring about corrective action, including changing the convenorship of SLBC/DCC, if needed.

Lead District Manager's (LDM's) Office – Role and Set-up: The Committee noted that the effectiveness of the entire Lead Bank Scheme depends on the dynamism of the District Collector and the LDM, with supportive role of the Regional/ Zonal office. The new functions envisaged for the LDMs include drawing up the road map for banking penetration, preparation of one time comprehensive Development Plan for the district, associate with the setting up of Financial Literacy and Credit Counselling (FLCCs) Centres, setting up of Rural Self Employment Training Institutes, holding annual sensitisation workshops for banks and government officials with participation by NGOs/PRIs, arranging for quarterly awareness and feedback public meetings.

Financial Literacy and Credit Counseling: Each lead bank is expected to open a FLCC Centre in every district where it has lead responsibility by following the recent guidelines issued by RBI in this regard.

Capacity Building/Training/Sensitisation Programmmes: The Committee observed that there is need for sensitising the DCs on the banks and banking in general apart from the specific scope and role of the LBS. The SLBC may arrange for exposure visits for the DCs to the SLBC convenor's office for sensitisation and understanding of the LBS. Similarly, soon after their posting, exposure visits to the State capital, development departments/ZP and Collectorate may be arranged for LDMs for understanding the priorities of the State Government.

Staff at the operational level of banks and Government agencies associated with implementation of the LBS need to be aware of the latest developments and emerging opportunities. There is need for staff sensitisation/ training/seminars at periodic intervals on an ongoing basis. Training institutions of individual banks together with national level training colleges of the Reserve Bank and NABARD as also NIBM, IIBM, and NIRD should develop suitable modules for this from the current year.

Quarterly Public Meetings and Grievance Redressal: Every quarter, lead banks may organise an awareness and feedback public meeting at various locations in their lead districts. Wide publicity may be given to these meetings so that members of public, media representatives, local leaders as also NGOs/CSOs working in the district attend these meetings.

Greater role for Private Sector Banks: The Committee observed that priority sector lending targets including those for grant of weaker section loans apply equally to the private sector banks also and hence there is a significant role for these banks in the implementation of the LBS. The Committee, therefore, recommends that private sector banks should involve themselves more actively by bringing in their expertise in strategic planning and leveraging on Information Technology. The lead banks, on their part, should also ensure that private sector banks are more closely involved in the LBS, both while drawing up and in implementing the Annual Credit Plan.

Initiatives for Urban Areas: In urban areas, the State Government machinery may assist in the opening of bank accounts where there are large settlements of households and obtaining proof of address and identity may be difficult. Banks having the largest presence in each city with more than one million population (to start with) may take the leadership in convening a meeting of bankers and allocating responsibility for various wards to different banks, to ensure that all urban households have easier access to bank accounts and banking services. Regional Directors of the Reserve Bank at different centres may facilitate the setting up of such a forum.

Revised SAMIS Reporting System: The Committee suggested implementation of revised Priority Sector Monitoring and Information System (PSMIS) on a pilot basis in one/two States initially and thereafter extending to the rest of the country with effect from April 1, 2010. The Committee has also suggested constitution of a small Working Group by the Reserve Bank to formulate the modalities and work on implementation of the revised framework.

Swarna Jayanti Gram Swarozgar Yojna (SGSY)

3.64 The Union Budget for 2009-10 emphasised on formation of women Self Help Groups under the scheme 'The Swarna Jayanti Gram Swarozgar Yojna'. Apart from providing capital subsidy at an enhanced rate, it is also proposed to provide interest subsidy to poor households for loans up to Rs.1 lakh from banks. Further, in August 2009, the Reserve Bank advised all PSBs excluding RRBs that the individual loans up to Rs.1 lakh and group loans up to Rs.10 lakh under the Scheme would receive the exemption of secondary collateral security.

The Rashtriya Mahila Kosh

3.65 The corpus of 'The Rashtriya Mahila Kosh' is proposed to be raised to Rs.500 crore over the next few years in recognition of its importance in facilitating credit support or micro finance to poor women.

Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)

3.66 In place of the Scheme of Liberation and Rehabilitation of Scavengers (SLRS), 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. The scheme contains provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations. The scheme provides loans for projects costing up to Rs.5 lakh. In June 2009, following the decision taken by the Government of India to extend this scheme beyond March 2009, the Reserve Bank instructed the banks to complete the implementation of the scheme by September 30, 2009.

Differential Rate of Interest (DRI) Scheme

3.67 The Union Budget for 2008-09 proposed to raise the borrower's eligibility criteria for availing loans under the Differential Rate of Interest (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. In August 2008, the Reserve Bank clarified that the revised eligibility income criteria of Rs.24,000 for urban areas is also applicable for the semi-urban areas. The target for lending under the DRI scheme was maintained at one per cent of the previous year's total advances.

5. Prudential Regulation

3.68 In the wake of heightened concerns of financial stability triggered by the on-going financial turmoil in the US, the regulatory initiatives by the Reserve Bank during the year continued to focus on adapting the international best practices. The migration of the commercial banking system to the Basel II framework had made considerable progress during the year. One of the important initiatives taken during the year was regarding the restructuring of advances in the banking system. Measures were also taken to broaden the instruments that can form a part of the Tier I and Tier II capital of the banks. The prudential regulation for the off-balance sheet exposures of the banking system was also strengthened given its importance in ensuring financial stability.

3.69 In response to the global financial turmoil, the G-20 Working Group came out with a Report titled 'Enhancing Sound Regulation and Strengthening Transparency' in March 2009. The recommendations of the Report are consistent with the recognition that robust regulation in each country, based on effective global standards, is vital to future financial stability. The recommendations of the Report are summarised in Box III.6.

Box III.6: G-20 Working Group Report on 'Enhancing Sound Regulation and Strengthening Transparency' – Summary of Recommendations

The Working Group deliberated upon various aspects of regulation and transparency in order to strengthen the international regulatory standards and enhance transparency in global financial markets. The aspects which received the attention of the Group are: (i) system-wide approach to financial regulation, (ii) scope of regulation, (iii) oversight of credit rating agencies, (iv) private pools of capital, (v) transparent assessment of regulatory regimes, (vi) pro-cyclicality, (vii) capital, (viii) liquidity, (ix) infrastructure for over-the-counter (OTC) derivatives, (x) compensation schemes and risk management, (xi) accounting standards, (xii) transparency, (xiii) enforcement, and (xiv) technical assistance and capacity building in emerging market economies. The key recommendations of the Group are summarised below:

The Group opined that as a supplement to sound micro-prudential and market integrity regulation, national financial regulatory frameworks should be reinforced with a macro-prudential overlay that promotes a system-wide approach to financial regulation and oversight, and mitigates the build-up of excess risks across the system. In most jurisdictions, this will require improved coordination mechanisms between various financial authorities, mandates for all financial authorities to take account of financial system stability, and effective tools to address systemic risks. It will also require an effective global table to bring together national financial authorities to jointly assess systemic risks across the global financial system and coordinate policy responses.

Further, the scope of regulation and oversight should be expanded to include all systemically important institutions, markets and instruments. This will require enhanced information for financial authorities on all material financial institutions and markets, including private pools of capital. Large complex financial institutions require particularly robust oversight given their size and global reach. The regulatory and oversight framework should strive to treat similar institutions and activities consistently, with greater emphasis on functions and activities, and less emphasis on legal status.

Once conditions in the financial system have recovered, international standards for capital and liquidity buffers should be enhanced, and the build-up of capital buffers and provisions in good times should be encouraged so that capital can absorb losses and be drawn down in difficult times.

Through the expanded Financial Stability Forum (FSF) (India has been co-opted as a member), the International Monetary Fund (IMF) and the international standard setters, international standards, including those for macro-prudential regulation, the scope of regulation, capital adequacy and liquidity buffers, should be coordinated to ensure a common and coherent international framework, which national financial authorities should apply in their countries consistent with national circumstances. The financial regulatory and oversight frameworks and their implementation in all G-20 countries should be reviewed periodically, validated internationally and made public.

Sound micro-prudential and market-conduct regulation supplemented with an effective macro-prudential framework requires enhancements to a range of supporting policies and infrastructure, including: compensation practices that promote prudent risk taking in line with principles developed by the FSF; the greater standardisation of derivatives contracts and the use of risk-proofed central counterparties; improved accounting standards that better recognise loan-loss provisions and dampen adverse dynamics associated with fair-value accounting; effective enforcement of regulation that is coordinated internationally including the enforcement of the adherence of credit rating agencies to the substance of the International Organisation of Securities Commission code of conduct; and national authorities and international standard setters working together and assisting each other in strengthening financial regulatory and oversight frameworks and their implementation across the G-20 and beyond.

Basel II - Implementation

3.70 All commercial banks in India excluding RRBs and LABs have become Basel II compliant as on March 31, 2009. To begin with, the Standardised Approach for Credit Risk, Basic Indicator Approach for operational risk and Standardised Duration Approach for market risk have been implemented in India. However, the implementation of advanced approaches under the Basel II framework is expected to bring about the up-gradation of risk management framework and also capital efficiency to the Indian banking system. Keeping these in mind and also emerging international trend in this regard, the Reserve Bank has laid down a timeframe for implementation of these approaches, which is provided in Table III.2.

3.71 The banks are also advised to undertake an internal assessment of their preparedness for migration to advanced approaches, in the light of the criteria envisaged in the Basel II document, as per the aforesaid time schedule,

Table III.2: Timeframe for the Adoption of Advanced Approaches under Basel II

Approach	The earliest date of making application by banks to the Reserve Bank	Likely date of approval by the Reserve Bank
1	2	3
a. Internal Models Approach (IMA) for Market Risk	April 1, 2010	March 31, 2011
b. The Standardised Approach (TSA) for Operational Risk	April 1, 2010	September 30, 2010
c. Advanced Measurement Approach (AMA) for Operational Risk	April 1, 2012	March 31, 2014
d. Internal Ratings-Based (IRB) Approaches for Credit Risk (Foundation- as well as Advanced IRB)	April 1, 2012	March 31, 2014

and take a decision, with the approval of their Boards, whether they would like to migrate to any of the advanced approaches. The banks deciding to migrate to the advanced approaches may approach the Reserve Bank for necessary approvals, in due course, as per the stipulated time schedule.

3.72 In the light of the experience gained in the parallel run of the new capital adequacy framework (NCAF) over the last two years, and also with a view to ensuring a degree of standardisation in their reporting to the Boards and to the Reserve Bank, a reporting format has since been prepared for adoption by all the banks. The reporting in the format is expected to continue till March 2011/March 2012, as per the date of migration to the NCAF by a bank, for monitoring compliance with Prudential Floors. The banks are also advised to adopt the format for reporting to their Boards with effect from the quarter ending December 31, 2008.

Banks' Exposures to Central Counter-Parties (CCPs)

3.73 Banks have been exposed to CCPs attached to stock exchanges while settling contracts like currency futures and interest rate futures. As per the extant guidelines, the instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments are exempted from the capital requirements. The exposures to CCPs on account of derivatives trading and securities financing transactions (*e.g.* collatarised borrowing and lending organisations, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures. The deposits/collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of Clearing Corporation of India Ltd. (CCIL), the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the NCAF. The above prescriptions about the adequacy of margin, quality of collateral and risk management systems of the clearing house/CCP will be reviewed after one year.

Exposures to Commercial Real Estate (CRE)

3.74 In view of a number of queries received from banks and other quarters as to whether or not certain exposures should be treated as CRE Exposures, as also in the light of switching over to Basel-II Framework which has specific provisions relating to such exposures, the definition of CRE Exposure was reviewed and a circular was issued on September 9, 2009. Accordingly, if the repayment primarily depends on other factors such as operating profit from business operations, quality of goods and services, and tourist arrivals, the exposure would not be counted as Commercial Real

Estate. It is possible for an exposure to get classified simultaneously into more than one category, as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory/ prudential exposure limit, if any, fixed by the Reserve Bank or by the bank itself, for all the categories to which the exposure is assigned. For the purpose of capital adequacy, the largest of the risk weights applicable among all the categories would be applicable for the exposure.

Issue of Preference Shares by Banks

3.75 Guidelines for issuing preference shares as part of regulatory capital was partially modified in April 2009. Part payment of dividend for Perpetual Non-Cumulative Preference Shares (PNCPS) in Tier I Capital and Coupon payment on Perpetual Cumulative Preference Shares/Redeemable Non-Cumulative Preference Shares/ Redeemable Cumulative Preference Shares in Upper Tier II Capital, was permitted by the modification. Further, in September 2009, the banks are permitted to issue subordinated debt as Tier II capital with call and step-up options, subject to certain terms and conditions.

SLR Securities

3.76 In September 2009, the Reserve Bank informed the SCBs including RRBs that the cash management bill will be treated as Government of India Treasury Bill and as such it shall be treated as SLR securities.

Regulations for Primary Dealer (PD) Activities of Banks

3.77 The existing guidelines on issue of subordinated debt stipulates that the interest rate spread of the instrument over the yield of comparable residual maturity of the Government of India dated security at the time of issue shall not exceed 200 basis points. On a review, it has been decided to remove the ceiling on the interest rate spreads at the time of issue of the subordinated instruments by the PDs under Tier II and Tier III capital requirements, with immediate effect. The PDs may, hereinafter, issue subordinated Tier II and Tier III bonds at coupon rates as decided by their Boards of Directors. The banks undertaking PD activities may have to follow these instructions in regard to issue of subordinated debt instruments.

Instalment of Off-site Automatic Teller Machines (ATMs)

3.78 The Reserve Bank, in June 2009, permitted SCBs to install Off-site ATMs at centres/places identified by them, without having the need to take permission from the Reserve Bank in each case. This would, however, be subject to any direction which the Reserve Bank may issue, including for closure/shifting of any such Off-site ATMs, wherever so considered necessary by the Reserve Bank. The banks should report full details of the Off-site ATMs installed by them in terms of the above general permission to the Reserve Bank immediately after operationalisation and in any case not later than two weeks.

Cross-holding of Capital by Banks

3.79 With regard to the cross-holding of capital among banks, in October 2008, the Reserve Bank detailed that the aggregate 'proprietary' holdings of a bank and its group entities should be limited to 5 per cent of the investee bank's paid-up capital. While calculating this 5 per cent limit, the 'fiduciary' holdings of an asset management company (AMC) belonging to the group would not be reckoned. The investee bank may contact the Reserve Bank for acknowledgement if the total holdings including fiduciary holdings are more than this limit. Further, the AMC should not exercise voting rights on its holdings in the investee bank and should not have any Board representation in the investee bank.

3.80 The Reserve Bank, in December 2008, advised the banks (UCBs in January 2009) that audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year. In case the firms are associated with internal assignment it should be ensured that they relinquish the internal assignment before accepting the statutory audit assignment during the year.

Risk Weights for Exposures to Corporates, Commercial Real Estate and NBFC-ND-SI

3.81 All unrated claims, long-term as well as short-term, regardless of the amount of claim, on the corporates attract a risk weight of 100 per cent since November 2008 for SCBs. Risk weight on the claims secured by commercial real estate and exposure to systemically important non-deposit taking NBFCs were fixed at 100 per cent both for SCBs and UCBs.

Off-Balance Sheet Exposures of Banks

3.82 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 guidelines were discussed in the Report on Trend and Progress of Banking in India 2007-08.

3.83 In October 2008, the Reserve Bank advised the banks that the overdue receivables representing positive mark-to-market value of a derivative contract should be treated as a NPA. Accordingly, as per the existing asset classification norms, all other funded facilities granted to the client shall also be classified as NPA.

3.84 In view of the changed scenario of the banking industry where banks extend long term loans for periods longer than 10 years for various projects, the Reserve Bank in April 2009 allowed banks to issue guarantees for periods beyond 10 years. However, while issuing such guarantees, banks are advised to take into account the impact of very long duration guarantees on their Asset Liability Management. Further, banks may evolve a policy on issuance of guarantees beyond 10 years as considered appropriate with the approval of their Board of Directors.

3.85 It is observed that certain banks, have been issuing guarantees on behalf of corporate entities in respect of non-convertible debentures issued by such entities. In this regard, in May 2009, the Reserve Bank clarified that the extant instructions apply only to loans and not to bonds or debt instruments. Guarantees by the banking system for a corporate bond or any debt instrument not only have significant systemic implications but also impede the development of a genuine corporate debt market. Banks are advised to strictly comply with the extant regulations and in particular, not to provide guarantees or equivalent commitments for issuance of bonds or debt instruments of any kind.

Restructuring of Advances by Banks

3.86 In August 2008, the Reserve Bank issued the revised guidelines on restructuring of advances by banks. While the Reserve Bank advised the banks that they were to restructure the accounts of viable entities classified under 'standard', 'sub-standard' and 'doubtful' categories, it clarified that the banks cannot restructure these accounts with retrospective effect. The asset classification, income recognition and provisioning norms under the scheme are detailed below:

Asset Classification Norms

3.87 The banks have to follow the usual asset classification norms while the restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring/rescheduling/renegotiation. Before taking up an account for restructuring, the bank may determine financial viability of the account by employing some acceptable viability benchmarks on a case-by-case basis. In the case of non-viable accounts, the banks have to accelerate the process of recovery and cannot initiate the process of restructuring. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects/activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns/action. In the case of borrowers classified as wilful defaulters, the bank has to satisfy itself that the borrower is in a position to rectify the wilful default before taking up restructuring. In such cases, restructuring has to be done with the approval of the Board.

3.88 The Reserve Bank specified that the accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring. The NPAs would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule. However, all the accounts classified as NPAs upon restructuring would be eligible for up-gradation to the 'standard' category after observation of 'satisfactory performance' during a period of one year from the date when the first payment of interest or instalment of principal falls due under the terms of restructuring package. However, if the 'satisfactory performance' is not evidenced after this period, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. Further, any additional finance may be treated as 'standard asset' up to a period of one year after the first interest/principal payment whichever is earlier, falls due under the approved restructuring package. However, the interest income on the additional finance, in the case of 'sub-standard' and 'doubtful' pre-restructuring facilities, should be recognised only on cash basis.

Income Recognition Norms

3.89 The interest income in respect of restructured accounts classified as 'standard assets' will be recognised on accrual basis and that in respect of 'NPAs' will be recognised on cash basis, unless specified otherwise.

Provisioning Norms

3.90 Banks have to hold provisions against the restructured advances as per the existing provisioning norms. In addition, the banks have to measure the diminution in the fair value of the advance which may arise on account of reduction in the rate of interest or reschedulement of repayment of principal amount as part of restructuring. Such diminution will have an impact on the bank's market value of equity and is an economic loss for the bank. "The erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". Fair value of the loan after restructuring will be computed as the "present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". The banks have to make specific provisions for this purpose in addition to the provisions as per existing provisioning norms. Further, this has to be kept in an account distinct from that for normal provisions. The total provision required against an account is capped at 100 per cent of the outstanding debt amount.

Prudential Norms for Conversion of Principal into Debt/Equity

3.91 The debt/equity instruments created by converting a part of the outstanding principal amount will be classified in the same asset category in which the restructured advance has been classified. These instruments should be held under 'available for sale' category and valued as per usual valuation norms.

Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

3.92 The FITL/debt or equity instruments created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. The unrealised income represented by FITL/Debt or equity instrument should have a corresponding credit in an account styled as 'Sundry Liabilities Account (Interest Capitalisation)'. Valuation and provisioning norms would be the same as in the case of conversion of principal into debt/equity.

3.93 In November 2008, the special regulatory treatment was made applicable to housing loans by removing the ceiling of 10 years for the repayment period of the restructured advances. However, the restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points. In December 2008, the special regulatory treatment was extended to commercial real estate exposures which are restructured up to June 30, 2009. Further, in view of the temporary cash flow problems faced even by the viable units, the second restructuring done by banks of exposures up to June 30, 2009 have also made eligible for exceptional/special regulatory treatment as a one-time measure.

3.94 In January 2009, the Reserve Bank extended the exceptional/special regulatory treatment to all the accounts which were standard as on September 1, 2008. However, to avail this extension, the bank has to take up restructuring on or before January 31, 2009 and later extended up to March 31, 2009. Further, the restructuring package had to be put in place within a period of 120 days from the date of taking up the restructuring package. It was further clarified that the cases where the accounts were standard as on September 1, 2008 but slipped to NPA category before 31st March 2009, can be reported as standard as on March 31, 2009 only if the restructuring package is implemented before 31st March 2009 and all conditions prescribed in this regard so far.

3.95 The exceptional/special regulatory treatment was also extended to all 'standard' and 'sub-standard' accounts even where full security cover for working capital term loan (WCTL) is not available. However, this is subject to the conditions that bank keeps adequate provisions for these loans, *i.e.*, 20 per cent for standard assets, 20 per cent during the first year which is increased by 20 per cent every year for sub-standard assets, and 100 per cent for the unsecured portion of the accounts ineligible for upgradation after the specified period. All these were one-time measures taken by the Reserve Bank applicable to restructuring packages implemented till June 30, 2009.

Risk Management

3.96 Risk management has once again come to the fore in the wake of the on-going global financial crisis. In view of this, the Reserve Bank has been issuing various guidelines on asset classification and provisioning. Several initiatives were taken during the year to strengthen risk management systems in banks such as modification in the provisioning.

Income Recognition, Asset Classification and Provisioning

Asset Classification

3.97 Asset classification norms remained unchanged, except for those applicable to projects under implementation involving time overrun, where the projects pertain to infrastructure. The asset classification norms for infrastructure projects alone were modified with effect from 31 March 2008. Consequently, infrastructure projects should be treated as substandard if the date of commencement of commercial production extends beyond a period of two years after the originally envisaged date of completion of the project, as against the earlier stipulation of one year. For the infrastructure projects financed by the banks/ FIs after May 28, 2002, if the date of commencement of commercial production/ operation extends beyond a period of two years after the date of completion of the infrastructure project, as originally envisaged at the time of initial financial closure of the project, the account should be treated as a substandard asset with effect from March 31, 2008. Thus, if a project is approaching the said two-year period, the banks are expected to undertake a viability study of the project to assess its eligibility for restructuring and if necessary, consider restructuring the asset to ensure that the asset quality is maintained.

Provisioning for Standard Assets

3.98 As a countercyclical measure, to mitigate the impact of the current economic slowdown, the provisioning requirements for all types of standard assets were reduced with effect from November 15, 2008, to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto.

Prudential Treatment of Provisions

3.99 The regulatory norms for provisioning represent the minimum requirement. The banks may voluntarily make specific provisions for NPAs at rates which are higher than the rates prescribed under the existing regulations if such higher rates are based on a policy approved by the Board of Directors to provide for estimated actual loss in collectible amount and the policy is consistently adopted from year to year. In this regard, in March 2009, the Reserve Bank stated that in the case of sale of standard asset, if the sale consideration is higher than the book value, the excess provisions may be credited to the profit and loss account. Further, the SCBs and UCBs can admit the excess provisions arising out of sale of NPAs as Tier II capital subject to the overall ceiling of 1.25 per cent of total risk weighted assets.

3.100 Floating provisions cannot be reversed by credit to the profit and loss account but can only be utilised for making specific provisions in extraordinary circumstances. In August 2009, the Reserve Bank stated that until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs, or alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk weighted assets.

However, this policy will be modified once the on-going work by FSB, BCBS, CGFS and accounting standard setters on measures to mitigate pro-cyclicality including counter cyclical provisioning is finalised.

Prudential Norms on Unsecured Advances

3.101 In order to enhance transparency and ensure correct reflection of the unsecured advances in Schedule 9 of the banks' balance sheet, it was advised in April 2009 that for determining the amount of unsecured advances for reflecting in schedule 9 of the published balance sheet, the rights, licenses, and authorisations, charged to the banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Hence such advances shall be reckoned as unsecured. Banks were also advised to disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, and authority, have been taken as also the estimated value of such intangible collateral.

Presence of Foreign Banks in India

3.102 At the end-June 2009, 32 foreign banks were operating in India with 293 branches. Besides, 43 foreign banks were operating in India through representative offices. In February 2005, the Government of India and the Reserve Bank released the 'Roadmap for Presence of Foreign Banks in India' laying out a two-track and gradualist approach aimed at increasing the efficiency and stability of the banking sector in India. One track was the consolidation of the domestic banking system, both in private and public sectors, and the second track was the gradual enhancement of the presence of foreign banks in a synchronised manner. The roadmap was divided into two phases, the first phase spanning the period March 2005 - March 2009, and the second phase beginning April 2009 after a review of the experience gained in the first phase. In view of the current global financial market turmoil, there are uncertainties surrounding the financial strength of banks around the world. Further, the regulatory and supervisory policies at national and international levels are under review. In view of this, it has been decided, for the time being, to continue with the current policy and procedures governing the presence of foreign banks in India. The proposed review will be taken up after due consultation with the stakeholders once there is greater clarity regarding stability, recovery of the global financial system, and a shared understanding on the regulatory and supervisory architecture around the world.

Committee on Financial Sector Assessment

3.103 A self assessment of India's financial sector was carried out by the Committee on Financial Sector Assessment (CFSA) (Chairman: Dr. Rakesh Mohan) set up by the Government of India and the Reserve Bank in September 2006. The Committee submitted its Report in March 2009. This self assessment is motivated by the desire to ensure compatibility of the Indian financial sector with international standards and assess its overall stability. The financial assessment process is based on three, mutually reinforcing pillars: Pillar I (Financial stability assessment and stress testing), Pillar II (issues relating to the institutional and legal infrastructure) and Pillar III (assessment of financial standards and codes). To conduct the independent and impartial assessment, four independent Advisory Panels were appointed. The reports put forward by these Advisory Panels, *inter alia*, identified gaps in adherence to international standards and codes, and suggested possible policy actions. These advisory panel reports were also peer reviewed by reputed international experts in the field. These independent reviews have further ensured an objective and impartial assessment. The Committee's observations regarding the commercial banking system in India is provided in the Box III.7.

Box III.7: Observations of CFSA regarding the Commercial Banking System in India

Based on the stability assessment and stress testing of the financial institutions, the CFSA has found that commercial banking system in India is broadly sound. While the banks were generally in a position to absorb significant shocks due to credit, liquidity and market risks, there were some concerns relating to liquidity risk due to increasing illiquidity in banks' balance sheets. There is, therefore, a need to strengthen liquidity management. Looking forward, the stress tests need to be conducted on a more systemic basis, to capture second round and contagion risks.

The Government ownership of commercial banks poses dilemmas as it has been argued that this could lead to a conflict of roles and regulatory forbearance. The possibility of conflicts of interest could be minimised through even-handed regulation which has been the case in India. Also, the cost of recapitalisation of Indian PSBs has also been relatively low.

The Government has, in the past, consistently shown willingness to contribute capital and the growth of PSBs has so far not been constrained because of lack of capital. But, capital augmentation of these banks in future could be a challenge. This could be managed through a variety of ways, such as, amalgamation where commercial synergies exist, raising capital through newer instruments (like issuance of perpetual preference shares in foreign currency). If no other alternative is available, there could be case for selective dilution of government equity which would require amendment of existing legislation.

There is a need for capacity building in the commercial banking sector with accent on training, succession planning, lateral recruitment and improved remuneration (particularly for public sector banks) while at the same time discouraging excessive risk-taking through an appropriate and balanced incentives structure. A well considered approach for entry of foreign banks in India needs to be followed, while adhering to the WTO commitment and norms. Recommending that competition must be encouraged, CFSA has advised encouraging market-based consolidation of banks.

The CFSA notes that the power of the Competition Commission regarding combination could result in delay of amalgamation of banks. Also, certain provisions in the Competition (Amendment) Act 2007 may result in regulatory overlaps and conflicts between the Commission and the statutory regulatory authorities. In the view of CFSA, Central Government could give necessary exemption under Section 54 of the Competition (Amendment) Act 2007 in respect of banks to avoid regulatory conflicts.

The CFSA highlights risk management as a priority area and notes that the counter-cyclical prudential norms imposed by the Reserve Bank have paid dividends in the recent times. It highlights the growing requirement of appropriate accounting and disclosure norms, particularly with regard to derivatives transactions as well as better management of liquidity risk. In this context, the report recommends earmarking a specific capital charge if dependence on purchased liquidity by a commercial bank goes beyond a threshold.

6. Supervision and Supervisory Policy

3.104 Supervision of financial entities presumes equal importance as regulation, since it will ensure compliance with the various regulatory policies prescribed by the Reserve Bank towards strengthening the banking system and maintaining financial stability. The Board for Financial Supervision (BFS) was constituted in 1994 to provide undivided attention to the supervision of financial entities. Some of the major issues dealt with by the BFS during 2008-09 included frauds monitoring, supervision of overseas operations of banks, supervision of financial conglomerates, among others (also see Annex III.1).

Supervision of Overseas Operations of Indian Banks

3.105 At present, supervision of overseas operation of Indian banks, both on and off site, is broadly done based on the recommendations of informal Working Group on supervision of foreign branches of Indian banks. The various supervisory tools presently being used by the Reserve Bank to exercise oversight on the bank's overseas operations are as follows.

Off-site Monitoring

3.106 There are seven quarterly DSB (O) returns which are submitted by banks under Section 27 (2) of Banking Regulation Act, 1949. They primarily cover the financial aspects of the position of overseas branches, *viz.*, Assets, Liabilities and Off-balance Sheet Exposures, Structural Liquidity, Problem Credits and Investments, Large Exposures, Country Exposure and Maturity, Profitability and Frauds.

3.107 In terms of extant guidelines, banks submit a quarterly report by way of D.O. letter, addressed to the Executive Director in charge of banking supervision and regulation, covering the developments during the quarter with focus on the working of the overseas branches. It covers areas such as changes in the regulatory framework affecting the banks, details of any non-compliance with the host country regulations indicating the circumstances under which the noncompliance has occurred, business environment, credit and control areas, instances of frauds/serious irregularities, major features brought out in the audit/inspection reports and action to be taken/proposed to be taken to set right the matters.

3.108 In some cases, inspection reports/ratings assigned to the branches of Indian banks are received from some host country regulators/ supervisors. Compliance Officers of banks are also required to report incidents of overseas regulatory violations and related issues to their Board of Directors and to the Reserve Bank on a monthly basis and submit a nil report even in cases where there is no such violation. During financial inspection of Indian banks, their overseas operations are examined on the basis of records available at the Head Office. The Reserve Bank also keeps a watch on the developments reported in the press.

On-site Inspection

3.109 On-site inspection of the overseas branches is taken up occasionally by the Reserve Bank based on need. The present supervisory framework for overseas operation of Indian banks predominantly rests on off-site monitoring and the system for on-site inspection has not been formally articulated in detail. Taking into consideration the increasing size and complexity of both on and off balance sheet items, a need was felt to examine the existing supervisory and regulatory framework relating to overseas operations of Indian banks. Accordingly, in the Annual Policy statement of 2008-09, constitution of two Working Groups was announced, one to lay down road map for adoption of a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators including the legal issues, and the other on review of regulatory and supervisory framework for overseas operations of Indian banks, including those of off-site reporting system.

3.110 The Reserve Bank in December 2008 advised the banks that if their foreign branches and subsidiaries are undertaking an activity which is not permitted under the BR Act/the respective statute of the PSB, they have to obtain necessary permission under Section 6 (1) (m) or 19 (1) (c), as the case may be, from the Reserve Bank/Government of India for undertaking such activities. Further, no prior approval from the Reserve Bank would be required if these branches and subsidiaries are transacting in plain-vanilla financial products, even if these products are not available in the Indian market and on which no specific prohibition has been currently placed by the Reserve Bank. However, the banks have to seek specific guidance from the Reserve Bank, if the extant prudential norms do not specify prudential treatment of these financial products. These products would attract the prudential norms such as capital adequacy, credit exposure, periodical valuation, and all other applicable norms. The banks should also report these exposures in the extant off-site returns furnished to the Reserve Bank. On the other hand, the banks have to obtain prior approval from the Reserve Bank, if their branches and subsidiaries propose to handle structured financial products. In such cases the banks have to furnish full particulars of these products, including the regulatory prescriptions by the host-country regulators as also the risk management systems in place in the branch/ subsidiary to deal with such products, to the Reserve Bank.

3.111 In December 2008, the Reserve Bank clarified that if the banks are resorting to off-shore outsourcing of financial services relating to Indian operations, they have to make sure that the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to the Reserve Bank's inspection visits/visits of banks internal and external auditors. Further, the regulatory authority of the offshore location should not have access to the data relating to Indian operations of the bank and the jurisdiction of the courts in the off shore location where data is maintained should not extend to the operations of the bank in India simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the bank). Moreover, the banks have to maintain the original records in India. In April 2009, banks are further advised to submit an Annual Compliance Certificate giving the particulars of outsourcing contracts, the prescribed periodicity of audit by internal/ external auditor, major findings of the audit and action taken through Board to the Reserve Bank.

Consolidated Supervision and Financial Conglomerate (FC) Monitoring Mechanism

3.112 In India, Financial Conglomerates (FC) Monitoring Mechanism is in place since June 2004 following the acceptance of the recommendations of the Working Group (Convenor: Smt. Shyamala Gopinath) on monitoring of Systemically Important Financial Intermediaries. The existing FC monitoring framework primarily has two major components – (i) off-site surveillance through receipt of quarterly returns and (ii) 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 focuses 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 situations and identifying cases of non-compliance with arms length principles. The monitoring of ITEs also helps in tracking of build-up of large exposures to entities within the Group, to outside counterparties and to various financial market segments (equity, debt, money market, and derivatives market).

Recent Supervisory Initiatives for Financial Conglomerates Supervision

3.113 In terms of BFS directions, an Internal Group was constituted in the Reserve Bank to recommend a framework for FC Supervision. The recommendations made by the Internal Group as part of its Report on Financial Conglomerates Supervision were examined in the Bank and final recommendations were placed before the BFS for considerations. The BFS has accepted the recommendations and directed to implement the same. The recommendations made by the Internal Group are covered under two sub-heads – i) those pertaining to the FCs led by banks and ii) those pertaining to FCs led by non-banks. While the set of recommendations applicable to the FCs led by banks would be implemented by issuing necessary guidelines/directives by the Reserve Bank, for other FCs, the recommendations would be made applicable with due concurrence of the Technical Committee of the Reserve Bank regulated entities, which is an inter-regulatory forum.

3.114 The Group has emphasised the need for developing a clear understanding of the FCs' operations including changes in its risk profile, 'material' intra-group transactions and risk concentrations, efficacy of the risk management systems, and quality of governance systems. Accordingly, the Group has recommended putting in place a system of 'close and continuous' supervision of the banking conglomerates by integrating on-site and off-site supervision processes covering bank specific supervision, consolidated supervision of 'banking group' and conglomerate supervision of the identified FCs within a separate division in the Department of Banking Supervision. The other recommendations made by the Group focus on greater/sharper emphasis on Risk Management Systems and Governance Framework for the FCs including application of 'fit and proper' principles, management of risks arising out of ITEs and credit concentrations covering both banking and non-banking conglomerates.

Risk Management Systems and Governance Framework

3.115 The Group has recommended capital adequacy assessment on a conglomerate-wide basis for the banking conglomerates broadly in line with consolidated capital adequacy assessment process. The parent bank/lead entity may be encouraged to put in place a governance framework to enable the Board and senior management team to obtain a comprehensive view of its group-wide activities, resources and risks. While the Group has left the decision on an appropriate group-wide governance framework to the individual FCs and their Principal Regulators themselves, it has recommended certain high-level principles that the conglomerates may adhere to as part of best practices. The Group has also made recommendations for strengthening the existing working arrangements amongst supervisors including provisions for quarterly regulatory discussions.

Development in Monitoring of Frauds in Banks

Cautioning Banks against Intermediaries Involved in Frauds

3.116 With the increase in the retail loans portfolio of banks in recent years, there has been a steady rise in frauds reported in this segment. An analysis of the trend showed that such frauds were perpetrated to a large extent with the help of intermediaries and third party service providers such as lawyers, valuers, chartered accountants, statutory auditors, real estate agents, real estate developers, builders, warehouse owners, motor vehicle dealers, agricultural equipment dealers, and travel agents. With a view to taking deterrent action against such unscrupulous intermediaries who aid the perpetration of frauds jeopardising the interests of banks, it was decided that banks would advise the IBA the names of such entities so that IBA could prepare a caution list for circulation amongst the member banks. The banks would now forward names of such intermediaries including professionals involved in frauds to IBA after satisfying themselves of the involvement of the third parties concerned and after providing them with an opportunity of being heard. In this regard, the banks have been advised to follow a formal procedure and the process followed should be suitably recorded.

Special Monitoring Mechanism for Banks Identified as Outliers on account of High Concentration of Frauds

3.117 The Board for Financial Supervision (BFS) directed that a 'Special Monitoring Mechanism' should be put in place for outlier banks. As per the directions, the Reserve Bank is in the process of introducing a mechanism for identification of outlier banks. For this purpose first the "Residual Operational Risk" on gross basis would be assessed taking into account the trend in incidents of frauds and concentration of frauds, in the banks over a given period of time. Thereafter, it would be netted for arriving at the "Net Residual Operational Risk" taking into account the recoveries made, punitive action taken against staff involved and other steps taken by the bank with regard to the fraud. In tune with this, guidelines are being framed to ensure that the incidences of frauds are factored in while carrying out Supervisory Review and Evaluation Process (SREP) in the banks for the purpose of assessing the “Fraud Risk” in specific and “Residual Operational Risk” in general. This aspect will, henceforth, be covered in the Quarterly Discussions with the banks as also the AFI meetings with them. Similarly, necessary modifications in relevant parameters are being carried out in the Systems and Controls component of CAMELS (capital, asset, management, earnings, liquidity and systems) rating framework which would reflect the status of the bank as an outlier or not based on incidences of frauds and the strength/ weaknesses of banks’ associated systems and controls. Based on the parameters banks would be categorised as outlier banks. Once they are categorised as outliers, the relevant information with regard to those banks would be conveyed to the Reserve Bank for regulatory response, if any.

Report of the High Level Group on Systems and Procedures for Currency Distribution

3.118 In July 2008, the Special Task Force of the Uttar Pradesh Police seized a large number of counterfeit notes in Rs.500 and Rs.1,000 denomination. In order to address the systemic concerns thrown-up by this incident, the Reserve Bank constituted a High Level Group (Chairman: Smt.Usha Thorat) in August 2008 to review the existing arrangements for stocking and distribution of currency notes with a view to enhancing the integrity and efficiency of the systems and procedures, and suggest appropriate measures (Box III.8).

Closure of Fraud Cases - Relaxation in the Existing Norms

3.119 Banks report cases of fraud to the Reserve Bank which monitors such cases on a regular basis. Such cases can be closed by banks only after cases pending with CBI/Police/ Court have been finally disposed off, staff accountability has been completed, insurance claim wherever applicable has been settled, amount of fraud has been recovered or written off and bank has reviewed the systems and procedures, identified the causative factors, plugged the lacunae and the relative facts have been certified by appropriate authority (Board/ Audit Committee of the Board). On a review, it was decided to allow banks to close the old cases of fraud in which all actions at their end had been completed except investigation by CBI /Police or where court cases filed by these agencies but were still pending in courts of law for several years. It has been decided that banks would be allowed, for limited statistical/ reporting purposes, to close those fraud cases involving up to Rs.25 lakh where the investigation is on or challan/charge sheet not filed in the Court for more than three years from the date of filing of First Information Report by the CBI/Police or the trial courts after filing of charge sheet/challan by CBI/Police, has not started or is in progress subject to fulfillment of other conditions. However, the banks are required to maintain all records pertaining to all such closed cases in a separate system till they are finally decided by the Legal System in India.

Multiple Finance of Housing Loans against the Same Property

3.120 In recent times, incidence of fraud in housing loan sector through registration of mortgage of same property at different Sub-Registrar’s office has been reported by several banks. One of the most common *modus operandi* adopted by the fraudsters is to submit fake title deeds in respect of same immovable property for availing multiple-finance. In this context, while granting finance to specific housing/development projects, SCBs including RRBs are advised to stipulate the following as a part of the terms and conditions: (i) the builder/developer/company would disclose in the Pamphlets/Brochures the name(s) of the bank(s) to which the property is mortgaged, (ii) the builder/developer/company would append the information relating to mortgage while publishing advertisement of

Box.III.8: Report of the High Level Group on Systems and Procedures for Currency Distribution – Summary of Recommendations

The Group submitted its Report in August 2009. After detailed deliberations and interaction with major banks, leading manufacturers and suppliers of Note Sorting Machines (NSMs)/Desktop Sorters as well as Cash-in-Transit (CIT) companies, the Group made recommendations mainly in four areas, *viz*., measures for facilitating detection of counterfeit notes and maintaining quality of notes in circulation, measures relating to cash holding and distribution, measures for strengthening security systems and procedures, and measures for developing human resources.

Measures for Facilitating Detection of Counterfeit Notes and Maintaining Quality of Notes in Circulation

The Group recommended that the NSMs/Desktop Sorters may be installed in all bank branches in a phased manner for early detection of counterfeit notes. Banks may switch over to the 'cassette swap' system for feeding the ATMs. New ATMs installed may be provided with in built note detectors. Over a period existing ATMs may also be required to have in built note detectors. Performance parameters of NSMs may be standardised by the Reserve Bank to ensure that all NSMs installed adhere to the laid down standards for detection of counterfeit notes. The Reserve Bank may ensure that the plan for withdrawal of notes of old series is implemented strictly as formulated and that the new series of banknotes with more robust security features be introduced as early as possible. The Reserve Bank may also facilitate R and D efforts for development of new security features. Where any person inadvertently in possession of counterfeit notes up to five pieces tenders the same at a bank counter, the requirement of filing FIR may be done away with. A simple report may be filed with the branch which in turn may include this in the Counterfeit Currency Report (CCR) to FIU-IND/Reserve Bank. The Reserve Bank may review the system of incentives and disincentives for detection and disclosure of counterfeit notes while assisting the enforcement agencies in dealing appropriately with those involved in making and distribution of counterfeit notes.

Measures Relating to Cash Holding and Distribution

The Reserve Bank may stipulate suitable cash holding limits for all currency chests beyond which the cash should necessarily be moved to a chest with larger limits or to the Reserve Bank. Each Reserve Bank office may undertake a review of the requirement of currency chests in their jurisdiction based on the volume and nature of transactions, accessibility of the chest and other factors including security so as to rationalise the number of chests and upgrade the facilities thereat for better security and efficiency. To tap advantages arising out of economies of scale, minimise overnight cash risks at bank branches and to benefit from sophisticated logistics techniques banks may be encouraged to establish Currency Processing Centres, which should be permitted to charge other banks for processing services. As NSMs have to be installed at all branches for sorting notes before dispensation, banks will have to make necessary investments. The cost of such investments will need to be recovered from the bulk tenderers of cash. Banks may put in place a transparent policy for such charges of cash handling/processing with the approval of their respective boards as already advised by the Reserve Bank. The Reserve Bank may take initiatives in promoting use of cards and electronic means of payment.

Measures for Strengthening Security Systems and Procedures

The Reserve Bank may explore enlisting the services of a specialised and dedicated force/other approved agencies to provide security at chests and for movement of treasure. The Reserve Bank may explore upgradation of the security systems in currency chests and the Reserve Bank vaults incorporating electronic bio-metric access, electronic locking of bins, and surveillance through Closed Circuit Television (CCTVs). Networking of CCTVs at chests within the jurisdiction of a controlling office of the bank may be explored for better surveillance. Tamper-proof shrink wrapping of soiled notes with bar coding of details of the branch remitting them may be introduced. A system of quarterly security audit of currency chest branches by controlling offices may be introduced. Comprehensive guideline/format may be prepared by the Reserve Bank/IBA. A system of risk based inspection of currency chests may be introduced by banks/the Reserve Bank taking into account various parameters for evaluating the extent of risk. Banks may draw up a contingency plan/disaster management plan in consultation with local police. The Reserve Bank may explore the possibility of introducing a defacing system of self inking/marking of banknotes in transit or in chests, which would automatically trigger-in if there is an attack/ attempted robbery/theft.

Measures for Developing Human Resources

Banks may modify their transfer pricing policy or equivalent policy so as to pass on the benefit on account of having a currency chest to the branch where the chest is maintained. Rotation of staff posted at currency chests may be ensured to prevent vested interest and entrenched non adherence of laid down systems and procedures. Where deviations and irregularities are found, controlling offices may take immediate punitive action after fixing accountability. Bank may accord recognition to currency handling operations as a sensitive and skilled activity and provide necessary incentives and training.

particular scheme in newspapers/magazines, and (iii) the builder/developer/company would indicate in the Pamphlets/Brochures that they would provide No Objection Certificate (NOC)/ permission of the mortgage bank for sale of flats/ property, if required.

Consortium/Multiple Banking Arrangements

3.121 In view of frauds being reported against borrowers enjoying credit facilities under 'multiple banking arrangement', the banks were advised to put in place an arrangement to share information regarding such fraudsters. All the banks which have financed a borrower under consortium/'multiple banking' arrangements should take co-ordinated action, based on commonly agreed strategy, for legal/criminal actions, follow up for recovery, exchange of details on *modus operandi*, achieving consistency in data/information on frauds reported to the Reserve Bank. Preferably, the co-ordination efforts should be driven by the bank which detects the fraud first or by the bank which has the maximum exposure, depending on circumstances. Further, the consortium leader should take the lead role in monitoring the unhedged foreign exchange exposures of clients as per the norms prescribed by the Reserve Bank on the matter. The UCBs were also advised in January 2009 to take due diligence while lending under consortium/multiple banking arrangements.

7. Regional Rural Banks

3.122 The RRBs have a special place in ensuring financial inclusion on the one hand and adequate credit flow to agriculture and the rural sector, on the other. RRBs are also opening 'no frill' accounts with zero or low minimum balance and have been advised to explore the provision of small clean overdraft facility in such accounts without any linkage to purpose. They are also issuing General Purpose Credit Cards and have been allowed to use the services of Non-Governmental Organisations/Self Help Groups/Micro Finance Institutions/and other Civil Society Organisations as intermediaries in providing financial and banking services through the use of BF and BC models. RRBs formed an important plank of the package of policies announced by the Government of India in June 2004 for doubling the credit by banks to the agricultural sector in three years. Understanding the importance of RRBs, the Reserve Bank has been taking various measures to strengthen them as well as to improve their performance. Several initiatives were also taken to facilitate the diversification of their business operation into new areas. The recent policy initiatives on RRBs include recapitalisation and amalgamation of RRBs, liberalised branch licensing policy and technology upgradation of RRBs, among others.

Recapitalisation and Amalgamation of RRBs

3.123 The process of consolidation through amalgamation of RRBs is now almost complete, resulting in a decline in the total number of RRBs to 84 as on August 31, 2009 (which includes a new RRB set up in the Union Territory of Puducherry). The process of recapitalisation of RRBs with negative net worth as on March 31, 2007 is also almost complete, with 27 RRBs fully recapitalised with an amount of Rs.1,796 crore as on July 31, 2009.

Liberalisation of Branch Licensing Norms for Expansion of RRBs

3.124 In pursuance of the announcement made in the Annual Policy Statement for the year 2006-07, the procedure for licensing of branches of RRBs was simplified and the work relating thereto was delegated to Empowered Committees set up at Regional Offices since June 13, 2006. Certain measures were taken to further liberalise the branch licensing policy for RRBs. These include relaxation of conditions for opening branches in hitherto uncovered districts and opening of service branches/ Central Processing Centres/Back Offices. In order to give further impetus to branch expansion programmes of RRBs, and as announced in the Mid-Term Review of the Annual Policy Statement for the year 2008-09, the RRBs have been allowed greater flexibility in opening new branches as long as they fulfill the following conditions to become eligible for opening of new branch/es: (i) It should not have defaulted in maintenance of SLR and CRR during the last two years, and (ii) It should be making operational profits, its net worth should show improvement and its net NPA ratio should not exceed 8 per cent.

3.125 During the financial year 2008-09, the Reserve Bank has granted 785 licences to RRBs for opening branches, of which 734 were opened. Various policy initiatives taken by the Reserve Bank and NABARD to facilitate diversification of their business operations into new areas and to make RRBs stronger, viable and self- supporting, have started showing results. Now RRBs are venturing into new areas by opening currency chests, accepting FCNR (B) deposits and opening NRE/NRO accounts, taking agency work in distribution of insurance and mutual fund products, and providing locker facility, and in the process, earning non-fund income.

3.126 In order to strengthen the capital structure of RRBs as also in the context of financial stability of the whole system, and pursuant to the announcement made in the Mid-Term Review of the Annual Policy Statement for the year 2007-08, RRBs were advised to disclose the level of capital to risk weighted assets ratio (CRAR) as on March 31, 2008 in their Balance Sheets and thereafter every year as 'Notes on Accounts' to their Balance Sheets. The CFSA (Chairman: Dr. Rakesh Mohan and Co-Chairman: Shri Ashok Chawla) has suggested a phased introduction of CRAR in the case of RRBs, along with the recapitalisation of RRBs after consolidation of these entities. It has, therefore, been announced in the Annual Policy Statement for the year 2009-10 to introduce CRAR for RRBs in a phased manner, taking into account the status of recapitalisation and amalgamation. In order to bring the CRAR of RRBs to at least 9 per cent in a time bound manner, the Government of India has constituted a Committee (Chairman: Dr. K. C. Chakrabarty) to study the current levels of CRAR of RRBs and suggest a roadmap for achieving CRAR of 9 per cent by March 2012 and accordingly also suggest the required capital structure for RRBs given their business level so that their CRAR is sustainable and provides for future growth and compliance with regulatory requirements. The Committee is required to submit its report within three months.

Working Group on Technology Upgradation of Regional Rural Banks

3.127 In order to prepare the RRBs to adopt appropriate technology and migrate to core banking solutions (CBS) for better customer services, a Working Group (Chairman: Shri G. Srinivasan) was constituted in December 2007 to prepare a roadmap for migration to CBS by the RRBs. The Working Group submitted its Report in August 2008. The Working Group reviewed the present status of computerisation in RRBs and viewed that RRBs could not remain isolated from the technological developments sweeping the banking sector and that the "one strategy fits all" approach is not workable. The Group also examined the use of solar power as an alternative source of energy for powering branches located in remote places and suggested that although heavy initial cost was involved in installation of solar power units, the long-term benefits would justify powering branches through solar power. The Report, among other things, set September 2011 as the target for all RRBs to move towards CBS, with all branches of RRBs opened after September 2009 to be CBS compliant from day one. The Report was forwarded to all sponsor banks to take necessary action. The issue of sharing the funding cost of CBS project among the owners of RRBs, *viz*., the Government of India, the State Governments and sponsor banks, is under examination in consultation with the NABARD.

Working Group to Recommend Modalities of Providing Financial Assistance to RRBs for Defraying part of their Initial Cost in Implementing ICT Based Solutions

3.128 A Working Group (Chairman: Shri G. Padmanadbhan) was constituted in November 2007 to explore various affordable ICT-based solutions suitable for RRBs and to identify the cost elements and recommend the manner and criteria for funding such ICT solutions. The Group submitted its Report in August 2008. The Group examined the existing constraints (both financial and infrastructural) in initiating financial inclusion initiatives by RRBs for identifying their menu of requirements. It has also explored the various available technology options and models necessary to achieve financial inclusion by the RRBs. After assessing the various cost elements involved in the process of ICT-enablement, the Group has suggested modalities of the Reserve Bank support to finance ICT solutions for the RRBs. The Group's Report was placed on the Reserve Bank's website in August 2008 for comments from public. It was announced in the Annual Policy Statement for the year 2009-10 that a scheme will be worked out, in consultation with NABARD, the manner of providing assistance to RRBs adopting ICT solutions for financial inclusion in districts identified as having high level of exclusion by the Committee on Financial Inclusion. On examination, it was felt appropriate that ICT implementation would have to be preceded by CBS implementation. The matter of implementation of CBS in RRBs is being pursued with the sponsor banks.

Classification of Investment by RRBs

3.129 The exemption granted to RRBs up to the financial year 2007-08 from 'mark to market' norms in respect of their investments in SLR securities has been extended by one more year, *i.e.*, for the financial year 2008-09. Accordingly, RRBs will have the freedom to classify their entire investment portfolio of SLR securities under 'Held to Maturity' category for the financial year 2008-09 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.

Inter-Bank Participation Certificate

3.130 The Reserve Bank allowed the RRBs in August 2009 to issue Inter-Bank Participation Certificate of a tenor of 180 days on risk sharing basis to SCBs against their priority sector advances in excess of 60 per cent of their outstanding advances. This will help them to tide over their short-term liquidity problems.

8. Cooperative Banks

3.131 The cooperative banking sector, consisting of both Urban Cooperative Banks (UCBs) and rural credit cooperatives, are the oldest *albeit* weak segment of the Indian banking system. These institutions, if financially strengthened, have the potential to become an important instrument for achieving 100 per cent financial inclusion owing to their widespread geographical penetration. The Reserve Bank and the NABARD have taken various policy measures in respect of UCBs and rural credit cooperatives during the recent years to bring them on par with commercial banks in terms of financial soundness.

Urban Cooperative Banks

3.132 The major policy initiatives in the UCB sector during the recent years include implementation of the Vision Document - 2005, initiatives for financial restructuring and asset liability management.

Vision Document - 2005

3.133 The Vision Document – 2005, the most important structural initiative undertaken by the Reserve Bank, primarily aims at addressing the issue of dual regulatory control of the Reserve Bank and State Governments over the UCB sector. In line with the recommendations of Document, the Government of India (for multi-State UCBs) and various State Governments (for single-State UCBs) entered into Memoranda of Understanding (MoUs) with the Reserve Bank. The progress of the implementation of the Vision Document continued satisfactorily during the year 2008-09. With the addition of two States, *viz.*, Orissa and Jharkhand, and the Union Territory (UT) of Puducherry signing MoUs with the Reserve Bank, the total number of States/UTs who have signed MoUs increased to 26 by end-July 2009 (also see Box V.1 in Chapter V).

3.134 Following the recommendation of the Vision Document, the MoUs were followed by the constitution of a State level Task Force for Cooperative Urban Banks (TAFCUB) in order to identify the viable and non-viable UCBs in the concerned States and suggest time bound plans for the revival of the viable UCBs while making way for a non-disruptive exit for the non-viable entities.

3.135 Since June 2005, TAFCUBs have been formed in all the 26 States, which have entered into MoU with the Reserve Bank. The process of consolidation has received an impetus with the Reserve Bank issuing transparent and objective guidelines for granting 'no-objection' to merger proposals of UCBs. These guidelines aim at streamlining the process of mergers by specifying the exact requirements and procedure to be adopted by the concerned UCBs. While considering proposals for merger/amalgamation, the Reserve Bank confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. The considerations of depositors' interests and financial stability are evident from the fact that of the 71 UCBs which were merged, 50 (70.4 per cent) were in Grade IV followed by nine UCBs in Grade III, eight UCBs in Grade I and four in Grade II (Box III.9).

UCBs with Negative Net Worth

3.136 With a view to strengthening the UCB sector as a whole, merger or amalgamation of UCBs was going on in the sector since 2005. As per the extant instructions, the acquirer bank is expected to protect the deposits of the acquired bank either on its own or with upfront financial support from State Governments. However, in January 2009, it has been decided that in legacy cases pertaining to UCBs having negative net worth as on March 31, 2007, the Reserve Bank may also consider scheme of amalgamation that provides for payment to depositors under Section 16(2) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961, financial contribution by the transferee bank and sacrifice by large depositors.

3.137 The merging of weak and non-viable UCBs with stronger UCBs provided a non-disruptive exit route for non-viable UCBs during the recent years. However, it is observed that wherever the deposit erosion is large, even the financially stronger banks are not willing to acquire the weaker ones. In this context, the Reserve Bank adopted financial restructuring as an additional option for resolution of UCBs having negative net worth and large erosion in deposit base, subject to certain norms. These norms are discussed in detail in the Report on Trend and Progress of Banking in India 2007-08.

Innovative Options for Augmenting Capital

3.138 The Reserve Bank has been adopting several structural initiatives to help UCBs strengthen their capital base. In line with these initiatives, on July 15, 2008, the Reserve Bank permitted the UCBs to issue preference shares, *viz.*, Perpetual Non-Cumulative preference shares (PNCPS), Perpetual Cumulative preference shares (PCPS), Redeemable Non-Cumulative preference shares (RNCPS) and

Box III.9: Consolidation and Strengthening of the UCB Sector

The consolidation of the sector through the process of merger of weak entities with stronger ones has been set in motion by providing transparent and objective guidelines for granting no-objection to merger proposals. The Reserve Bank, while considering proposals for merger/amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. Almost invariably it is a voluntary decision of the banks that approach the Reserve Bank for obtaining no objection for their merger proposal. The guidelines on mergers are intended to facilitate the process by delineating the pre-requisites and steps to be taken for merger between banks.

Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 128 proposals for merger in respect of 113 banks. The Reserve Bank has issued no objection certificate (NOC) in 89 cases. Of these, 72 mergers became effective upon the issue of statutory orders by the Central Registrar of Co-operative Societies (CRCS)/Registrar of Co-operative Societies (RCS) concerned. Twenty two proposals for merger were rejected by the Reserve Bank, four proposals were withdrawn by the banks and the remaining 13 are under consideration (Table 1 and 2). Out of the 72 banks for which orders of merger have been received from the RCS/CRCS, 45 were having negative net worth. The profit making banks were also permitted to merge with the aim of consolidation and strengthening the sector and in some cases as they were not considered viable on a stand-alone basis in the long run.

Table 1: State-wise Break up of Acquirer Banks
(as at end-September, 2009)

Sr. No.	Multi State/State	No. of acquirer banks	No. of proposals submitted	No. of NOC issued	No. of proposals withdrawn	No. of proposals under consideration	No. of proposals rejected
1	Multi-State	13	61	46	2	4	9
2	Maharashtra	18	30	16	-	5	9
3	Gujarat	6	14	11	1	1	1
4	Andhra Pradesh	7	8	6	-	2	-
5	Karnataka	3	4	3	-	-	1
6	Rajasthan	2	3	1	-	1	1
7	Punjab	1	1	1	-	-	-
8	Uttarakhand	2	3	2	1	-	-
9	Madhya Pradesh	2	3	2	-	-	1
10	Chhattisgarh	1	1	1	-	-	-
	Total	**55**	**128**	**89**	**4**	**13**	**22**

Table 2: State-wise Break-up of Target Banks
(as at end-September, 2009)

Sr. No.	Multi-State/State	No. of target banks	No. of proposals submitted	No. of NOC issued	No. of banks merged	No. of proposals withdrawn	Proposals under consideration	Proposals rejected
1	Multi-State	1	1	1	1	-	-	-
2	Maharashtra	50	57	34	27	2	8	13
3	Gujarat	30	34	28	20	1	3	2
4	Andhra Pradesh	12	12	10	9	-	2	-
5	Karnataka	6	8	6	6	-	-	2
6	Goa	1	1	1	1	-	-	-
7	Rajasthan	1	1	-	-	-	-	1
8	Delhi	1	1	-	-	-	-	1
9	Punjab	1	1	1	1	-	-	-
10	Madhya Pradesh	7	8	5	4	-	-	3
11	Uttarakhand	2	3	2	2	1	-	-
12	Chhattisgarh	1	1	1	1	-	-	-
	Total	**113**	**128**	**89**	**72**	**4**	**13**	**22**

Redeemable Cumulative preference shares (RCPS). As an additional instrument, UCBs were also permitted to raise long term deposits for a minimum period of not less than 5 years. The details are discussed in the Report on Trend and Progress of Banking in India 2007-08.

Cash Reserve Ratio

3.139 The Reserve Bank successively brought down the CRR since October 2008 following the deepening of the global financial crisis. The Cash Reserve Ratio for scheduled UCBs (as well as for scheduled StCBs) is kept at the same level as that for SCBs. With effect from January 17, 2009, the ratio stands at 5.0 per cent.

3.140 In January 2009, in view of the representations received from the urban banking sector with regard to the non-eligibility of the balance maintained by them in current account with Industrial Development Bank of India (IDBI) Bank Ltd. for the purpose of CRR/SLR, the Reserve Bank reviewed the existing policy and advised the UCBs that they are exempted from the obligation of maintenance of CRR under section 18 or assets in the form of cash, gold or unencumbered approved securities under section 24 (read with section 56 of the Banking Regulation Act, 1949), to the extent of the amounts deposited by them with IDBI Bank Limited, in current account.

Statutory Liquidity Ratio

3.141 The Reserve Bank revised the Statutory Liquidity Ratio (SLR) to be maintained in the form of Government and other approved securities by non-scheduled UCBs in November 2008 in the following manner: (i) Non-scheduled UCBs in Tier I were asked to maintain SLR in the form of Government and other approved securities not less than 7.5 per cent of their NDTL by September 30, 2009 and 15.0 per cent by March 31, 2010; (ii) The non-scheduled UCBs in Tier II would be allowed to maintain the existing SLR requirement of up to 15.0 per cent of their NDTL up to March 31, 2010; (iii) From March 31, 2011 onwards, all non-scheduled UCBs would have to maintain SLR up to 25.0 per cent in the above-said manner.

3.142 As per the extant instructions, for the computation of SLR requirement the amount of loan availed by UCBs from DCCBs/StCBs, with which they are maintaining deposits, would be deducted from the deposits, irrespective of whether lien has been marked on such deposits or not. However, in view of the difficulties expressed by Salary Earners' Cooperative Banks in complying with this advice, the Reserve Bank extended the time period for Salary Earners' Cooperative Banks to comply with this advice up to March 31, 2009.

3.143 As per the extant instructions, Tier I UCBs were exempted from maintaining SLR in Government and other approved securities up to 15 per cent of their NDTL provided the amount was held in interest-bearing deposits with the State Bank of India and its subsidiary banks, and the PSBs, including IDBI Ltd. In view of various representations received from UCBs and their federations, it has been decided to continue the exemption, provided with effect from October 1, 2009, such exemption shall not exceed 7.5 per cent of NDTL. Further, the exemption shall stand withdrawn effective from April 1, 2010.

Liberalisation and Rationalisation of Branch Licensing Policy

3.144 Following the announcement made in the Annual Policy Statement for 2008-09, the Reserve Bank further liberalised and rationalised the branch licensing policy for well managed and financially sound UCBs operational in States that had entered into MoUs (Box III.10).

Asset Classification and Provisioning Norms

3.145 The Reserve Bank advised Tier II UCBs to maintain a uniform provisioning requirement of 0.40 per cent on all 'standard assets' except in case of direct advances to agriculture and Small and Medium Enterprises (SME) for which, the provisioning requirement stood at 0.25 per cent. As against this, Tier I UCBs were asked to make lower level of general provision at the rate of 0.25 per cent on all 'standard assets'.

Box III.10: Liberalisation of Branch Licensing Policy for UCBs

The Reserve Bank has taken steps to liberalise and rationalise the branch licensing norms for UCBs to provide an incentive to financially sound UCBs to expand their branch network. It was indicated in the Annual Policy Statement 2004-05 that fresh issuance of licenses to UCBs would be considered only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, was put in place and a policy for improving the financial health of the UCB sector was formulated. Following this announcement, the grant of licenses for opening of new branches to UCBs was also put on hold. Subsequently, in the Annual Policy for 2007-08, it was decided to allow the opening of new branches/extension counters to banks that were registered under the Cooperative Societies Act of the States that had signed MoUs with Reserve Bank or under the Multi State Cooperative Societies Act, 2002 subject to certain parameters. Pursuant to the announcement in the Annual Policy Statement for 2008-09, branch licensing norms were liberalised for well-managed and financially sound UCBs operational in the MoU States and those registered under the Multi-State Cooperative Societies Act. The Reserve Bank decided to grant approvals for branch expansion including off-site ATMs in respect of such UCBs on the basis of their Annual Business Plans subject to certain conditions, which included the maintenance of a minimum CRAR of 10 per cent on a continuous basis and other regulatory comfort.

Based on the Annual Business Plans submitted by UCBs for 2008-09 and 2009-10, 275 banks were allotted centres to open 402 branches, 23 extension counters, 21 off-site ATMs and conversion of 16 extension counters into full-fledged branches as on March 31, 2009.

3.146 Following the announcement made in the Annual Policy Statement for 2008-09, the Reserve Bank enhanced the limit in respect of bank loans for housing for applicability of risk weights for capital adequacy purposes from Rs.20 lakh to Rs.30 lakh in June 2008. It was specified that such loans would carry a risk weight of 50 per cent.

Asset Liability Management

Scheduled UCBs

3.147 The Reserve Bank issued detailed guidelines on asset-liability management of Scheduled UCBs (all Scheduled UCBs are Tier II UCBs) in 2002. As per the extant guidelines, the liquidity mismatches (negative gap) during the time buckets of 1-14 days and 15-28 days should not exceed 20 per cent of the cash outflows in the respective time buckets. In view of the felt need to have a sharper assessment of the efficacy of liquidity management, the Reserve Bank advised the banks to split the first time bucket (1-14 days) into three time buckets, *viz*., next day, 2-7 days and 8-14 days. While preparing this Statement, the banks are advised to take concerted and requisite efforts to ensure coverage of 100 per cent data in a timely manner. Further, it is also advised that 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. This has been done with a view to recognise the cumulative impact on liquidity. The banks are asked to prepare the Statement of Structural Liquidity on daily basis, however, the reporting to the Reserve Bank can continue as hitherto, *i.e.*, fortnightly.

Non-Scheduled Tier II UCBs

3.148 In order to effectively address the issues related to liquidity, interest rate and currency risks, (in addition to scheduled UCBs for which guidelines were put in place in 2002) all Tier II non-scheduled UCBs were asked to introduce Asset-Liability Management (ALM) systems. To begin with, non-scheduled Tier II UCBs were asked to ensure coverage of at least 60 per cent of their liabilities and assets. For the remaining 40 per cent, non-scheduled Tier II UCBs could include the position based on their estimates. Further, they had to set interim targets so as to cover 100 per cent of their business by April 1, 2010. Once the ALM system is stabilised, non-scheduled Tier II UCBs were asked to prepare themselves to switch to more sophisticated techniques, such as Duration Gap Analysis and Simulation and Value at Risk for interest rate risk management.

3.149 In order to capture the maturity structure of the cash inflows and outflows, non-scheduled Tier II UCBs were asked to prepare a statement of structural liquidity, to begin with on a quarterly basis. The reporting system was made fortnightly with effect from December 2008. Further, banks were asked to include only rupee assets, liabilities and off balance sheet positions in the quarterly Statement of Interest Rate Sensitivity. In this regard, non-scheduled Tier II UCBs are advised to move onto a monthly reporting system with effect from April 1, 2010. In order to enable the banks to monitor their liquidity on a dynamic basis over a time horizon spanning 1-90 days, a statement of Short-term Dynamic Liquidity should be prepared as on each reporting Friday. Non-scheduled Tier II UCBs were asked to prepare the first such set of ALM return comprising Statement of Structural Liquidity, Statement of Interest Rate Sensitivity along with Statement of Short-Term Dynamic Liquidity to the ALCO/Top Management as on the last reporting Friday of December 2008.

Liquidity Risk Management of Tier I UCBs

3.150 Reserve Bank issued basic liquidity risk management guidelines to Tier I UCBs (all Tier I UCBs are non-scheduled UCBs) in September 2008. As per the guidelines, the tier I UCBs have to assess the future cash flows in the following time bands, *viz.*, 1-14 days, 15-28 days, 29 days-3 months, 3-6 months, 6 months – 1 year, 1-3 years, 3-5 years and over 5 years. UCBs are also expected to monitor their cumulative mismatches across all time bands by establishing internal prudential limits with the approval of the Board. Further, the mismatches during 1-14 days and 15-28 days time bands in normal course should not exceed 20 per cent of the cash flows in each time band. The Tier I UCBs may also prepare a Statement on short-term dynamic liquidity on the basis of business projections and other commitments for planning purposes. These banks were asked to prepare separate returns on a quarterly basis starting from the quarter ending December 2008.

Advances against Pledge of Gold/Silver Ornaments

3.151 In order to mitigate the inherent risks attached to sanction of loans and advances against Gold/Silver ornaments, UCBs were advised to observe certain safeguards regarding, *inter alia,* i) ownership of ornaments, ii) proper valuation and appraisal of the ornaments to be pledged from an approved valuer/shroff.

Introduction of Currency Futures

3.152 The Reserve Bank *vide* its circular dated September 17, 2008 allowed UCBs, which were recognised as Authorised Dealers (Category I and II), to participate in designated currency futures exchanges recognised by Securities Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying forex exposures.

Rating Model for UCBs

3.153 In order to bring about supervisory convergence between UCBs and commercial banks, the rating models were revised from the inspection cycle beginning March 31, 2009. With the introduction of revised rating model, the gradation system of UCBs was dispensed with. The revised CAMELS rating model was made applicable to UCBs with deposits of Rs.100 crore and above, and a revised simplified version of the same was made applicable to UCBs with deposits of less than Rs.100 crore. The UCBs had to be rated on the basis of the CAMELS components, *viz.*, Capital, Asset Quality, Management, Earnings, Liquidity, and Systems and Control on a scale of 1 to 100, and based on the weighted average of the ratings of the components, UCBs had to be assigned rating of A+ to D.

Placement of Deposits with other Banks and Acceptance of other Banks' Deposits

3.154 The Reserve Bank raised the limit for UCBs of holding deposits with other banks (inter-bank) from 10 per cent to 20 per cent of their total deposits as on March 31st of the previous year. The balances held in deposits with commercial banks and in permitted Scheduled UCBs, and invested in Certificates of Deposits (CDs) issued by commercial banks were included in this 20 per cent limit. UCBs were advised that within the inter-bank exposure limit, deposits with a single bank should not exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31 of the previous year. Interest bearing deposits of Tier I non-scheduled UCBs with the PSBs and IDBI Bank Ltd. eligible for SLR, were exempted from the prudential limit on inter-bank exposure limit.

Extension of Area of Operation

3.155 The Annual Policy Statement for 2009-10 announced that the Reserve Bank would henceforth consider requests from sound and well functioning single State Tier II UCBs (registered in States that have entered into MoU with the Reserve Bank) for expansion of area of operation to the entire State of registration. While considering such applications, due consideration would be given to system of internal controls prevailing in the bank and supervisory comfort. In respect of Tier I banks, the existing norms will continue to be applicable.

Declaration of Dividend by UCBs

3.156 Following the introduction of revised rating system for UCBs based on CAMELS model from the inspection cycle of March 2009, UCBs were allowed to declare dividend without prior permission of the Reserve Bank subject to compliance with certain parameters, *inter alia*, (i) compliance with prescribed CRAR norms, (ii) net NPAs were less than 10 per cent after making all necessary provisions as per the assessment made by Reserve Bank in its last inspection report, (iii) no default in CRR/SLR during the year for which dividend was proposed, (iv) all the required provisions have been made for NPAs, investments and other assets as per the prescribed prudential norms, and (v) dividend is paid out of the net profit and after making all statutory provisions and adjustment for accumulated losses in full. UCBs complying with all other parameters except (ii) could approach the concerned Regional Office of the Reserve Bank for permission for dividend declaration.

Investments in Non-SLR Securities

3.157 On January 30, 2009, the Reserve Bank revised the guidelines for UCBs on investments in Non-SLR securities in the following manner: (i) The UCBs were advised that the non-SLR investments would continue to be limited to 10 per cent of a bank's total deposits as on March 31 of the previous year; (ii) UCBs were allowed to invest in (a) "A" or equivalent and higher rated Commercial Papers (CPs), debentures and bonds, (b) Units of Debt Mutual Funds and Money Market Mutual Funds; (iii) Restrictions were prescribed on investment in specific types of instruments, *inter alia,* perpetual debt instruments, unlisted securities and investment in mutual funds other than debt and money market mutual funds; (iv) UCBs were asked to put in place proper risk management systems for capturing and analysing the risk in respect of Non-SLR investments and taking remedial measures in time; and (v) Certain aspects of the non-SLR investment such as total business during the reporting period, compliance with the prescribed prudential limits, and extent of non-performing investments in the non-SLR category, among others.

Supervision of UCBs

3.158 An Off-Site Surveillance (OSS) software was developed for UCBs to facilitate the preparation and submission of all supervisory and regulatory returns to the Reserve Bank electronically (Box III.11).

Rural Credit Cooperatives

3.159 The recent policy initiatives in the rural credit cooperative sector were aimed at strengthening this sector by wiping out unlicensed entities and by strengthening the capital base of these institutions. There was no new banking license that was granted to cooperative banks during the year (July 2008 to June 2009). The total number of licensed StCBs and DCCBs as on June 30, 2009 stayed unchanged at 89 (comprising 14 StCBs and 75 DCCBs). Further, during the year, no StCB was granted scheduled status for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. Thus, the total number of scheduled StCBs remained at 16.

Box III.11: OSS Reporting System: A Step towards Effective Supervision of the UCB Sector

The Reserve Bank developed Prudential Supervisory Reporting System in the form of Off-Site Surveillance (OSS) for the UCBs to obtain relevant information on areas of prudential interest as well as to address the management information needs and to strengthen the MIS capabilities within the UCBs. The system was designed to monitor compliance and obtain information in areas of prudential interest including information on balance sheet and off-balance sheet exposures, profits and profitability, asset quality and sector/segment-wise concentration of advances. A collateral objective of the reporting system was to sensitise managements of banks to prudential concerns of the supervisory authority and thereby help in self-regulation.

The OSS reporting system was first introduced in April 2001 for the scheduled UCBs comprising 10 OSS returns. With a view to reducing the volume of data required to be reported by banks, while increasing the breadth and depth of information obtained from them, the Reserve Bank rationalised the OSS returns and reduced their number from ten to eight (one annual and seven quarterly) returns for the scheduled UCBs with effect from March 2004.

Further, this set of eight returns introduced for scheduled UCBs were also made applicable to non-scheduled UCBs with deposits of over Rs.100 crore from June 2004 and then to non-scheduled UCBs having deposits between Rs.50 crore and Rs.100 crore and with branches in more than one district from June 2006. For banks that had deposits between Rs.50 crore and Rs.100 crore and whose branch network was limited to a single district, a simplified set of five (four quarterly and one annual) returns (defined as Simplified OSS (SOSS)) was made applicable from June 2006 onwards. From December 2008 onwards, SOSS was extended to Tier I UCBs that had deposits below Rs.50 crore and OSS returns were made applicable to Tier II UCBs with deposits below Rs.50 crore. As such, all UCBs are now covered under the OSS system – a set of eight (OSS) returns to Tier II UCBs and a set of five returns (SOSS) to Tier I UCBs.

For an effective OSS system, a computerised environment is a pre-requisite. Accordingly, a software has been developed by the Reserve Bank to enable preparation of OSS/SOSS returns and also other regulatory/supervisory returns directly by UCBs and their electronic submission to the Reserve Bank. The software also enables generation of analytical reports at Regional Office and Central Office of Urban Banks' Department (UBD). This has facilitated the development of a Development Support System (DSS) that has the capacity of generating standard and ad-hoc output reports.

For the UCBs, following are the benefits of the software:

Preparation and submission of returns in a computerised environment;

Automatic calculation and eliminates keying-in repetitive data and thus improves data quality;

Storage of data at the bank level enables UCBs to analyse their data and improves their MIS and facilitates self regulation;

For the Reserve Bank, the benefits of the software include:

Substantial reduction in data loading time for UCB returns;

Instant tracking of banks for non-submission or delayed submission of returns and timely follow-ups with such banks;

Facilitates better inspection of banks as the software is installed in the laptops of inspecting officers of the Bank.

Quick access to data on UCBs and instant generation of various reports based on the data;

Cross checks within each return, across returns and across time to ensure integrity of data. Quality of data can also be checked through the software at ROs by comparing on-site with off-site data for the same period as even on-site data are submitted by inspecting officers through the same software;

Ensures more effective supervision through the generation of early warning reports at monthly and quarterly intervals, which indicate incipient stress in liquidity position and highlight decline in quality of assets, credit to deposits ratios, and growth in deposits and advances of UCBs.

3.160 As on June 30, 2009, five StCBs and 110 DCCBs did not comply with the provisions of Section 22 (3)(a) of the B. R. Act, 1949 (AACS) with respect to their capacity to pay their depositors in full as and when their claims accrued. Further, 21 StCBs and 324 DCCBs did not comply with Section 22 (3) (b) of the said Act as the affairs of these banks were conducted in a manner that was detrimental to the interests of their depositors.

3.161 With regard to the policy of licensing, the CFSA observed the need to draw up a roadmap for ensuring that only licensed banks operated in the cooperative space. The Committee further suggested the need for a roadmap to ensure that banks which failed to obtain a licence by 2012 should not be allowed to operate. This would expedite the process of consolidation and weeding out of non-viable entities from the cooperative space. Accordingly, the Reserve Bank announced in its Annual Policy Statement for 2009-10 that a roadmap would be worked out for achieving this objective in a non-disruptive manner in consultation with NABARD. After consulting with NABARD, it was decided to license those banks which have achieved a CRAR of 7 per cent and not committed CRR and SLR default (barring stray incidents) during the last two consecutive years (*i.e.*, 2007 and 2008). Licensing of unlicensed StCBs was to be taken up first and towards that end, NABARD was requested to furnish a list of StCBs, which had complied with the above parameters. It was decided to subsequently obtain similar data from NABARD in respect of DCCBs. Further, NABARD was to take up inspection of the StCBs not complying with the said parameters on a priority basis with reference to their financial position as on March 31, 2009.

3.162 At present, CRAR norms do not apply to StCBs/DCCBs. However, in the interest of systemic stability of the financial system as a whole, and pursuant to the announcement in the Mid-Term Review of Annual Policy Statement for 2007-08, all StCBs/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 Regional Office of Reserve Bank/ NABARD indicating capital funds and risk assets ratio in the prescribed format. In this regard, the CFSA observed that the migration to Basel I could be considered for these institutions with the implementation of the revival package based on the Vaidyanathan Committee recommendations.

3.163 The Reserve Bank indicated to StCBs and DCCBs to desist from financing commercial real estate sector given that the primary role of rural cooperative banks is to lend for activities related to agriculture and rural development and that taking exposure in sensitive areas may not be in the interest of short-term cooperative credit structure. For the credit facilities already extended to this sector, the StCBs and DCCBs were asked to ensure that such exposures were well secured and adequate provisioning were made, wherever required, as per the existing prudential guidelines. Further, banks were asked not to renew the credit facilities.

3.164 Based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) and in consultation with the State Governments, the Government of India also approved a Package for revival of the short-term rural co-operative credit structure (STCCS).

9. Financial Markets

3.165 Developing broad-based, deep and liquid financial markets has been the endeavour of the Reserve Bank through its policy prescriptions. The financial markets generally remained stable during 2008-09, barring a few brief spells of volatility. The impact of the global financial turmoil on the Indian financial markets was mainly in the form of reduction in net capital flows and corrections in the domestic stock markets. There was a pressure on the domestic foreign exchange market owing to the withdrawal of funds from the Indian equity markets and reduction in the availability of foreign funds to Indian entities. The advance tax flows and the scaling up of the Reserve Bank's forex market operations caused some volatility in the call money market. However, pre-emptive liquidity management undertaken by the Reserve Bank in the context of the indirect effects of the global financial turmoil and strong balance sheets of the banks contributed to absence of counterparty risk in the Indian financial system.

Developments in the Money Market

3.166 The inter-bank money market has been working normally throughout the period, in contrast to those of certain advanced economies. In general, the daily weighted average call rate mostly remained within the informal corridor of LAF interest rate barring the brief period of September and October 2008. 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.

Developments in the Government Securities Market

3.167 The global financial turmoil once again brought the government securities market to the fore on account of the elevated market borrowing programme of the Central and State Governments on the one hand and investors' preference for safety during these turbulent times on the other. Accordingly, the Reserve Bank has taken several measures to ensure the smooth functioning of the Government securities market during the year. The various policy measures initiated by the Reserve Bank in this market segment during the year included: (i) improving the efficiency of auction process, (ii) new issuance structure for floating rate bonds (FRBs), (iii) operational readiness for introduction of STRIPS, (iv) new settlement mechanism for non-current account holders, (v) clearing and settlement of OTC rupee interest rate derivatives and (vi) revision of repo accounting norms. These policy developments in the Government securities market also have a bearing on the functioning of banks, since banks are active participants of the Government securities market.

Interest Rate Futures Market

3.168 With a view to developing a robust interest rate futures (IRF) market, the Reserve Bank, in August 2007, constituted a Working Group on Interest Rate Futures (Chairman: Shri V.K. Sharma) following the recommendation made by the TAC on the Money, Foreign Exchange and Government Securities Markets. The Final Report of the TAC was posted on the Reserve Bank's website on August 8, 2008. The Annual Policy Statement for the year 2009-10, had indicated that an exchange-traded IRFs contract on the 10-year notional coupon bearing government bond was expected to be launched shortly. Subsequently, RBI-SEBI STC had been entrusted with the work relating to the operationalisation of the recommendations of the TAC Report. The Committee has submitted its report in May 2009.

3.169 The Report detailed the product design, margins and position limits for 10-year notional coupon-bearing GoI security futures. The notional coupon rate applicable on the security would be 7 per cent compounding semi-annually. The quotation would be similar to the quoted price of the GoI security. In the absence of last half an hour trading the theoretical price, to be determined by the exchanges, would be considered as Daily Settlement Price. The exchanges will be required to disclose the model/methodology used for arriving at the theoretical price. The contract would be settled by physical delivery of deliverable grade securities using the electronic book entry system of the existing Depositories (NSDL and CDSL) and Public Debt Office (PDO) of the Reserve Bank. The Interest Rate Derivative contracts shall be traded on the Currency Derivative Segment of a recognised Stock Exchange. The members registered by SEBI for trading in Currency/Equity Derivative Segment shall be eligible to trade in Interest Rate Derivatives also, subject to meeting the Balance Sheet net worth requirement of Rs.1 crore for a trading member and Rs.10 crore for a clearing member. A SEBI-RBI constituted committee would meet periodically to sort out issues, if any, arising out of overlapping jurisdiction of the IRF market. As a follow up, the Reserve Bank issued guidelines to all SCBs, PDs, UCBs, NBFCs and specified All India Financial Institutions on August 28, 2009 in this regard.

Developments in the Foreign Exchange Market

3.170 The impact of the financial crisis, which worsened mid-2008, led to the slowdown of capital flows into the country. However, the external sector exhibited ample resilience in the face of the current global financial crisis, largely attributable to the country's approach to financial globalisation with a more cautious and calibrated approach towards the opening up of the capital account. The policy responses in India have been designed largely to mitigate the adverse impact of the global financial crisis on the Indian economy. The key policy initiatives taken by the Reserve Bank since September 2008 were essentially to improve foreign exchange liquidity by selling dollar into market, forex swap facility for the banks and raising interest rate ceilings on FCNR(B) and NR(E)RA deposits.

3.171 The policy on the premature buyback of foreign currency convertible bonds was liberalised in December 2008, recognising the benefits accruing to the Indian companies as well as to the economy.

3.172 The AD Category-I dealer banks were allowed, in October 2008, to borrow funds from their head office, overseas branches, and correspondents and overdrafts in the Vostro accounts up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or USD 10 million (or its equivalent) (excluding borrowings for financing of export credit in foreign currency and capital instruments), whichever is higher, as against the existing limit of 25 per cent.

3.173 In October 2008, the 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.

3.174 With a view to ensuring that there are no concealed overdrafts in vostro accounts, AD Category–I banks were permitted in August 2008 to designate drawee branches under Rupee Drawing Arrangements (RDA) beyond 300, provided such branches are under Core Banking Solution. The AD Category-I banks were allowed to issue guarantees/standby letters of credit to cover payment obligations relating to commodity derivative transactions in November 2008.

3.175 The Reserve Bank, in August 2008, permitted the AD category-I banks to make advance remittance without any limit on behalf of their importer constituents for import of goods. However, for advance remittance exceeding USD 5,00,000 or its equivalent, AD Category – I banks are required to obtain an unconditional, irrevocable standby Letter of Credit or a guarantee from an international bank of repute situated outside India or a guarantee of an AD Category – I bank in India, if such a guarantee is issued against the counter guarantee of an international bank of repute situated outside India.

3.176 With a view to liberalising the facilities available to exporters and to simplify the procedures, the AD category-I banks were allowed to regularise cases of dispatch of shipping documents up to USD 1 million or its equivalent per export shipment, direct to the consignee or his agent resident in the country of the final destination of goods, if the export proceeds have been realised in full, if the exporter is a regular customer of the bank for at least six months and if the exporter's account is fully compliant with Reserve Bank's extant KYC/AML guidelines and Bank is satisfied about the bonafides of the transaction.

3.177 In December 2008, the Reserve Bank informed the banks that the Board policy of the banks regarding unhedged foreign exchange exposure of clients should cover SMEs apart from other clients. Further, banks which have large exposures to clients whose total foreign currency exposure is relatively large (say, about USD 25 million or its equivalent) should monitor and review the unhedged portion of the foreign currency exposures of those clients on a monthly basis through a suitable reporting system. The review of unhedged exposure for SMEs should also be done on a monthly basis.

3.178 As a measure of rationalisation of the existing procedures, AD Category - I banks have been allowed in April 2009 to convey 'no objection' under the Foreign Exchange Management Act (FEMA), 1999 for creation of charge on immovable assets, financial securities and issue of corporate or personal guarantees in favour of overseas lender/security trustee, to secure the ECB to be raised by the borrower, for issue of corporate guarantee in favour of the overseas lessor, for operating lease in respect of import of aircraft/aircraft engine/helicopter subject to compliance of prescribed conditions.

3.179 In May 2009, the banks have been asked to continue to make efforts for reconciliation in respect of outstanding debit/credit entries of individual value USD 2,500 and above or equivalent in nostro accounts.

3.180 After examining the recommendations of an Internal Working Group (Chairman: Shri Salim Gangadharan) in consultation with the SEBI and representatives of various market participants, the Reserve Bank permitted AD Category I banks to become trading/clearing members of the currency derivatives segment to be set up by the Stock Exchanges recognised by SEBI subject to certain conditions. In August 2008, persons resident in India were permitted to participate in the currency futures market in the country.

3.181 In April 2009, it has been decided to enhance the existing cap of Rs.20 lakh to Rs.100 lakh on loans against security of funds held in NR(E)RA and FCNR(B) deposits either to the depositors or third parties. The banks are also advised not to undertake artificial slicing of the loan amount to circumvent the aforesaid ceiling.

10. Customer Service in Banks

3.182 During 2008-09, focused attention is given to the customer service dimension of the banking sector by sensitising banks to render good and efficient customer service, and encourage involvement of Boards of banks in evolving policies keeping in view the needs and aspirations of customers. The Reserve Bank has set up a full-fledged Customer Service Department with a view to making the banks more customer-friendly. The Reserve Bank has taken a number of steps to disseminate instructions/guidelines relating to customer service and grievance redressal by banks through the 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' mode of the website. A complaint form for lodging complaints with the Banking Ombudsman has also been made functional.

3.183 Further, with a view to strengthening the Grievance Redressal Mechanism, banks are asked to display the names of the concerned Nodal Officer appointed at their Regional/Zonal

Offices along with the names of the officials who can be contacted for redressal of complaints as per provisions of the Banking Ombudsman Scheme (BOS), 2006. The Banks may also display these information on their web-sites.

3.184 During the year under review a comprehensive Master Circular on Customer Service was issued on July 1, 2009 incorporating various issues such as customer service, operations of deposit accounts, levy of service charges, service at counters, disclosure of information, operation of accounts by old and incapacitated persons, facilities to visually impaired persons, guardianship in deposit accounts, remittances, drop box facility, collection of instruments, dishonour of cheques, dealing with complaints, erroneous debits due to wrong/ fraudulent transactions, safe deposit lockers, nomination facility, settlement of claims of deceased depositor/missing person, unclaimed deposits and in operative accounts, customer confidentiality obligations, transfer of internal account in branch, switching of bank, co-ordination of officers of CBDT, implementation of recommendation of Working Groups/ Committees, and BCSBI's code of commitment to customers and instructions issued thereon.

3.185 The BOS was revised during the year 2008-09. The major revisions made to the Scheme are provided in Box III.12.

3.186 For reducing the risk of frauds, instructions have been issued to banks in August 2008 (to UCBs in September 2008) to be more pro-active in finding out the whereabouts of the customer if the account remains inoperative for two years or more

Box III.12: Revision of the Banking Ombudsman Scheme 2006 (BOS)

Based on the experience gained since January 1, 2006 in implementing the BOS, the Customer Service Department of the Reserve Bank has revised the BOS during the year. The salient features of the amendments carried out to the Scheme 2006 are as follows:

The scope of BOS was widened to include deficiencies arising out of internet banking. Under the amended Scheme, a customer would also be able to lodge a complaint against the bank for its non-adherence to the provisions of the fair practices code for lenders or the Code of Bank's Commitment to Customers issued by the Banking Codes and Standards Board of India (BCSBI). Further, non-observance of the Reserve Bank's guidelines on engagement of recovery agents by banks has also been brought specifically under the purview of the Scheme. The amended Scheme, however, does not include certain banking transactions, such as failure to honour bank guarantee or letter of credit. Complaints on these areas of banking services are insignificant in number.

Any customer who has a grievance against a bank can complain to the Banking Ombudsman in whose jurisdiction the branch of the bank complained against is located. Some banks have centralised certain transactions, like housing loans and credit cards. If there are complaints regarding such transactions, complaints would have to be made to the Banking Ombudsman in the State in which the bank customer receives the bill/ statement of dues. As per the amended Scheme, the Banking Ombudsman can award compensation not exceeding Rs.one lakh to the complainant in the case of complaints arising out of credit card operations, taking into account the loss of the complainant's time, expenses incurred by him/her as also, harassment and mental anguish suffered.

In addition, the Reserve Bank has also simplified the format for lodging complaint with the Banking Ombudsman. Though the complainant need not lodge the complaint in a specific format, the Scheme now provides for an easy-to-fill format for lodging complaints, in case complainants prefer to use the same. The jurisdictions of the Banking Ombudsman at Kanpur, New Delhi, Chandigarh, Chennai and Thiruvananthapuram have been rationalised to include/exclude certain areas taking into account the geographical proximity of those areas to the respective Office of the Banking Ombudsman. For wider dissemination, the Reserve Bank has asked all banks to place a copy of the Banking Ombudsman Scheme on their website.

Wherever any of the complaints are not redressed within one month, the concerned branch/controlling office should forward a copy of the same to the concerned nodal officer under the Banking Ombudsman Scheme (BOS) and keep him updated regarding the status of the complaint. To ensure that the customer is made aware of his rights to approach the concerned Banking Ombudsman in case he is not satisfied with the bank's response, banks were advised to indicate in the final letter sent to the customer regarding redressal of the complaint, that the complainant can also approach the concerned Banking Ombudsman if he/she is not satisfied with the bank's reply or redressal action.

consecutively. Operations in such an account should be after due diligence and the banks should not charge any fee for activation of such account. Banks have to ensure proper audit of such accounts and interest should be credited on periodical interval as per extant instructions. Further, banks are also instructed in September 2008 (UCBs in October 2008) to pay interest on frozen accounts by them either by renewing the deposits or by paying interest for the overdue period as per policy of bank. The renewal of such deposits should be informed to concerned Government departments under advice to customers. In case of savings bank accounts frozen by the enforcement authorities, banks may credit the interest on regular basis.

3.187 Banks (including UCBs)/FIs are advised to ensure that all information relating to charges/fees for processing are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance.

3.188 The sub-section (2) of the Section 21 of the Credit Information Companies (Regulation) Act, 2005, specifies that every credit institution shall on receipt of request, as indicated in sub-section (1), shall furnish to such person a copy of the credit information subject to payment of charges specified by the Reserve Bank under the Regulations. The Reserve Bank, in Credit Information Companies Regulations, 2006, framed under the Act, has already prescribed in Regulation 12(3) a maximum fees of Rs.50 (Rupees fifty only) for the purpose.

3.189 The major recommendations of the Committee on Customer Services (Chairman: Shri H.Prabhakar Rao) in respect of Government business, currency management, foreign exchange and customer service have been complied with by the respective Central Office Departments and draft on retail function on Customer Service measures initiated by bank as per recommendation of committee has been prepared by Department of Government Bank Accounts of the Reserve Bank.

3.190 Department of Administrative Reforms and Public Grievances (DARPG) with technical support from National Informatics Centre (NIC) has developed a Public Portal, *viz.*, Public Grievances Redress and Monitoring System (CPGRAMS) for prompt and effective redressal of grievances of citizens. The system is to record and receive the grievances online and redress them indicating action at different levels. The Government of India is monitoring the system. All the PSBs, Offices of the Banking Ombudsman, the Reserve Bank, SIDBI, IDBI Bank, and NABARD have been listed by Government of India as subordinate offices and given username and password to access the DARPG portal to enable them to dispose of the grievances against banks online.

3.191 Efforts are made to sensitise banks to ensure that customers are empowered to take financially literate decisions by ensuring that the language in bank documents is simple and understandable and that transparency norms are adhered to in all customer- banker relationships. The customer service department of the Reserve Bank will publish four booklets during the year on Rights and Obligations of customers on the Credit card, Service Charges, Housing Loans (Payment options) and Collection of cheques.

3.192 Banks including UCBs are advised to take necessary steps to provide all existing ATMs/future ATMs with ramps so that wheel chair users/persons with disabilities can easily access them and also make arrangements in such a way that the height of the ATM does not create an impediment in its use by a wheelchair user. Further, banks should make at least one third of new ATMs installed as talking ATMs with Braille keypads and place them strategically in consultation with other banks to ensure that at least one talking ATM with Braille keypad is generally available in each locality for catering to needs of visually impaired persons. Banks may also bring the locations of such talking ATMs to the notice of their visually impaired customers.

Credit Card Operations of Banks

3.193 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 report, 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 Reserve Bank instructions on the subject and the action required to be taken by banks in this regard.

3.194 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 BOS, 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, in 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.

National Do Not Call Registry

3.195 With a view to reducing the number of unsolicited marketing calls received by customers, the Reserve Bank, through circulars issued in October 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).

Comprehensive Display Board

3.196 Commercial banks (in August 2008) and (UCBs in September 2008) 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 are required to be placed in a comprehensive display, with detailed information being made available in a booklet form. Furthermore, banks are 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.

11. Payment and Settlement Systems

3.197 Effective functioning of financial system as well as effective transmission of monetary policy signals requires a safe and efficient payment and settlement system. The Payment and Settlement Systems (PSS) Act, 2007 was enacted in December 2007 and the Act as well as Regulations framed under the Act came into effect from August 12, 2008. The Act casts the responsibility of regulation and supervision of payment systems in the country on the Reserve Bank of India. The PSS Act provides for constitution of a Committee of the Central Board to be known as Board for Regulation and Supervision of Payment and Settlement Systems

(BPSS) for exercising the powers and performing the functions and discharging the duties conferred on the Bank under the Act. Accordingly, the BPSS was reconstituted after the notification of the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 under the Act.

3.198 The key areas of activity under the directions of the BPSS included (i) Notification of the Act and the Regulations framed under the Act; (ii) Grant of authorisation to various payment system operator in terms of PSS Act; (iii) Guidelines on Mobile Banking transactions; (iv) Guidelines on Issuance and Operations of prepaid payment instruments; (v) Rationalisation of charges for electronic payment products and outstation cheques; (vi) Further migration of large value payments to more secure electronic modes and discontinuing of separate High Value paper based clearing in a non-disruptive manner; (vii) Streamlining the cheque collection policies of banks, including foreign currency denominated instruments, (viii) Incentivising the usage of satellite communication for penetration of banking services to remote areas, and (ix) RTGS membership to central counterparties.

3.199 The Reserve Bank of India exercising its powers to regulate and supervise the payment and settlement systems received a number of applications from entities operating/proposing to operate payment systems like central counterparty, card companies, ATM network operators, cross- border and domestic money transfer operators, and prepaid card issuers. The Reserve Bank examined these applications under the provisions of the PSS Act 2007, its regulation, *i.e.*, Payment and Settlement System Regulations 2008, and internal guidelines. Thirty entities have so far been granted authorisation under the PSS Act 2007.

Paper Based Clearing and Settlement

3.200 The paper based clearing systems comprise the following: MICR Clearing, Non-MICR clearing and High Value clearing.

3.201 In a bid to encourage customers to move from paper- based systems to electronic systems the Reserve Bank has rationalised and made transparent the charges the banks could levy on customers for electronic transactions. The Reserve Bank on its part has extended the waiver of its processing charges for electronic modes of payment up to the end of March 2011. Towards this, in April 2009 the banks have also been advised to increase the threshold amount of cheque eligible to be presented in High Value (HV) Clearing from Rs.1 lakh to Rs.10 lakh and gradually discontinue the scheme in an undisruptive manner over a period of next one year. HV clearing has since been discontinued at 6 centres and the threshold limit for presentation has been raised at all remaining centres. However the facility of MICR/Non-MICR clearing will continue to be available for paper based instruments.

3.202 Number of initiatives have taken to address the problem of cheque collection by way of streamlining the policies of banks. The banks have been advised to reframe their Cheque Collection Policies (CCPs) to include local and outstation cheque collection timeframe, usage of funds after return clearing, timeframe for collection of cheques drawn on State capitals/ major cities/other locations, as also the rate of interest payable for delay.

3.203 The introduction of 'Speed Clearing' in June 2008 for collection of outstation cheques has significantly brought down the time taken for realisation of outstation cheques from 10-14 days on par with local clearing and now the funds are available to customers on T+1 or T+2 basis. With the availability of Speed Clearing at 53 out of 66 MICR centres, the Inter-city Clearing has been discontinued at 14 Reserve Bank locations and is available only at Guwahati.

3.204 The Cheque Truncation System (CTS) was implemented in the National Capital Region in February 2008 to enhance the efficiency of the paper based clearing system. This has addressed the problems relating to the movement of cheques from presenting branches/banks to clearing houses and to the drawee bank/branches as also the risks like loss of cheques/theft/tampering of cheques. With all member banks of the New Delhi Bankers' Clearing House participating in the CTS, effective from July 1, 2009 the separate paper based clearing has been discontinued. A fee of Rs.0.50 per instrument each for the presenting bank and the paying bank in CTS has been introduced as against the Re.1 each levied earlier on both presenting and paying bank in the MICR clearing.

3.205 The banks levy charges on customers for collection of outstation cheques. For rationalising these charges and bringing in transparency, the Reserve Bank issued directive whereby a maximum charge of Rs.50, Rs.100 and Rs.150 for cheques of the value Rs.10,000, Rs.10,000 - Rs.1,00,000, and above Rs.1,00,000, respectively have been prescribed. These charges are all inclusive, except service tax.

3.206 With cheque still being predominant medium of payment, the operations of paper based systems in a non-disruptive manner assumes critical importance. To ensure banks with sound financials have direct membership to the clearing house, the Reserve Bank has put in place norms/access criteria for membership to the clearing house.

3.207 In order to ensure uninterrupted functioning of the clearing houses at all times, a number of instructions have been issued to National Clearing Cells as a Business Continuity Planning (BCP) measure for clearing houses under their respective jurisdictions.

3.208 The delay in collection of foreign currency denominated cheques has been engaging the attention of the Reserve Bank for sometime. In order to bring about transparency, quicken the process of collection and to make available faster funds to the customers, the Reserve Bank has issued instructions to the banks which, *inter alia*, directed the banks to make the US Dollar (USD) cheque collection scheme (including its charges) transparent and as a part of its regular cheque collection policy. The Reserve Bank also advised banks to review their policy on an on-going basis and leverage on the US Check 21 facility for saving transit time and have a direct deposit mechanism with correspondent banks for early collection.

Electronic Payment Systems

3.209 The electronic payment systems comprise of the large value payment systems, *viz.*, Real Time Gross Settlement (RTGS), systems operated by Clearing Corporation of India Ltd., (Government Securities Clearing, Foreign Exchange Clearing, and Collateralised Borrowing and Lending Obligation), and the retail payment systems, *viz.*, National Electronic Clearing Services (NECS/ECS-Credit/Debit), National Electronic Funds Transfer (NEFT), and card based payment systems.

Large Value Electronic Payment System

Real Time Gross Settlement (RTGS)

3.210 The RTGS system has been operational since March 2004. The system which was operationalised with settlement of transactions relating to inter-bank payments was extended to customer transactions and from September 2006 the multilateral net settlements relating to clearings in Mumbai, including the systems operated by CCIL are settled in RTGS. With increasing number of bank branches participating in the RTGS (more than 60,000 as at end- September 2009) the RTGS timings was extended, both for customer as also interbank transactions by 30 minutes from January 10, 2009.

3.211 The development of corporate bond market in India lagged behind in comparison with other financial markets owing to many structural problems. To facilitate settlement of Over the Counter (OTC) corporate bond transactions in RTGS system on delivery versus payment (DvP)-I basis, it was decided to allow the clearing houses of the exchanges to have a transitory pooling account facility with the Reserve Bank. The settlement of corporate bond transactions will be on a non-guaranteed basis and hence line of credit (LOC) support will not be provided, however, banks participating in the settlement would be eligible for intraday liquidity (IDL) support from the Bank.

Self Evaluation and Assessment by External Expert of the RTGS

3.212 To evaluate the RTGS system in India against the Core Principles for Systemically Important Payment Systems, a self evaluation was carried out and was published as part of the Report of the CFSA. According to this assessment, the RTGS system in India is fully compliant with the six Core Principles and broadly compliant with three Core Principles relating to management of credit and liquidity risk, operational reliability and efficiency. One Core Principle is not applicable to the RTGS system.

3.213 The Reserve Bank had also commissioned an external assessment of the RTGS system by a team of experts from the Swiss National Bank who submitted their report in April 2009. These experts viewed that the RTGS system in India is compliant with all the Core Principles, except the one on efficiency. This could not be assessed by the experts since the system was being offered free of charge to the participants. The recommendations made by the team for compliance with this Core Principle is to have a strategy and project business development over the next 5 to 10 years, to monitor the relationship with third-party vendors and ensure effective safeguards in order to retain full control over all aspects of the RTGS system, to have a cost-benefit-analysis, and appropriate pricing of payment services.

Retail Electronic Payment Systems

3.214 The retail payment system comprise of electronic clearing services (NECS/ECS-Credit/ Debit), NEFT, card based payment systems including ATM network.

3.215 The growth of Electronic Clearing System (ECS) both debit and credit have been sustained during the year. The coverage of ECS has increased by five more centres and is now available at 75 centres. Settlement cycle has been reduced to T+1 from earlier T+3 across the country. To widen the geographical coverage of ECS beyond the existing ECS centres and to have a centralised processing capability, the National Electronic Clearing Service (NECS) was operationalised with effect from September 29, 2008. The NECS is a nationwide system leveraging on core banking solutions (CBS) of member banks. As at the end of September, 2009 as many as 114 banks with 30,780 branches participate in NECS.

3.216 The NEFT system was introduced in November 2005. The settlement timings for NEFT transactions have been enhanced by one and a half hour with effect from July 7, 2008. The NEFT is now available from 0900 hrs to 1700 hours on week days with settlement at 0900, 1100, 1200, 1300, 1500 and 1700 hours and the 3 settlements on Saturdays at 0900, 1100 and 1200 hours. 91 banks with over 61,000 branches are participating in NEFT as at end of September 2009.

3.217 To encourage the transactions in ECS/ NECS/NEFT the processing charges for electronic payment products have been further waived up to March 31, 2010. The charges levied by banks to the customers have also been rationalised and for NEFT the maximum charges are Rs.5 and Rs.25 for transaction value upto Rs.1.00 lakh and above Rs.1.00 lakh, respectively.

3.218 To facilitate large Nepalese migrant workforce in India in sending money to their families/relatives in Nepal, a formal remittance system between India and Nepal, was introduced from May 15, 2008. Viewing the low volumes of the scheme the service charges were revised effective from February 9, 2009, with the maximum charge being Rs.75. Further, branches have been advised to create awareness about the scheme among the Nepalese migrants.

Card Based Payment Systems

3.219 Cash withdrawal from Automated Teller Machines (ATMs) of the banks was made free of charge with effect from April 1, 2009. The decision of making ATMs free for customers did not adversely impact the expansion of ATMs. Further, banks have been advised to reimburse to the customers, the amount wrongfully debited on account of failed ATM transactions within a maximum period of 12 days, from the date of receipt of customer complaint and effective from July 17, 2009, for any failure to re-credit the customer's account within the stipulated period, the bank shall pay compensation of Rs.100 per day, to the aggrieved customer.

3.220 Cash is still predominantly used for small value payments and thus the need for currency. Seeing the vast population as also the availability of ATMs *vis-à-vis* POS terminals the use of this infrastructure for permitting small value cash withdrawal for enhancing the customer convenience cash withdrawal facility at POS for all debit cards issued in India, up to Rs.1,000 per day has been permitted from July 22, 2009. The banks before introducing the facility will require prior regulatory approval from the Reserve Bank.

3.221 The use of credit/debit cards has been increasing for payment of goods and services as also cash withdrawals. In order to make the card based payments more safe, especially for transactions done on-line (card not present), the Reserve Bank reviewed various options to enhance the security of online card transactions. After extensive consultations with banks/card companies, a system of providing for additional authentication/validation based on information not visible on the cards for all on-line 'card not present' transactions has been implemented from August 1, 2009. A system of "Online Alerts" to the cardholder for all 'card not present' transactions of the value of Rs.5,000 and above has also been put in place.

New Initiatives

Issuance of Pre-Paid Payment Instruments

3.222 To ensure orderly development and operation of pre-paid payment instruments in the country, the Reserve Bank issued a set of guidelines in April 2009. The pre-paid payment instruments that are permitted to be issued in the country are broadly classified into Closed system payment instruments, Open system payment instruments and Semi-closed system payment instruments. The salient aspects of the guidelines are (i) banks and non-bank persons are permitted to issue pre-paid payment instruments in the country. While banks are permitted to issue all categories of these instruments, non-bank persons are permitted to issue only closed and semi-closed system payment instruments; (ii) the maximum value of any pre-paid payment instruments has been fixed at Rs.50,000/-; (iii) conditions have been stipulated on deployment of money collected by the issuer against issue of pre-paid payment instruments. Further, effective from August 14, 2009, "other persons" have also been permitted to issue mobile phone based semi-closed system pre-paid payment instruments for a maximum value of Rs.5,000. This will facilitate only purchase of goods and services, and person to person transfer of funds is not permitted. Three entities have been granted authorisation to issue prepaid payment instruments (Also see Box IX.2 'Pre-paid Payment Instruments in India' in RBI Annual Report 2008-09).

Mobile Banking Transactions

3.223 The expansion in the use and geographocal reach of mobile phones has created new opportunities for banks to use this mode for banking transactions and also provide an opportunity to extrend banking facilities to the hitherto excluded sections of the society. Reserve Bank has adopted Bank Led Model wherein the mobile phone banking is promoted through business correspondents of banks. The operative guidelines for banks on Mobile Banking Transactions in India were issued on October 8, 2008. Only banks who have received one time approval from the Reserve Bank are permitted to provide this facility to customers. Till June 30, 2009, 32 banks had been granted permission to operate Mobile Banking in India, of which 7 belonged to SBI and its associates, 12 to nationalised banks and 13 to private/ foreign banks. These guidelines were discussed in detail in the Report on Trend and Progress of Banking in India 2007-08.

National Payment Corporation of India

3.224 World over, Central Banks are distracting themselves from day to day operations of retail payment system. In alignment with this, the Reserve Bank encouraged the setting up of National Payment Corporation of India (NPCI) to act as an umbrella organisation for operating the various retail payment systems in India. NPCI has since become functional and is in the process of putting in place its Vision Document and road map. NPCI will be an authorised entity under the PSS Act and would, therefore, be subjected to regulation and supervision of the Reserve Bank.

Minimum Standards/Benchmark Indicators for Retail Payment Systems

3.225 The Reserve Bank has framed the Minimum Standards for Operational Efficiency of MICR Cheque Processing Centres as part of benchmarking retail payment systems in October 2007. The Bank has come out with a booklet in October 2008 covering i) Minimum Standards of Operational Efficiency (MSOE) for MICR Cheque Processing Centres; ii) MSOE for Magnetic Media Based Clearing System MMBCS (Automated) Clearing Houses; iii) Benchmark Indicators for Electronic Clearing Services; and iv) NEFT System - Benchmark Indicators for efficiency. The directions issued periodically and the implementation of the same for desired results is being assessed by way of calling for quarterly/half yearly Self Assessment Reports being submitted by the clearing houses to the Regional Office of the Reserve Bank under whose jurisdiction it falls. Periodic on-site visits are made by the officers of the Reserve Bank ROs.

Committee on Financial Sector Assessment

3.226 CFSA in its Report on assessment of the payment system and financial markets made observasions and suggestions which are provided in Box III.13.

12. Technological Developments

3.227 Technological innovation not only enables a broader reach for consumer banking and financial services, but also enhances the capacity for continued and inclusive growth. The efficient use of Information Technology (IT) has facilitated the movement from class banking to mass banking. Further, it has also enabled the banks in India to provide newer products as also alternate channels to the customers, aiming at vertical and horizontal expansion of their businesses. The Reserve Bank has been playing an important role in bringing about Technology based Banking which has resulted in large scale computerisation of the Banking Sector. The Financial Sector Technology (FST) Vision serves as a lighthouse for banks to make their own IT initiatives based on the broad approach envisioned by the Reserve Bank. The Reserve Bank continues to function as a business

Box III.13: Assessment of Payment Systems by CFSA

The CFSA made the following observations with regard to the payment system in India:

- High Value Clearing system which handles large values and settles on an unsecured deferred net settlement basis, could lead to financial vulnerability and recommended shifting of high value transaction to more secure electronic payment system like RTGS or NEFT.
- In MNSB settlement on 'all-or-none' basis, systemic risk can arise whenever there is a long chain of interdependent payments queuing up. Efficient liquidity management is of prime importance to banks in RTGS system.
- Establishing a mechanism to seamlessly link the depositories with the payment system through the clearing corporation/clearing agency to ensure DvP. CFSA observed a need for seamless link between Clearing Corporation and RTGS.
- CCIL being the only CCP catering to money, securities and foreign exchange markets and its expanding role over the years has been leading to concentration of risks on one entity. The inadequacy of risk management by CCIL can have system-wide implications, which could be more catastrophic than the decentralised systems. The concentration can also lead to 'moral hazard' problems if the central counterparty is considered 'too big to fail'.
- CFSA recommended spreading of settlements throughout the day against the end of the day settlement CCIL currently follows. It recommended on increasing of LoC by CCIL, net debit caps in the CBLO and Government securities segments, and considering back-to-back repo arrangement or limited purpose banking license so that it can access liquidity facility from the Reserve Bank.
- Since credit/debit card frauds are constantly evolving it is critical to stay abreast of the latest developments in this area to combat fraud effectively.
- Reserve Bank should engage with TRAI and DoT to educate them of the adverse impact any dilution in encryption standards could have on the entire e-commerce infrastructure and the need to balance between encryption standards and maintaining a supportive business environment.

facilitator for deployment of new products and services in payment and settlement systems including the Negotiated Dealing System (NDS) for Government Securities, the Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT) and the Centralised Funds Management System (CFMS), apart from the Structured Financial Messaging System (SFMS) over the INFINET.

3.228 To provide scalability and high uptime availability of all critical payment system applications used by banks for their own transactions as well as those processed on behalf of their constituents, the Reserve Bank undertook a major initiative to operate these applications from its state-of-the-art Data Centres. The Systems at the Data Centres have been configured in such as manner that each centre functions as the backup to the other to ensure continuous availability of IT systems for its users in a safe and secure environment. Further, with large scale dependence on IT, the need to ensure uninterrupted availability of such systems attains utmost significance, especially in cases of failure due to any reason whatsoever. With a view to ensuring adequate provision for capacity and back-up, the Reserve Bank undertakes periodical Disaster Drill (DR) drills for its critical systems. The banks have also been independently taking up DR drills by using their Disaster Recovery Systems.

3.229 The secured web site of the Bank, which acts as a secured communication link between the Reserve Bank and Government Departments as well as other commercial banks continues to be used extensively and facilitated information dissemination.

3.230 A review of the achievements *vis-à-vis* the goals set in the FST Vision reveal the following: (i) enhanced network based operations, centralised processing of data by the migration to core banking systems by banks, integrating the CBS with common interbank applications, (ii) enhanced sharing of resources by banks for the ATMs as part of the National Financial Switch (NFS), (iii) more and more migration to electronic modes of payments, (iv) effective and failsafe business continuity plans (BCP) and initiation of periodical BCP exercises,

(v) Implementation of Information Systems (IS) Audit as an integral part of the controls and check measures, and (vi) improvement in management of outsourcing, especially with reference to vendor management.

3.231 The INdian FInancial NETwork (INFINET) functions as the backbone for transmission of inter-bank electronic information for systemic inter-bank payment systems of the Reserve Bank. A key trend in the connectivity space over the last year was the escalation of Multi Protocol Label Switching (MPLS) based VPN. The IDRBT, in the process of migrating the INFINET to the MPLS Technology, is working towards ensuring smooth migration of banks to MPLS in a phased manner. During the year, a number of the banks migrated to network based connectivity using the latest Multi Protocol Label Switching (MPLS) technology which is aimed at reducing costs for the users as also increase the ease of usage and provide better levels of availability (Box III.14). The INFINET MPLS is the communication backbone for the inter-bank applications like Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Public Debt Office–Negotiated Dealing System (PDO-NDS), Centralised Public Accounts Department System (CPADS), and Automated Clearing House (ACH).

13. Legal Reforms

3.232 The legislative changes undertaken during 2008-09 are as follows:

3.233 The Payment and Settlement Systems Act, 2007 has come into force on notification in the official Gazette. The Act confers on the Reserve Bank regulatory and supervisory powers in respect of payment systems. Accordingly, the regulations, *viz.*, (i) Board for Regulation and Supervision of Payment and

Box III.14: Multi-Protocol Label Switching (MPLS)

Multi-Protocol Label Switching (MPLS), provides a mechanism for engineering network traffic patterns that is independent of routing tables. It is a combination of packet forwarding and label switching through a network, an integration of high speed layer 2 switching with layer 3 routing using label switching. MPLS adopts the usage of Virtual Private Networks (VPN) which enhances the security levels, thereby improving network based telecommunication. MPLS network is an improvement over the leased line network. The Leased line Network being a partial mesh network, is less scalable, and therefore, adding a new site to the network is difficult. Further, up-gradation of bandwidth is a time consuming and cumbersome process and packet switching is slower in a Leased Line Network as compared to the MPLS.

With the evolution of MPLS, VPNs are poised to herald a radical shift in the world of network computing. Another trend over the last year is that most enterprises are focused on creating highly agile and redundant networks, where MPLS VPN emerged as a trusted Wide Area Network (WAN) connectivity option. Moreover, it improves efficient use of resources and enhances performance of the network. MPLS also enables easy to implement Quality of Service and Class of Service based on application needs. The implementation of Internet Protocol Security (IPSec) tunnels (secure tunnels between which data is encrypted) between CPE (Customer Premises Equipment, *i.e.*, router) to CPE is relatively easy. IDRBT has taken up the project of implementing INFINET MPLS Architecture designed to provide high level redundancy.

INFINET MPLS improves the possibilities for Traffic Engineering and supports the delivery of services with Quality of Service (QoS) guarantees. Its salient features are: (i) Full Meshed communications at all locations (backbone), (ii) Two service providers to enable high speed fault tolerance, (iii) A VPN between two locations could be across service providers, all VPNs between CPEs will be encrypted, and (iv) Availability of QoS (Quality of Service) and TE (Traffic Engineering) on the last mile as well.

QoS is a capability of the network to provide resource assurance and service differentiation, where ‘service differentiation’ is the ability of the network to treat different applications in different ways, and ‘resource assurance’ is the ability of the network to provide appropriate service to fit the application requirements, such as bandwidth, packet loss, jitter and latency.

TE is the process of selecting and controlling the paths along which the data travels through a network in order to optimise network resource utilisation and traffic performance ensuring efficient and reliable network operations. The goal of TE is efficient and reliable network operation, optimisation of network resources, handling of link and node failures and Voice and Video delivery over data network with performance and QoS.

Settlement Systems Regulations, 2008; and (ii) Payment and Settlement Systems Regulations, 2008 have been framed by the Reserve Bank.

3.234 The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009 was introduced in the Lok Sabha on February 24, 2009 for amending certain provisions in the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959 dealing with approval of, or consultation with the Reserve Bank in the management and functioning of the subsidiary banks. The transfer of ownership of the State Bank from the Reserve Bank to the Central Government was carried out pursuant to the coming into force of the State Bank of India (Amendment) Act, 2007 (30 of 2007). Due to change in the ownership in the State Bank of India, consequential amendments were to be made in both the statutes. The Bill has, however, lapsed.

3.235 With regard to the legal infrastructure, the CFSA notes that though there have been improvements in legal infrastructure in the financial sector, the time taken for completion of liquidation proceedings is one of the highest in the world and the recovery rate one of the lowest. The operationalisation of the Companies Act (Second Amendment), 2002 will address the current problems relating to delays in completion of liquidation proceedings. The CFSA considers that a separate insolvency regime for banks and other categories of financial institutions is vital in the context of financial stability, as any inefficient handling of insolvency of such institutions could have a serious contagion effect and repercussions across the economic system that will destabilise economic activity.

14. Conclusion

3.236 In the wake of the global financial crisis, the policy initiatives during 2008-09 were mainly aimed at maintaining stability and ensuring liquidity in the banking system, while channelling adequate credit to the productive sectors of the economy without any interruptions. The issues received special attention from the Reserve Bank during the year included prudential regulation of off-balance sheet exposures of the banks, supervision of financial conglomerates and restructuring of advances of the banking system. Several modifications were also made to the Agricultural Debt Waiver and Debt Relief Scheme, 2008 to make the implementation of the Scheme easier. With a view to facilitating financial inclusion, the Reserve Bank gave priority to BC model, financial literacy, credit counselling and the LBS. An issue that deserves further attention from the Reserve Bank is the intensification of the financial inclusion process by encouraging the ‘no-frill’ account holders to actively operate their accounts. In the context of financial inclusion, strengthening the RRBs by applying capital adequacy norms and diversifying the business operations assume importance. Strengthening of the cooperative banking sector also received due attention from the Reserve Bank during the year owing to the importance of these institutions in the Indian financial landscape. The BOS was revised to make the banks more customer-friendly. Measures were also taken to reduce frauds in the banking system and to make ATMs user-friendly. RTGS was modified to make the electronic financial transactions more efficient. During the year, most of the banks have migrated to cost-saving MPLS technology.

3.237 To sum up, the Reserve Bank took pro-active policy decisions so as to contain the knock-on effects of the global financial turmoil on Indian banking and financial system. The assessment made by the CFSA also indicated that the Indian banks are sound and broadly compliant with the international norms.

Chapter IV

Operations and Performance of Commercial Banks

In the backdrop of global financial crisis and its repercussions on the Indian economy, the year 2008-09 has been a testing year for the Indian banking sector. The Indian banking sector, however, withstood this test and the resilience of this sector was more than evident. The Indian banks were largely immune from the crisis, as their exposure to toxic assets was minimal. More importantly, the Reserve Bank's initiatives regarding adoption of counter-cyclical prudential regulations framework, both during credit boom period as well as during the slowdown, proved to be successful. The capital to risk-weighted assets ratio (CRAR) of SCBs improved to 13.2 per cent as at end-March 2009 from 13.0 per cent as at end-March 2008. Furthermore, the gross non-performing assets (NPA) to gross advances ratio of SCBs as at end March 2009 remained at last year's level of 2.3 per cent. The Return on Assets (ROA) also remained at last year's level of 1.0 per cent. Significantly, the Return on Equity (ROE) increased to 13.3 per cent during 2008-09 from 12.5 per cent during 2007-08, indicating increased efficiency with which capital is used by the banks. Thus, though the expansion of the balance sheet moderated, the asset quality was maintained. Going forward, the challenge for the banking sector would be to support credit growth, as the Indian economy moves closer to the higher growth trajectory, while ensuring the efficiency and soundness of the sector.

1. Introduction

4.1 The balance sheets of Scheduled Commercial banks (SCBs)[1] in India remained robust against the backdrop of global financial crisis. It is noteworthy that contrary to the trend in some advanced countries, the leverage ratio (Tier I capital to total assets ratio) in India has remained high reflecting the strength of the Indian banking system. However, the Indian banking sector was not completely insulated from the effects of the slowdown of the India economy.

4.2 The consolidated balance sheets of SCBs, expanded by 21.2 per cent as at end-March 2009 as compared with 25.0 per cent in the previous year. While the balance sheet of public sector banks maintained their growth momentum, the private sector banks and foreign banks registered a deceleration in growth rate.

4.3 During 2008-09, the growth rate of banks' lending to industries, personal loans and services sector witnessed a deceleration, while growth rate of banks' lending to agriculture and allied activities increased substantially. Overall, the incremental Credit–Deposit (C-D) ratio declined sharply reflecting the slowdown in credit growth, as corporates deferred their investments against the backdrop of widespread uncertainty. Growth rate of investments by banks decelerated marginally but the proportion of Statutory Liquidity Ratio (SLR) investment in Net Demand and Time Liabilities (NDTL) increased, reflecting a large Government market borrowing programme. Consequently, the incremental Investment Deposit (I-D) ratio rose.

4.4 In a reversal of trend, the Off-Balance Sheet (OBS) exposures of SCBs, which had witnessed exponential growth in recent years,

[1] As at end-March 2009, SCBs comprised 27 public sector banks (State Bank of India and its six associates, 19 nationalised banks and the IDBI Bank Ltd.), 7 new private sector banks, 15 old private sector banks and 31foreign banks. For Tamilnad Mercantile Bank Ltd., as of September 30, 2009, only the unaudited balance sheet is available and the same has been used.

declined by 26.4 per cent on a year on year (y-o-y) basis. This was partly due to the appropriate prudential regulation implemented by the Reserve Bank in case of OBS exposures. The growth rate of income as well as that of expenditure of SCBs decelerated, leading to deceleration in growth rate of net profits. The Capital to Risk-Weighted Assets Ratio (CRAR) of SCBs improved to 13.2 per cent at end-March 2009 from 13.0 per cent a year ago, thus, remaining significantly above the stipulated minimum of 9.0 per cent.

4.5 SCBs did not raise any resources from the primary market during 2008-09 mainly reflecting the lacklustre performance of the stock market. However, banks preferred to raise resources through debt issues in the private placement market.

4.6 The growth rate of the balance sheets of Local Area Banks (LABs) and their financial performance also witnessed a deceleration. The Regional Rural Banks (RRBs) however, withstood the adversities and their balance sheets continued to grow with almost the same pace.

4.7 This chapter profiles the operations and financial performance of SCBs at the aggregate as well as bank group levels. It is organised into thirteen 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. The progress in regard to micro finance initiatives is captured in Section 10. Apart from the SCBs, 86 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 11 and Section 12, respectively. Section 13 draws broad conclusions based on the discussion in the earlier sections.

2. Liabilities and Assets of Scheduled Commercial Banks

4.8 At end-March 2009, there were 80 Scheduled Commercial Banks (SCBs) in India[3]. The growth rate of consolidated balance sheet of SCBs decelerated to 21.2 per cent in 2008-09 from 25.0 per cent in 2007-08. The assets of SCBs, however, continued to grow at a higher rate than the nominal gross domestic product (GDP) (at current market prices) resulting in a higher ratio of assets of SCBs to GDP. This ratio increased to 98.5 per cent at end-March 2009 from 91.6 per cent at end-March 2008.

4.9 It is noteworthy that contrary to the trend in some advanced countries, the leverage ratio[4] in India has remained high reflecting the strength of the Indian banking system. For instance, as observed by the World Bank (2009)[5], the leverage ratio of banks in the UK witnessed a decline throughout 1990s, which was accentuated after

[2] As at end-March 2008.

[3] Including Bank Internasional Indonesia, which ceased operations in India and is being wound up.

[4] Leverage ratio generally refers to Tier 1 capital as a per cent of total adjusted assets, wherein adjustments to assets include items that have already been deducted from Tier 1 capital, such as goodwill. The actual calculation of leverage ratio in most countries, such as the US, is based on Tier 1 capital to total assets and the same is used here.

[5] World Bank (2009), “Banking and the Leverage Ratio”, Background note available at www.crisistalk.worldbank.org.

2000 to reach a level of about 3 per cent by 2008 from around 5 per cent in the 1990s. On the other hand, the leverage ratio for Indian banks has risen from about 4.1 per cent in March 2001 to reach a level of 6.3 per cent by March 2009.

4.10 The composition of liabilities of SCBs broadly remained same during 2008-09 as compared to 2007-08. The growth rate of term deposits accelerated to 27.3 per cent as at end March 2009, from 24.8 per cent last year. The growth rate of demand deposits decelerated to 6.9 per cent from 24.9 per cent during the same period reflecting slowdown in economic activity. The slowdown in growth of assets side of the balance sheet was reflected in corresponding deceleration in the growth of loans and advances component. As at end-March 2009, the cash and balances of SCBs with the Reserve Bank declined mainly on account of softening of CRR. However, the balances of SCBs with banks and money at call and short notice registered an increase, thus reversing the pattern witnessed as at end-March 2008 [Table IV.1 and Table IV.2].

4.11 While the balance sheets of public sector banks maintained their growth momentum, the

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

(Amount in Rs. crore)

Item	As at end-March			
	2008		2009	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
1. Capital	39,963	0.9	44,037	0.8
2. Reserve and Surplus	2,75,524	6.4	3,24,218	6.2
3. Deposits	33,20,061	76.7	40,63,203	77.5
3.1. Demand Deposits	4,42,056	10.2	4,72,578	9.0
3.2. Savings Bank Deposits	7,44,051	17.2	8,74,539	16.7
3.3. Term Deposits	21,33,953	49.3	27,16,084	51.8
4. Borrowings	3,02,629	7.0	3,23,184	6.2
5. Other Liabilities and Provisions	3,87,987	9.0	4,86,685	9.3
Total Liabilities/Assets	**43,26,166**	**100**	**52,41,330**	**100**
1. Cash and Balances with RBI	3,22,971	7.5	2,97,263	5.7
2. Balances with Banks and Money at Call and Short Notice	1,09,109	2.5	1,98,581	3.8
3. Investments	11,77,329	27.2	14,49,474	27.7
3.1 Government Securities (a+b)	9,25,723	21.4	11,64,444	22.2
a) In India	9,20,165	21.3	11,58,714	22.1
b) Outside India	5,558	0.1	5,730	0.1
3.2 Other Approved Securities	10,587	0.2	8,153	0.2
3.3 Non-Approved Securities	2,41,017	5.6	2,76,876	5.3
4. Loans and Advances	24,76,936	57.3	30,00,906	57.3
4.1 Bills purchased and Discounted	1,50,988	3.5	1,73,910	3.3
4.2 Cash Credits, Overdrafts, *etc*.	8,88,882	20.5	11,13,556	21.2
4.3 Term Loans	14,37,065	33.2	17,13,439	32.7
5. Fixed Assets	42,394	1.0	48,361	0.9
6. Other Assets	1,97,425	4.6	2,46,743	4.7

Note: Data for 2007-08 are as reported in the balance sheets of banks for 2008-09 and hence may not match with those reported in the *Report on Trend and Progress of Banking in India, 2007-08*, as the figures for 2007-08 were revised by some banks.

Source: Balance Sheets of respective Banks.

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

(Per cent)

Item	As at end-March									
	2008					2009				
	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
1	2	3	4	5	6	7	8	9	10	11
1. Capital	5.2	1.8	14.6	71.4	**35.2**	3.6	8.2	-3.1	16.3	**10.2**
2. Reserve and Surplus	31.3	47.1	97.9	34.7	**45.3**	20.4	14.6	9.1	25.8	**17.7**
3. Deposits	23.1	19.8	23.1	26.8	**23.1**	26.9	20.3	5.4	12.0	**22.4**
3.1. Demand Deposits	20.4	23.4	38.6	28.3	**24.6**	9.9	1.8	1.1	2.3	**6.9**
3.2. Saving Bank Deposits	14.9	16.2	40.5	20.2	**17.8**	18.4	15.6	14.7	9.7	**17.4**
3.3. Term Deposits	27.0	20.2	16.0	27.7	**24.8**	33.1	24.2	3.9	18.0	**27.3**
4. Borrowings	28.4	8.0	26.3	14.1	**24.5**	1.2	22.6	7.1	20.3	**6.8**
5. Other Liabilities and Provisions	25.6	21.6	17.3	65.5	**29.0**	21.3	8.1	12.8	57.8	**25.4**
Total Liabilities/Assets	**23.8**	**21.2**	**27.5**	**32.7**	**25.0**	**24.6**	**19.3**	**6.7**	**22.8**	**21.2**
1. Cash and Balances with RBI	61.5	74.4	74.2	81.2	**65.4**	-2.4	-14.6	-20.7	-28.9	**-8.0**
2. Balances with Banks and Money at Call and Short Notice	-32.6	-24.2	-33.7	-25.1	**-31.1**	106.5	47.1	27.8	66.8	**82.0**
3. Investments	20.3	23.9	31.3	38.4	**23.8**	26.6	33.7	4.3	31.8	**23.1**
3.1 Government Securities (a+b)	20.5	20.0	21.8	47.4	**22.7**	30.6	27.3	7.7	20.7	**25.8**
a. In India	20.3	20.0	21.9	47.4	**22.6**	30.8	27.3	7.7	20.7	**25.9**
b. Outside India	58.3	0	-53.6	0	**49.3**	4.0	0	-32.0	0	**3.1**
3.2 Other Approved Securities	-16.7	-20.7	12.0	-60.9	**-17.0**	-22.8	-24.3	-12.0	-80.7	**-23.0**
3.3 Non-Approved Securities	23.3	42.1	57.0	5.7	**31.2**	11.9	58.2	-2.8	89.4	**14.9**
4. Loans and Advances	24.8	20.2	26.4	27.5	**25.0**	25.7	15.1	9.9	2.7	**21.2**
4.1 Bills Purchased and Discounted	16.3	36.9	36.8	36.6	**21.5**	18.3	7.0	16.1	-3.8	**15.2**
4.2 Cash Credits, Overdrafts, *etc.*	24.3	18.5	31.0	33.8	**25.2**	29.4	15.1	9.4	9.2	**25.3**
4.3 Term Loans	26.1	19.9	24.6	21.2	**25.3**	24.0	16.1	9.6	-1.6	**19.2**
5. Fixed Assets	42.6	26.1	15.9	32.3	**35.2**	17.2	8.0	1.2	19.4	**14.1**
6. Other Assets	31.0	-1.7	28.3	67.0	**38.2**	2.0	28.2	19.8	68.1	**25.0**

Source: Balance Sheets of respective banks.

private sector banks and foreign banks registered a deceleration in growth rate. Furthermore, the old private sector banks, which had been registering a significantly lower growth rate than their newer counterparts in the recent past, managed a better performance this year [Appendix Table IV.1 (A) to (C)].

4.12 The public sector banks' share in aggregate assets, deposits, advances and investments increased as at end-March 2009 *vis-a-vis* last year, while the shares of private sector banks registered a decline. This was mainly on account of the strong balance sheet growth registered in case of public sector banks, against the backdrop of deceleration in growth rate of other bank groups (Table IV.3).

Deposits

4.13 The growth rate of aggregate deposits of SCBs decelerated to 22.4 per cent as at end March 2009 from 23.1 per cent as at end March 2008 and that of 24.6 per cent in the previous year. The importance of Certificates of Deposit (CDs) as means of raising resources continued during 2008-09, *albeit* with some deceleration in growth rate. CDs outstanding as percentage of aggregate deposits stood at 4.7 per cent (Appendix Table IV.2).

4.14 In terms of bank group wise share in deposits, the public sector banks not only continued to be the leaders, their share also increased, while that of other bank groups witnessed a decline (Chart IV.1).

Table IV.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	
	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9
Public Sector Banks	69.9	71.9	73.9	76.6	72.6	75.3	67.9	69.9
Nationalised Banks	43.5	44.2	48.4	49.1	45.3	47.2	42.7	41.7
State Bank Group	23.4	24.4	23.3	24.8	24.0	24.6	22.4	24.7
Other Public Sector Bank	3.0	3.3	2.2	2.8	3.3	3.4	2.8	3.5
Private Sector Banks	21.7	19.6	20.3	18.1	20.9	19.2	23.7	21.1
Old Private Sector Banks	4.5	4.4	5.0	4.9	4.5	4.3	4.6	5.0
New Private Sector Banks	17.2	15.2	15.3	13.2	16.4	14.9	19.1	16.2
Foreign Banks	8.4	8.5	5.8	5.3	6.5	5.5	8.4	9.0
Scheduled Commercial Banks	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

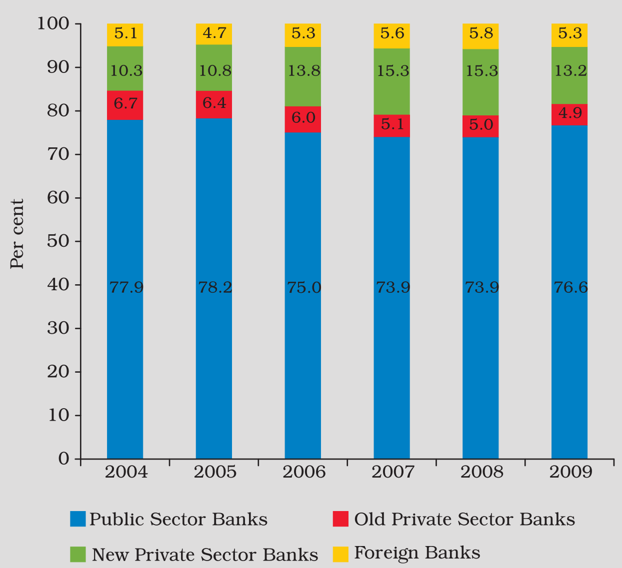
Source: Balance sheets of respective banks.

4.15 The current account and saving account (CASA) deposits are an important source of raising resources at a lower rate for the banks. Recently however, the growth rate of CASA deposits has decelerated and their share in total deposits has also declined, posing a challenge for the banking sector (Box IV.1).

Non-Deposit Resources

4.16 Among the non-deposit resources, growth in borrowings by banks decelerated to 6.8 per cent as at end March 2009 from 24.5 per cent in the previous year (refer Table IV.2). While during 2007-08, Rs.30,455 crore were raised by banks through public issues in the capital market, this source of raising resources virtually dried up in 2008-09, mainly due to subdued conditions in the primary as well secondary capital markets. Banks, however, raised substantially higher resources from the private placement market (refer to section 6 for details).

Chart IV.1: Share in Aggregate Deposits - Bank Group-wise



International Liabilities of Banks

4.17 The international liabilities of Indian banks (in Rs.terms) declined by 1.1 per cent as at end March 2009 as against an increase of 8.4 per cent during 2007-08. The decline of international liabilities was mainly due to decline in 'other liabilities' like ADRs/GDRs reflecting the drying up of overseas lines of credit for banks and corporates. On the other hand, in a reversal of trend, the share of foreign currency deposits in total international liabilities, which had witnessed a continuous fall during the period 2005-08, registered a sharp rise during 2008-09. This was mainly on account of the encouraging policy initiatives by Reserve Bank like upward adjustment of the interest rate ceiling on the foreign currency deposits by non-resident Indians, as also

Box IV.1: Trends in Current Account and Saving Accounts Deposits (CASA) of SCBs

The share of current and saving accounts (CASA) deposits significantly influence the cost structure of commercial banks. Current accounts are primarily meant for companies, public enterprises and entrepreneurs having numerous banking transactions daily. On the other hand, savings accounts are the most common operating account for individuals and others for non-commercial transactions. Banks pay no interest on current accounts and an interest rate of 3.5 per cent on savings accounts. Thus, as compared to other modes of deposits, say fixed deposits, CASA deposits represent the cheapest mode of raising money. Consequently, the higher the CASA component in total deposits of a bank, the cheaper is its cost of deposits.

In the Indian context, the CASA deposits constitute more than a third of the total deposits (Table 1).

The foreign banks have the highest share of CASA deposits in total deposits, followed by SBI and its associates, nationalised banks, and private sector banks. This pecking order almost remained robust till March 2008, though a slight change was observed subsequently. Furthermore, there was a consistent decline in the share of CASA deposits at the consolidated level for the SCBs from the March 2006 to March 2009. Share of CASA deposit component in total deposits of all bank groups declined from March 2006 to March 2009, except for private sector banks which witnessed an increase in its CASA deposits share.

Table 1: Bank Group-wise Share of CASA Deposits in Total Deposits

(per cent)

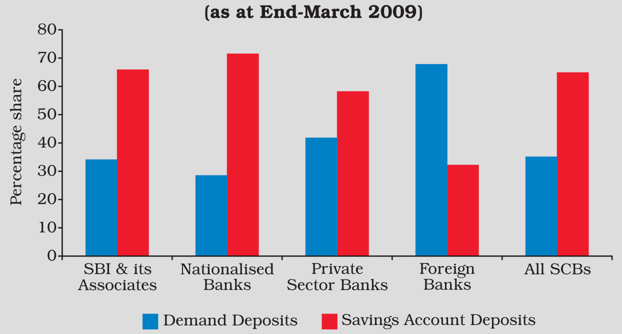
	End-March			
Bank Groups	2006	2007	2008	2009
1	2	3	4	5
State Bank of India & its associates	43.4	42.9	42.0	38.6
Nationalised Banks	38.2	35.4	33.0	29.9
Private Banks	30.4	29.8	32.8	32.9
Foreign Banks	50.5	45.1	44.7	41.7
All Scheduled Commercial Banks	**38.6**	**36.6**	**35.7**	**33.2**

The CASA deposits of SCBs recorded a growth rate of 13.4 per cent as at end March 2009 as compared to that of 20.2 per cent in the preceding year, registering a deceleration. Growth of CASA deposits recorded marginal decline in nationalised banks, steep fall in case of private sector banks and foreign banks. For SBI and its associates, growth of CASA deposits in 2008-09 remained at the same level as in the previous year.

A disaggregated analysis suggests that as at end-March 2009, the share of current deposits was higher than saving bank deposits for foreign banks, while for other bank groups, the share of saving bank deposits is higher (Chart). Further, the share of demand deposits in CASA deposits declined as at end-March 2009, compared to the preceding year for all the bank groups. In growth terms, current deposits and saving bank deposits grew by 6.7 per cent and 17.4 per cent in March 2009 as compared to 24.6 per cent and 17.8 per cent in March 2008.

The declining share of CASA deposit in total deposits and the deceleration in their growth may pose a challenge for the banking sector. This is because as mentioned above, the CASA deposits constitute the cheapest source of funds for the banking sector. In case of drying up of this source, alternate sources may be not only difficult but also prove expensive. In the context of impending revival of economic growth, with commensurate increase in the credit needs of the economy, the banking industry may require to take initiatives to attract more CASA deposits.

Chart: Bank Group-wise Composition of CASA (as at End-March 2009)



continuing confidence of depositors in Indian economy against the backdrop of international uncertainty (Table IV.4).

4.18 In line with the trend witnessed for last few years, the share of international liabilities of scheduled commercial banks in their total liabilities, continued to decline during 2008-09, mainly reflecting higher dependence of SCBs on domestic funds.

Bank Credit

4.19 The growth rate of loans and advances of SCBs, which was as high as 33.2 per cent as at end-March 2005 has been witnessing a slowdown since then. In continuation of the trend, the growth rate of aggregate loans and advances of SCBs decelerated to 21.2 per cent as at end-March 2009 from 25.0 per cent in the previous year. Apart from cyclical factors which

Table IV.4: International Liabilities of Banks - By Type
(as at end-March)

(Amount in Rs. crore)

Item	2007	2008	2009
1	2	3	4
1. Deposits and Loans	**2,71,403** (**75.2**)	**2,89,362** (**74.0**)	**3,23,205** (**83.6**)
of which:			
a) Foreign Currency Non-Resident Bank [FCNR(B)]	68,086 (18.9)	60,340 (15.4)	72,783 (18.8)
b) Foreign currency Borrowings *	61,470 (17.0)	77,257 (19.8)	75,398 (19.5)
c) Non-resident External Rupee (NRE) A/C	1,12,907 (31.3)	1,11,301 (28.5)	1,24,488 (32.2)
d) Non-Resident Ordinary (NRO) Rupee Deposits	6,855 (1.9)	11,387 (2.9)	20,686 (5.4)
2. Own Issues of Securities/Bonds (including IMD/RIBs)	**10,036** (**2.8**)	**9,166** (**2.3**)	**6,864** (**1.8**)
3. Other Liabilities	**79,258** (**22.0**)	**92,329** (**23.6**)	**56,540** (**14.6**)
of which:			
a) ADRs/GDRs	23,515 (6.5)	25,111 (6.4)	10,357 (2.7)
b) Equity of banks held by non-residents	40,328 (11.2)	45,603 (11.7)	18,932 (4.9)
c) Capital/remittable profits of foreign banks in India and other unclassified international liabilities	15,415 (4.3)	21,615 (5.5)	27,251 (7.0)
Total International Liabilities	**3,60,698**	**3,90,857**	**3,86,608**

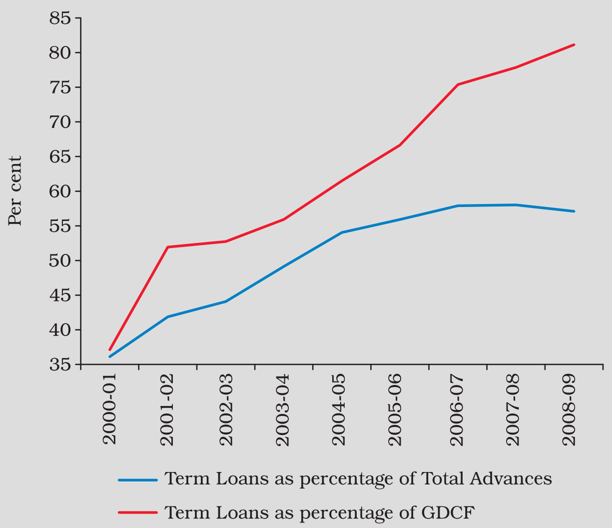
* : Inter-bank borrowings in India and from abroad and external commercial borrowings of banks.
Note: Figures in parentheses are percentages to total.
Source: Locational Banking Statistics (LBS).

lead to slowdown in growth after a period of high credit growth, the deceleration was accentuated this year due to the overall slowdown in the economy in the aftermath of global financial turmoil. Notwithstanding the deceleration in growth of the term loans, their share in investment in the economy increased to 81.0 per cent in 2008-09 from 77.8 per cent in the previous year (Chart IV.2).

Sectoral Deployment of Bank Credit

4.20 The deceleration in bank credit growth witnessed during 2007-08 continued in 2008-09 as well mainly reflective of the slowdown in real economy as also cautious approach adopted by banks against the backdrop of growing uncertainties. The data suggests that growth rate of bank's lending to industries, personal loans and services sector witnessed a deceleration, while bank's lending to agriculture and allied activities increased substantially during 2008-09 (Table IV.5 and Appendix Table IV.3).

Chart IV.2: Term Loan and Investment



Note : Investment has been proxied by GDCF (with base year 1999-2000) for 2007-08 and by gross capital formation for 2008-09.

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

(Variations over the year)

(Amount in Rs. crore)

Sector	2007-08		2008-09	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Agriculture & Allied Activities	**44,966**	**19.5**	**63,313**	**23.0**
2. Industry	**1,69,536**	**24.3**	**1,87,515**	**21.6**
3. Personal Loans	**54,730**	**12.1**	**54,991**	**10.8**
of which: Housing	26,802	11.6	19,165	7.4
4. Services	**1,32,419**	**31.5**	**93,580**	**16.9**
Of which:				
(i) Wholesale Trade (other than food procurement)	5,559	11.1	11,723	21.0
(ii) Real Estate Loans	19,235	43.6	28,261	44.6
(iii) Non-Banking Financial Companies	30,094	61.5	19,835	25.1
Total Non-Food Gross Bank Credit (1 to 4)	**4,01,650**	**22.3**	**3,99,400**	**18.1**
Of which:				
Priority Sector	1,11,414	17.5	1,68,506	22.5

Notes: 1. Data are provisional and relate to select banks. Data also include the effects of mergers of Bharat Overseas Bank with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.

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

Source: Sectoral and Industrial Deployment of Bank Credit Return (Monthly).

4.21 Provisional data on sectoral deployment of credit available till July 17, 2009 indicate that on year-on-year basis bank credit growth to industry, services and personal loans decelerated to 20.8 per cent, 13.8 per cent and 3.4 per cent, respectively, from 30.7 per cent, 36.9 per cent and 17.0 per cent. Growth of credit to agriculture accelerated to 29.1 per cent from 14.9 per cent in the same period of the previous year. Credit to real estate and non-banking financial companies (NBFCs) remained high at 46.7 per cent (43.9 per cent in July 2008) and 31.4 per cent (53.9 per cent in July 2008).

Priority Sector Advances

4.22 The outstanding priority sector advances of public sector banks increased by 18.0 per cent during 2008-09 as compared to 17.1 per cent during 2007-08 and formed 42.5 per cent of Adjusted Net Bank Credit (ANBC)[6]. Similarly, in the case of private sector banks, the priority sector advances increased by 15.9 per cent during 2008-09 as compared to 13.5 per cent during the last year and formed 46.8 per cent of ANBC (Table IV.6). It is noteworthy that this increase in priority sector lending at an accelerated pace has come against the backdrop of general slowdown in the economy and a decelerating in total bank credit (Appendix Tables IV.4 to IV.7).

4.23 In contrast to the trend witnessed in the case of public sector banks and private sector banks, growth rate of lending to the priority sector by foreign banks decelerated to 10.4 per cent as at end-March 2009, as compared to 32.8 per cent last year. Even in terms of percentage to ANBC/CEOBSE, their disbursements constituted

Table IV.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	
	2008	2009P	2008	2009P
1	2	3	4	5
Priority Sector Advances#	**6,10,450 (44.7)**	**7,20,083 (42.5)**	**1,64,068 (42.5)**	**1,90,207 (46.8)**
of which:				
Agriculture ^	2,49,397 (18.3)	2,98,211 (17.2)	58,566 (17.1)	76,062 (15.9)
Micro and Small Enterprises	1,51,137 (11.1)	1,91,307 (11.3)	46,912 (13.7)	47,916 (12.0)

P : Provisional.

: In terms of revised guidelines on lending to priority sector, broad categories include agriculture, small enterprises sector, retail trade, microcredit, 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/ adjusted net bank credit (ANBC)/ credit equivalent amount of off-balance sheet exposures (CEOBSE) whichever is higher.

[6] 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.

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

(Amount in Rs. crore)

Sector	2007		2008		2009P	
	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 #	**37,831**	**33.4**	**50,254**	**39.5**	**55,483**	**34.3**
of which:						
Export credit	20,711	18.3	28,954	22.7	31,511	19.4
Micro and Small Enterprises*	11,637	10.3	15,489	12.2	18,138	11.2

P : Provisional.
: In terms of revised guidelines on lending to priority sector, broad categories include agriculture, small enterprises sector, retail trade, micro credit, 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.

34.3 per cent, down from 39.5 per cent last year (Table IV.7 and Appendix Table IV.8).

Special Agricultural Credit Plans (SACP)[7]

4.24 During the year 2008-09, the public sector banks moved closer to their target under SACP as compared to the last year. The private sector banks continued to overshoot their target during 2008-09, though the growth rate of disbursements witnessed a deceleration (Table IV.8).

4.25 Public sector banks were advised to earmark 5 per cent of their ANBC to women. At the end of March 2009, the aggregate credit to women by public sector banks stood at 6.3 per cent of their net bank credit with 25 banks reaching the target. Eight public sector banks have opened 23 specialised women branches.

Table IV.8: Targets and Disbursements under Special Agricultural Credit Plans

(Amount in Rs. crore)

Bank Group	2007-08		2008-09 P	
	Target	Disbursement	Target	Disbursement
1	2	3	4	5
Public Sector Banks	1,52,133	1,33,226 (87.6)	1,59,470	1,65,198 (103.6)
Private Sector Banks	41,427	47,862 (115.3)	57,353	63,753 (111.2)

Note: Figures in parentheses indicate the achievement of target (per cent).

Credit to Industry

4.26 As at end-March 2009, growth rate of credit to industry (small, medium and large) decelerated for the second consecutive year to 21.6 per cent from 24.3 per cent as at end-March 2008 and 27.0 per cent as at end-March 2007. In line with last year, the industrial credit growth rate was higher than the overall credit growth rate. Therefore, the share of outstanding credit to industry in non-food gross bank credit increased to 40.5 per cent at end-March 2009 from 39.4 per cent at end-March 2008. 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

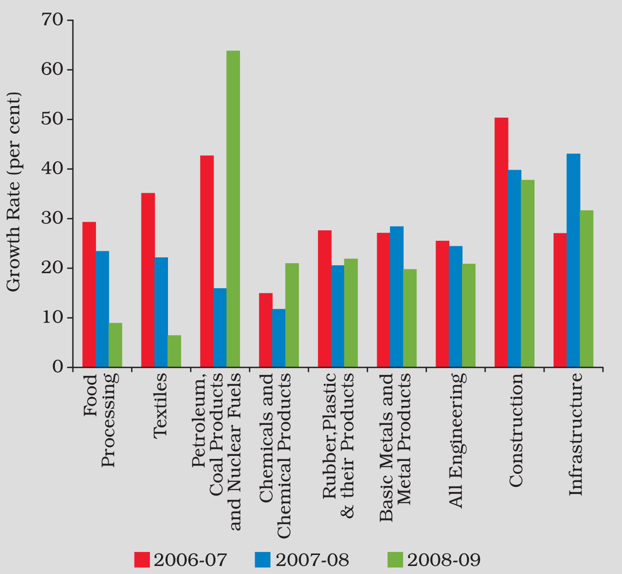
[7] The Reserve Bank had advised public sector banks to prepare Special Agricultural Credit Plans on an annual basis since 1994-95, with a view to achieving distinct and marked improvement in the flow of credit to agriculture. Under SACP, the banks are required to fix self-set targets for achievement 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.

rates, credit to petroleum, coal products and nuclear fuels registered the sharpest rise in growth rate (63.8 per cent), followed by construction (37.8 per cent) and infrastructure (31.6 per cent) (Chart IV.3 and Appendix Table IV.9). It is noteworthy that notwithstanding the slowdown, credit to select sectors especially petroleum and coal products registered a sharp rise.

Credit to Micro and Small Enterprises (MSE) Sector

4.27 The total credit provided by public sector banks to MSE sector as on the last reporting Friday of March 2009 was Rs.1,91,307 crore which formed 11.3 per cent of ANBC/CEOBSE and 26.5 per cent of the total priority sector advances of these banks. Advances to manufacturing enterprises and service enterprises by public sector banks amounted to Rs.1,31,177 crore and Rs.54,449 crore respectively, constituting 68.6 per cent and 28.5 per cent respectively of the total advances to MSE sector. The total credit provided by private sector banks to MSE sector as on the last reporting Friday of March 2009 was Rs.47,916 crore, which formed 11.8 per cent of ANBC/ CEOBSE and 25.2 per cent of the total priority sector advances of these banks. Advances to manufacturing enterprises and service enterprises by private sector banks amounted to Rs.17,625 crore and Rs.26,363 crore, respectively, constituting 36.8 per cent and 55.0 per cent respectively of the total advances to MSE sector. The total credit to MSE sector by SCBs as on the last reporting Friday of March 2009 was Rs. 2,57,361 crore which formed 11.4 per cent of ANBC/CEOBSE and 26.7 per cent of the total priority sector advances.

Chart IV.3: Industry-wise Deployment of Gross Bank Credit



4.28 The total credit provided by foreign banks to MSE sector as on the last reporting Friday of March 2009 was Rs.18,138 crore, which formed 11.2 per cent of ANBC/CEOBSE, and 32.7 per cent of total priority sector advances of these banks.

Credit to Khadi and Village Industries Commission

4.29 A consortium of select public sector banks was formed with the State Bank of India as the leader 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 the end of August 31, 2009, an amount of Rs.300 crore was outstanding out of Rs.738 crore disbursed by the consortium of banks under the scheme.

Retail Credit

4.30 The retail credit growth rate, which was higher than 40.0 per cent in 2004-05 and 2005-06 has witnessed a deceleration since then. Continuing this trend, the growth rate in retail credit by banks decelerated further to 4.0 per cent as at end March 2009 from 17.1 per cent last year and 29.9 per cent as at end March 2007. It also remained lower than the growth in loans and advances of SCBs (21.2 per cent). As a result, the share of retail credit in total loans and advances declined to 21.3 per cent at end-March 2009 from 24.5 per cent at end-March 2008. Deceleration in the growth of retail portfolio of banks was mainly on account slow

Table IV.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage variation	
	2008	2009	2007-08	2008-09
1	2	3	4	5
1. Housing Loans	2,52,932	2,63,235	12.7	4.1
2. Consumer Durables	4,802	5,431	-34.2	13.1
3. Credit Card Receivables	27,437	29,941	49.8	9.1
4. Auto Loans	87,998	83,915	6.6	-4.6
5. Other Personal Loans	1,97,607	2,11,294	27.5	6.9
Total Retail Loans (1 to 5)	**5,70,776** (24.5)	**5,93,815** (21.3)	**17.1**	**4.0**
Total Loans and Advances of SCBs	**23,32,032**	**27,93,572**	**23.2**	**19.8**

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

down in credit for housing loans, auto loans, credit card receivables and other personal loans, though loans to consumer durables witnessed a turnaround (Table IV.9).

Lending to Sensitive Sectors

4.31 On a y-o-y basis SCBs' lending to sensitive sectors (capital market, real estate and commodities) showed a marginal increase as at end March 2009. However, the SCBs exposure to capital market reduced substantially during 2008-09 mainly reflecting the subdued conditions in the capital market and perception of high risk in the market. While credit to commodities declined, that to real estate market continued to increase notwithstanding the subdued real estate market (Table IV.10). This partly reflected the normalisation of risk weight to claims sought by commercial real estate to 100 per cent as also the extension of the special regulatory treatment to housing loans and commercial real estate loans under the restructuring of advances scheme. Overall exposure of SCBs to sensitive sectors as percentage of aggregate bank loans declined to 19.3 per cent from 21.0 per cent last year (Appendix Table IV.11).

4.32 Among all the bank groups, the foreign banks had the largest exposure to sensitive sectors as at end-March 2009, mainly on account of higher lending to the real estate sector. The share of sensitive sector lending in total loans and advances in case of public sector banks and new private sector banks, however, declined (Table IV.11 and Appendix Table IV.11).

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

(Amount in Rs. crore)

Sector	2008		2009	
	Amount	Per cent to Total	Amount	Per cent to Total
1	2	3	4	5
1. Capital Market	61,638 (75.6)	11.9	55,282 (-10.3)	9.5
2. Real Estate Market	4,56,858 (22.5)	87.8	5,24,227 (14.8)	90.3
3. Commodities	1,643 (90.6)	0.3	897 (-45.4)	0.2
Total (1+2+3)	**5,20,140** (27.2)	**100.0**	**5,80,407** (11.6)	**100.0**

- : negligible.
Note: Figures in parentheses are percentage variations over the previous year.
Source: Balance sheets of respective banks.

Investments

4.33 Growth rate of investments by banks decelerated to 23.1 per cent as at end March 2009. However SLR securities as percentage of NDTL increased during the year due to banks preference to park their funds in low risk and

Table IV.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 Banks	
	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9
Capital Market#	1.7	1.5	5.6	3.1	2.3	1.8	3.3	3.6
Real Estate @	15.8	14.8	28.9	27.6	16.7	17.3	23.2	26.8
Commodities	0.0	0.0	0.0	0.0	0.7	0.7	0.1	0.0
Total Advances to Sensitive Sectors	**17.5**	**16.3**	**34.5**	**30.7**	**19.7**	**19.8**	**26.6**	**30.5**

* : 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.

low return instruments against the backdrop of prevailing uncertainties (Table IV.12).

4.34 Although the banking sector held excess SLR investment at Rs.1,69,846 crore (above the prescribed minimum requirement of 24.0 per cent) at end-March 2009, several banks were operating their statutory liquidity ratio portfolio very close to the prescribed minimum level. Excess SLR investments of SCBs increased to Rs.2,88,754 crore on September 25, 2009. As a result, SLR investments in relation to NDTL increased to 30.4 per cent. The LAF adjusted SLR holding was Rs.1,82,639 crore which was 28.0 per cent of NDTL (Chart IV.4).

Table IV.12: Growth in Investment and Deposits of SCBs

(per cent)

Year	SLR Investment	SLR Investment as per cent of NDTL (end-March)	Total Investment	Deposits	Loans and advances
1	2	3	4	5	6
2005-06	-2.9	31.3	-0.4	17.8	31.8
2006-07	10.3	27.9	9.7	24.6	30.6
2007-08	22.8	27.8	23.8	23.1	25.0
2008-09	20.0	28.1	23.1	22.4	21.2

Source: Section 42(2) returns submitted by SCBs for column no. 2 and 3; balance sheets of respective banks for column no. 4-6.

Non-SLR investments

4.35 Growth of banks' investments in non-SLR securities (*i.e.*, bonds/debentures/ shares and commercial papers) decelerated to 10.5 per cent during 2008-09 as compared with an increase of 14.3 per cent during the previous year (Table IV.13). The total flow of funds from SCBs to the commercial sector comprising credit and non-SLR investments, increased by 17.5 per cent (Rs.4,21,091 crore) in 2008-09 as compared with 22.6 per cent (Rs.4,44,807 crore) in the previous year.

Chart IV.4: Investment in SLR Securities (as percentage of NDTL) by SCBs

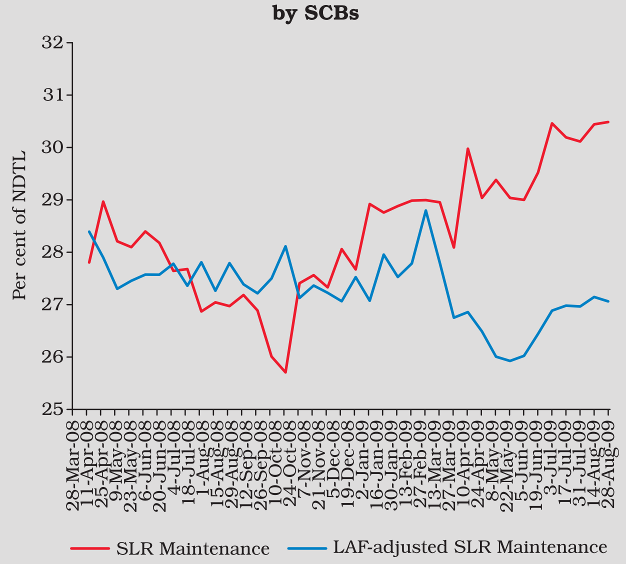


Table IV.13: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Instrument	As on March 28, 2008	Per cent to Total	As on March 27, 2009	Per cent to Total	As on Sept. 12, 2008	Per cent to Total	As on Sept. 11, 2009	Per cent to Total
1	2	3	4	5	6	7	8	9
1. Commercial Paper	13,270	11.5	20,001	13.9	12,538	10.8	12,875	5.1
2. Investment in shares	26,414	22.9	27,829	19.4	27,716	23.9	27,105	10.7
of which:								
a) Public sector undertakings	3,025	2.6	2,769	1.9	3,497	3.0	2,345	0.9
b) Private corporate sector	23,389	20.3	25,060	17.5	24,219	20.9	24,761	9.7
3. Investments in bonds/debentures	56,635	49.2	58,587	40.8	53,437	46.2	57,545	22.6
of which:								
a) Public sector undertakings	27,935	24.3	25,456	17.7	25,548	22.1	22,312	8.8
b) Private corporate sector	28,700	24.9	33,131	23.1	27,889	24.1	35,233	13.8
4. Units of MFs	18,824	16.3	37,035	25.8	22,042	19.0	1,56,963	61.7
Total Non-SLR Investment (1+2+3+4)	**1,15,143**	**100.0**	**1,43,452**	**100.0**	**1,15,733**	**100.0**	**2,54,488**	**100.0**

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

4.36 The composition of non-SLR investments of banks has undergone a change in recent years, notably since 2004-05. The share of banks' investment in shares, commercial papers and units of mutual funds has witnessed a growth, while the share of investment in bonds/ debentures has been declining, partly reflecting the changing risk appetite of the commercial banks in India. This trend also continued in 2008-09, except for banks' investment in shares, mainly due to the subdued conditions in the Indian stock markets (Table IV.14).

International Assets of Banks

4.37 The growth rate of international assets of SCBs in India decelerated to 3.0 per cent as at end-March 2009, from 9.7 per cent last year. In a reversal of trend, the 'Nostro balances' which had registered a sharp decline last year, revived this year. While holdings of debt securities continued to decline, the foreign currency loans to residents also declined in contrast to the sharp rise witnessed last year (Table IV.15).

4.38 The consolidated international claims of banks, based on immediate country risk, showed a higher growth of 32.6 per cent as at end March 2009 as compared to 13.5 per cent during last year. The share of short-term claims (with residual maturity less than one year) in the consolidated international claims declined as at end March 2009, with corresponding

Table IV.14: Composition of Non-SLR Investments

(Per cent)

Instrument	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	As on Sept. 12, 2008	As on Sept. 11, 2009
1	2	3	4	5	6	7	8	9	10
Commercial Paper	3.1	2.7	2.7	5.4	9.4	11.5	13.9	10.8	5.1
Bonds/Debentures	84.2	81.5	79.2	68.9	59.0	49.2	40.8	46.2	22.6
Shares	7.9	7.3	9.4	14.2	19.3	22.9	19.4	23.9	10.7
Units of Mutual Funds	4.9	8.5	8.7	11.5	12.3	16.3	25.8	19.0	61.7

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

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

Asset	End-March 2008	End-March 2009
1	2	3
International Assets (1+2+3)	**2,22,711**	**2,29,356**
1. Loans and Deposits	2,12,126 (95.2)	2,19,547 (95.7)
of which :		
a) Loans to Non-Residents*	8,565 (3.8)	8,341 (3.6)
b) Foreign Currency Loans to Residents**	108,440 (48.7)	99,973 (43.6)
c) Outstanding Export Bills drawn on Non-Residents by Residents	49,011 (22.0)	44,564 (19.4)
d) Nostro Balances@	45,752 (20.5)	66,496 (29.0)
2. Holdings of Debt Securities	334 (0.1)	76 (0.0)
3. Other Assets @@	10,250 (4.6)	9,733 (4.2)

* : 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 *etc.*

@ : 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.

Table IV.16: Classification of Consolidated International Claims of Banks - By Maturity and Sector

(As at end-March)

(Amount in Rs. crore)

Residual Maturity/Sector	2008	2009
1	2	3
Total Consolidated International Claims	**1,69,481**	**2,24,665**
a) Maturity-wise		
1) Short-term (residual maturity less than one year)	1,17,279 (69.2)	1,40,289 (62.4)
2) Long-term (residual maturity of one year and above)	50,232 (29.6)	79,828 (35.5)
3) Unallocated	1,970 (1.2)	4,548 (2.0)
b) Sector-wise		
1) Bank	62,394 (36.8)	1,02,223 (45.5)
2) Non-Bank Public	748 (0.4)	656 (0.3)
3) Non-Bank Private	1,06,339 (62.7)	1,21,786 (54.2)

Note: 1. Figures in brackets are percentages to total.
2. Unallocated residual maturity comprises maturity not applicable (*e.g.*, for equities) and maturity information not available from reporting bank branches.
3. Bank sector includes official monetary institutions (*e.g.*, IFC, ECB, *etc.*) and central banks
4. Prior to the quarter ended March 2005, 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 Government and its departments. From March 2005 quarter, 'Non-bank public' sector comprises only State/ Central Government and its departments and, accordingly, all other entities excluding banks are classified under 'Non-bank private' sector.

Source: Based on Consolidated Banking Statistics (CBS) Statements - Immediate country risk basis.

increase in long-term claims. Sector-wise disaggregation of consolidated international claims of banks indicated revival in the share of banks (45.5 per cent as compared with 36.8 per cent last year) and a corresponding decline in the share of non-bank private sector (Table IV.16).

4.39 The country-wise consolidated international claims of banks, based on immediate country risk, showed a mixed trend. As at end March 2009, while the shares of claims on the US, the UK, Hong Kong and United Arab Emirates increased, that of Germany declined. The claims on the US, the UK, Singapore and Hong Kong collectively accounted for over 50 per cent of total international claims (Table IV.17).

Quarterly Trends – Commercial Banking Survey[8]

4.40 A quarterly analysis of developments in scheduled commercial banks revealed several interesting features (Table IV.18, Appendix Table IV.12). On a y-o-y basis, mobilisation of deposits by banks was lower during the first two quarters of 2008-09, but the mobilisation picked up during the next two quarters and was higher than the earlier year. On the other hand, credit expansion exhibited a mixed pattern. On a y-o-y basis bank credit to commercial sector increased during the first two quarters of 2008-09

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

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

(Amount in Rs. crore)

Itmes	2008	2009
1	2	3
Total Consolidated International Claims	**1,69,481**	**2,24,665**
of which:		
a) United States of America	35,374	55,734
	(20.9)	(24.8)
b) United Kingdom	21,899	29,753
	(12.9)	(13.2)
c) Singapore	11,918	15,762
	(7.0)	(7.0)
d) Germany	10,607	9,869
	(6.3)	(4.4)
e) Hong Kong	9,792	19,031
	(5.8)	(8.5)
f) United Arab Emirates	7,990	11,309
	(4.7)	(5.0)

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

and reached a peak in October 2008. Sustained moderation in bank credit was witnessed in the subsequent quarters of 2008-09. This gave banks space to increase their investment in Government securities.

Developments during 2009-10

4.41 During 2009-10 so far (up to September 25, 2009), the moderation in the flow of credit from SCBs continued, reflecting the slowdown in economic activity. This moderation was particularly evident in the case of private and foreign banks.

Credit-Deposit Ratio

4.42 The incremental credit-deposit (C-D) ratio and investment-deposit (I-D) ratio of SCBs mirrored the banks' behaviour in respect of

Table IV.18: Operations of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 27, 2009	Variation									
		2007-08				2008-09				2009-10	
		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)	37,66,842	58,993	2,08,191	67,544	2,60,803	53,155	1,83,287	1,11,471	2,78,925	1,30,600	1,54,127
a) Demand Deposits	5,23,085	-41,898	57,771	-7,894	86,600	-77,630	52,219	-60,449	84,635	-32,922	61,410
b) Time Deposits of Residents	32,43,757	1,00,890	1,50,420	75,439	1,74,204	1,30,785	1,31,068	1,71,920	1,94,290	1,63,522	92,717
2. Call/Term Funding from Financial Institutions	1,13,936	-2,984	5,756	7,441	10,455	-1,116	7,015	-685	2,217	-15,786	-3,561
Sources											
1. Credit to the Government	11,55,786	50,067	68,965	27,436	36,136	33,245	-19,641	99,566	83,955	1,26,014	75,338
2. Credit to the Commercial Sector (a to d)	29,95,361	-13,527	1,34,775	94,969	2,42,980	40,471	1,30,938	1,25,746	1,49,109	62,935	60,661
a. Bank Credit	27,75,549	-36,348	1,42,638	87,012	2,37,422	31,325	1,57,787	92,708	1,31,815	-7,563	1,05,169
i. Food Credit	46,211	-2,564	-6,948	3,259	4,131	5,748	-4,971	6,934	-5,899	14,450	-18,244
ii. Non-food Credit	27,29,338	-33,784	1,49,586	83,752	2,33,291	25,577	1,62,758	85,774	1,37,714	-22,014	1,23,413
b. Net Credit to Primary Dealers	1,671	-282	780	1,370	-1,146	-797	-1,174	1,520	-1,400	-508	3,753
c. Investments in Other Approved Securities	10,624	-384	-1,010	-654	-357	-194	-567	-1,360	-309	-96	6,221
d. Other Investments (in non-SLR Securities)	2,07,517	23,487	-7,634	7,241	7,061	10,136	-25,109	32,877	19,003	71,967	-54,482
3. Net Foreign Currency Assets of commercial Banks (a-b-c)	-53,359	2,817	-16,584	974	-16,793	-19,924	-5,564	33,708	8,618	27,733	-26,244
a. Foreign Currency Assets	55,312	-8,312	-9,934	-781	-8,537	-8,383	2,934	24,151	5,421	18,428	-29,440
b. Non-resident Foreign Currency Repatriable Fixed Deposits	67,268	-4,202	-1,181	-3,490	-1,653	2,048	3,898	-2,323	6,710	755	416
c. Overseas Foreign Currency Borrowings	41,404	-6,928	7,830	1,734	9,909	9,494	4,600	-7,234	-9,907	-10,060	-3,611
4. Net Bank Reserves	2,46,748	6,468	76,009	-22,695	21,268	28,526	35,997	-1,16,193	27,252	-17,189	20,787
5. Capital Account	3,32,444	26,813	24,184	6,887	11,937	47,618	4,932	3,043	4,230	41,256	2,584

Note: 1. Data are provisional.
2. Data relate to last reporting Friday of each quarter.

investments and credit. During the high credit growth phase (2002-03 to 2006-07) the two series drifted away from each other as C-D ratio rose sharply and as a consequence the I-D ratio declined, reflecting banks preference for lending over investment. In fact, banks liquidated some investments in 2005-06 leading to a sharp decline in incremental I-D ratio. Subsequently, however, as the cyclical factors lead to cooling off of the credit growth rate, the trend in incremental C-D ratio and I-D ratio reversed. During the post-September 2008 period, the incremental C-D ratio declined sharply reflecting the slowdown in credit growth. The slowdown in credit growth is reflective of companies deferring their investments against the backdrop of widespread uncertainty. As a consequence, the incremental I-D ratio rose, notwithstanding the softening of interest rates (Chart IV.5).

4.43 The C-D ratio and I-D ratio, based on the outstanding amount, have remained more or less stable for the last three years. Thus the C-D ratio, which was 74.6 per cent as at end March 2008 declined marginally to 73.9 per cent as at end March 2009, while the I-D ratio increased marginally from 35.5 per cent to 35.7 per cent in the same period.

4.44 Among bank-groups, the C-D ratio (in terms of outstanding amount) of new private sector banks was the highest at end-March 2009, followed by foreign banks and public sector banks (Chart IV.6). Old private sector banks continued to have the lowest C-D ratio.

4.45 The C-D ratio of public sector banks, barring IDBI Bank Ltd., remained range bound, in line with the pattern witnessed last year. This range was between 64.9 per cent (United Bank of India) and 77.8 per cent (State Bank of Travancore and State Bank of Mysore). The C-D ratio of IDBI Bank Ltd., however, was much higher at 92.0 per cent. In the case of old private sector banks, the C-D ratio ranged between 51.2 per cent (Bank of Rajasthan) and 71.3 per cent (Lakshmi Vilas Bank). The C-D ratio of new private sector banks ranged between 69.2 per cent (HDFC Bank) and 106.3 per cent (Kotak Mahindra Bank). In the case of top five foreign banks, the C-D ratio ranged between 55.2 per cent (Hongkong and Shanghai Banking Corporation) to 104.4 (ABN Amro Bank). Of the 30 foreign banks, the C-D ratio of as many as 9 banks was over 100 per cent. This suggests that the foreign banks have been much more aggressive in their lending, followed by the new private sector banks, while the public sector

Chart IV.5: Credit and Investment to Deposits Ratios of SCBs

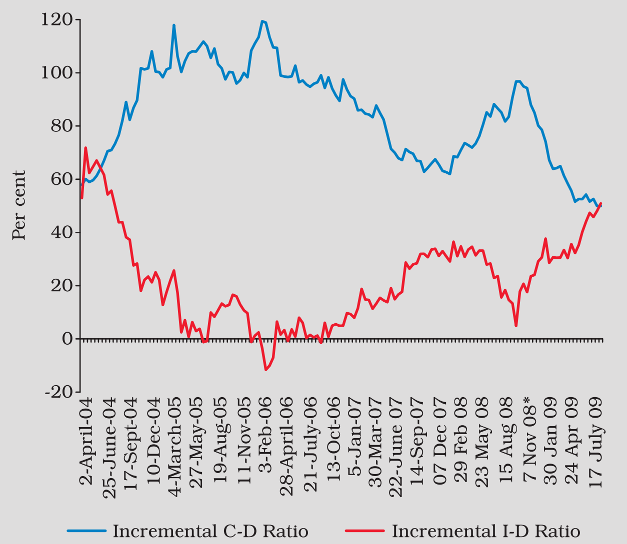
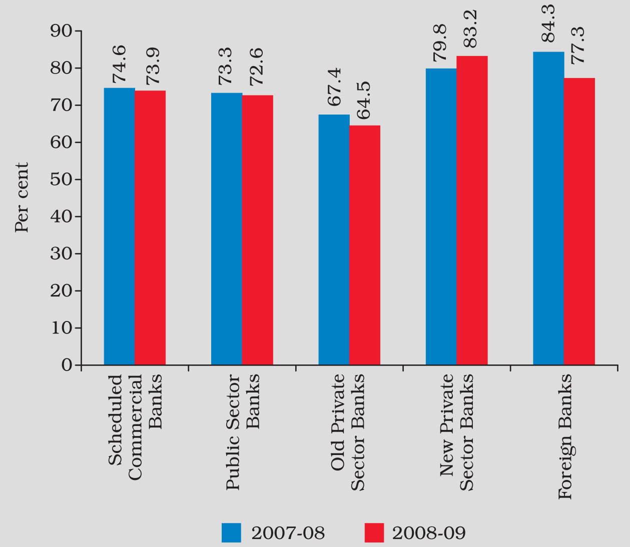


Chart IV.6: Credit-Deposit Ratio - Bank Group-wise
(As at end-March)



banks have been maintaining a mediocre path (Appendix Table IV.13).

Maturity Profile of Assets and Liabilities of Banks

4.46 The broad pattern of the maturity structure of private sector banks suggests a shift from short term maturity (up to one year maturity) to medium term maturity (1-3 years and 3-5 years). This is indicative of the hardening of term interest rates in the first half of 2008-09 and augurs well from the point of view of financing long term projects. This pattern is also evident in case of borrowings where preference has shifted from the short term maturity to long- term maturity bucket for private sector and foreign banks. In contrast the investment pattern suggests a shift from medium term (1-3 years) to up to 1 year maturity buckets for public sector, old private sector and foreign banks, suggesting banks' perception that the interest rates may harden in the near future. As at end-March 2009, the foreign banks had majority share of their deposits, borrowings, loans and advances as well as investments, in short term maturity buckets. In contrast however, the public sector banks had short term deposits, borrowings and loans and advances but long term investments (Table IV.19).

3. Off-Balance Sheet Operations

4.47 The off-balance sheet operations of the SCBs, which include forward exchange contracts, guarantees, acceptances, endorsements *etc.*, had increased manifold in the recent years. The year 2008-09 however, marked an exception to this trend with the SCBs reducing their OBS exposures by 26.4 per cent as compared to last year (Chart IV.7). This partly reflected the strengthening of prudential regulations effected by the Reserve Bank on OBS exposures.

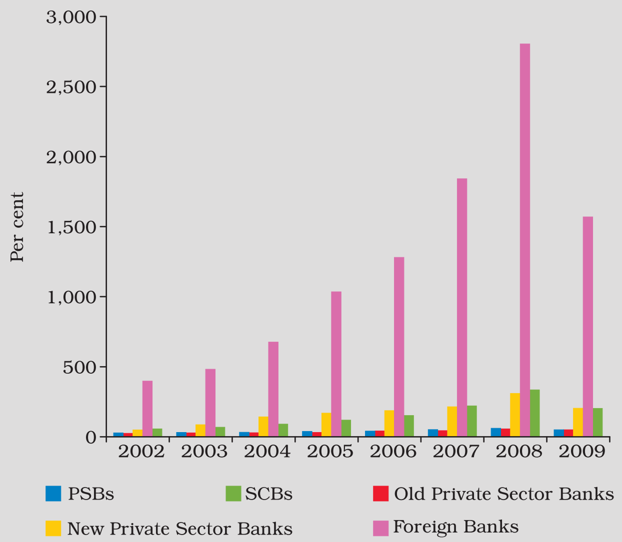
4.48 The decline in OBS was especially evident in the case of foreign banks, whose contingent liabilities continue to be highest both in absolute terms as well as in terms of

Table IV.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	
	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	44.1	45.7	50.9	48.3	57.1	53.1	64.7	63.8
b) Over 1 year and up to 3 years	26.5	27.3	35.5	38.4	34.3	35.6	33.3	23.1
c) Over 3 years and up to 5 years	10.3	8.4	7.7	8.4	2.5	3.7	0.4	9.6
d) Over 5 years	19.1	18.7	6.0	4.9	6.0	7.6	1.6	3.5
II. Borrowings								
a) Up to 1 year	69.6	70.8	79.1	76.7	49.2	44.3	90.9	84.8
b) Over 1 year and up to 3 years	16.5	23.9	5.4	7.8	25.4	30.8	8.4	13.9
c) Over 3 years and up to 5 years	6.0	3.6	3.0	5.7	21.9	19.3	0.3	1.3
d) Over 5 years	7.9	1.7	12.5	9.8	3.5	5.5	0.3	0.0
III. Loans and Advances								
a) Up to 1 year	38.0	39.1	40.4	40.8	33.6	32.4	49.6	55.8
b) Over 1 year and up to 3 years	33.3	33.5	36.1	35.5	34.2	35.5	34.4	24.1
c) Over 3 years and up to 5 years	11.2	9.9	11.5	12.3	12.2	14.0	6.6	10.1
d) Over 5 years	17.6	17.5	12.0	11.4	19.9	18.1	9.4	10.0
IV. Investments								
a) Up to 1 year	19.0	22.8	21.3	37.2	55.8	46.3	62.2	69.0
b) Over 1 year and up to 3 years	19.0	14.9	16.5	7.1	21.1	25.0	25.9	18.8
c) Over 3 years and up to 5 years	13.8	15.5	12.2	11.1	5.4	5.5	4.1	6.0
d) Over 5 years	48.2	46.8	50.0	44.7	17.6	23.2	7.8	6.2

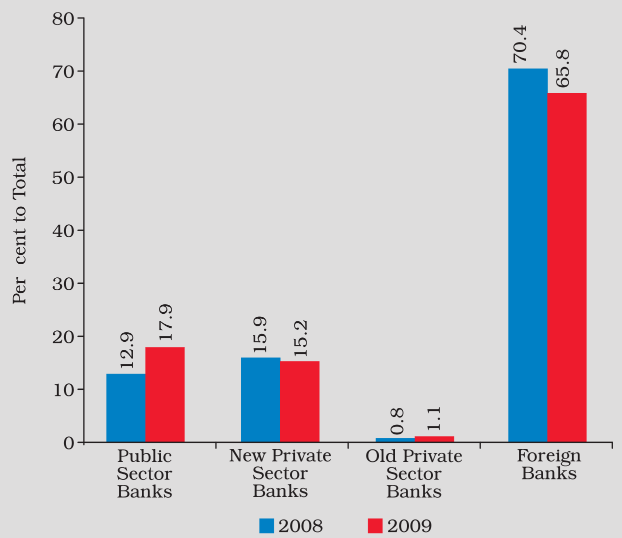
Chart IV.7: Off-balance Sheet Exposures to Total Assets (As at end-March)



percentage to total liabilities. Apart from the foreign banks, the State Bank Group and the new private sector banks also witnessed a decline in their OBS (Appendix Table IV.14).

4.49 The foreign banks continued to have largest share of off-balance sheet exposures of the SCBs (65.8 per cent), followed by public sector banks (share of 17.9 per cent) and new private sector banks (15.2 per cent) (Chart IV.8).

Chart IV.8: Bank Group-wise Share in Off-Balance Sheet Exposure



4. Financial Performance of Scheduled Commercial Banks

4.50 The balance sheets of SCBs in India remained robust against the backdrop of global financial crisis and its effects on India economy through various transmission channels. However, the Indian banking sector was not completely insulated from the effects of the slowdown of the Indian economy as evident from the financial performance of SCBs. The growth rates of income as well as the expenditure of SCBs decelerated, leading to deceleration in growth of net profits. This deceleration in growth of profit was due to the rising cost of deposits and borrowing but declining return on investments. The efficiency parameters like RoA and RoE, however, increased during the year. In a nutshell, as highlighted by the Report on Financial Sector Assessment (2009), 'The Indian economy has withstood the shocks of the global meltdown well and none of the key financial parameters point to any discernable vulnerability'.

Interest Rate Scenario

4.51 Deposit and lending rates of SCBs across various bank groups showed a generally upward movement during the first half of the year 2008-09. Taking a cue from the Reserve Bank monetary policy announcements, the SCBs reduced their deposit and lending rates in the second half of 2008-09. In the first half of 2009-10, (upto September 11, 2009), the deposit and lending rates of SCBs have declined further (Table IV.20 and Chart IV.9).

Cost of Deposits and Return on Advances

4.52 Notwithstanding the softening of the deposit rates, especially in the second half of 2008-09, the cost of deposits, cost of borrowings and cost of funds of SCBs increased as compared with that during the previous year. At the same time the return on investment decreased. This was mainly on account of several structural rigidities in the interest rates

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

(Per cent)

Interest Rates	March 2007	March 2008	October 2008	March 2009	June 2009	Sept. 2009**
1	2	3	4	5	6	7
Term Deposit Rates						
Public Sector Banks						
a) Up to 1 year	2.75-8.75	2.75-8.50	2.75-10.25	2.75-8.25	1.00-7.00	1.00-6.75
b) 1 year up to 3 years	7.25-9.50	8.25-9.25	9.50-10.75	8.00-9.25	6.50-8.00	6.50-7.50
c) Over 3 years	7.50-9.50	8.00-9.00	8.50-9.75	7.50-9.00	6.75-8.50	6.50-8.00
Private Sector Banks						
a) Up to 1 year	3.00-9.00	2.50-9.25	3.00-10.50	3.00-8.75	2.00-7.50	2.00-7.00
b) 1 year up to 3 years	6.75-9.75	7.25-9.25	9.00-11.00	7.50-10.25	6.00-8.75	5.25-8.00
c) Over 3 years	7.75-9.60	7.25-9.75	8.25-11.00	7.50-9.75	6.00-9.00	5.75-8.25
Foreign Banks						
a) Up to 1 year	3.00-9.50	2.25-9.25	3.50-10.75	2.50-8.50	1.80-8.00	1.25-8.00
b) 1 year up to 3 years	3.50-9.50	3.50-9.75	3.50-11.25	2.50-9.50	2.25-8.50	2.25-8.50
c) Over 3 years	4.05-9.50	3.60-9.50	3.60-11.00	2.50-10.00	2.25-9.50	2.25-8.50
BPLR						
Public Sector Banks	12.25-12.75	12.25-13.50	13.75-14.75	11.50-14.00	11.00-13.50	11.00-13.50
Private Sector Banks	12.00-16.50	13.00-16.50	13.75-17.75	12.75-16.75	12.50-16.75	12.50-16.70
Foreign Banks	10.00-15.50	10.00-15.50	10.00-17.00	10.00-17.00	10.50-16.00	10.50-16.00
Actual Lending Rates*						
Public Sector Banks	4.00-17.00	4.00-17.75	–	3.50-18.00	3.50-17.50	–
Private Sector Banks	3.15-25.50	4.00-24.00	–	4.75-26.00	4.10-26.00	–
Foreign Banks	5.00-26.50	5.00-28.00	–	5.00-25.50	2.76-25.50	–

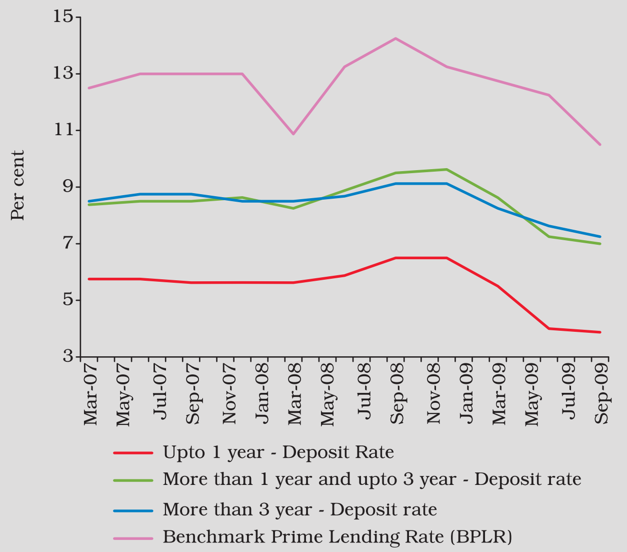
– : Not Available.

* : 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.

** : As on September 11, 2009

Source: Special Fortnightly (VI-B, VI-AB) / Quarterly (VI-AC) Returns received from banks.

Chart IV.9: Spread between Deposit and Lending Rates of Public Sector Banks



as spelt out in the Annual Monetary Policy Document, 2009-10. These trends in cost and return affected the spread of banks adversely. This trend was evident in case of almost all the bank groups (Table IV.21).

Income

4.53 Growth of income of SCBs during 2008-09 decelerated to 25.7 per cent from 34.3 per cent in the previous year, but was higher than the growth rate of 24.4 per cent in 2006-07. The income to assets ratio improved marginally to 8.8 per cent from 8.5 per cent last year. Reflecting the lower lending rates, growth of interest income of SCBs as at end March 2009 decelerated to 26.0 per cent as compared with 33.2 per cent in the previous year (Table IV.22).

Table IV.21: 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	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11
1. Cost of Deposits	5.4	5.6	5.7	6.2	5.9	6.4	3.8	4.3	5.4	5.7
2. Cost of Borrowings	3.5	4.0	4.6	5.0	3.1	3.7	4.5	3.9	3.6	3.9
3. Cost of Funds	5.3	5.5	5.7	6.1	5.5	6.0	3.9	4.2	5.3	5.5
4. Return on Advances	8.6	9.1	9.6	11.0	10.0	10.8	9.8	12.4	8.9	9.6
5. Return on Investments	6.6	6.2	6.3	5.7	6.4	6.9	7.1	6.7	6.6	6.4
6. Return on Funds	8.0	8.2	8.5	9.1	8.7	9.5	8.7	9.9	8.2	8.5
7. Spread (6-3)	2.7	2.7	2.8	3.0	3.2	3.5	4.8	5.7	2.9	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 = (Interest Earned on Advances + Interest Earned on Investments) / (Advances + Investments)

4.54 The share of non-interest income in total income was gradually increasing during the period 2002-2004 but declined in the subsequent period *i.e.* 2005-07. For the last two years however this share is again witnessing a rise, with a corresponding decline in share of interest income (Chart IV.10).

4.55 The non-interest income witnessed acceleration at a higher pace as compared to the growth rate of both the interest income as well as total income during the period 2004-05 to 2007-08. In a reversal of this trend, the deceleration in growth of non-interest income during 2008-09 was much sharper than that of the other two series (Chart IV.11).

4.56 The growth rate of trading income decelerated to 40.2 per cent during 2008-09 but the growth rate of forex income accelerated to 44.1 per cent [Appendix Table IV.15].

4.57 Among bank-groups, income of foreign banks grew at the highest rate (29.2 per cent)

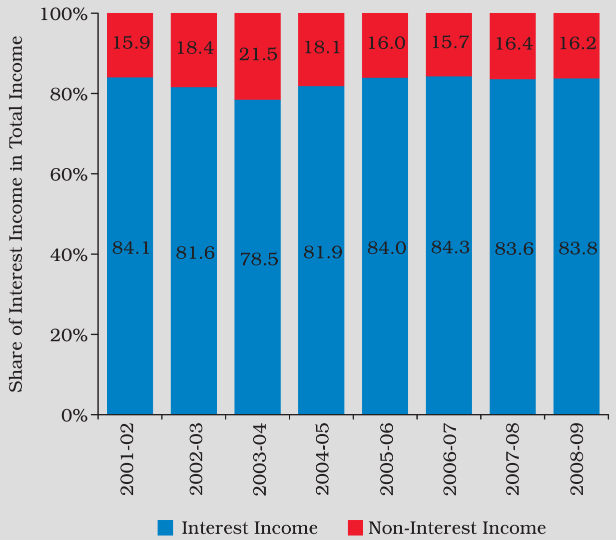
Table IV.22: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	2006-07		2007-08		2008-09	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7
1. Income	2,74,716	7.9	3,68,873	8.5	4,63,837	8.8
a) Interest Income	2,31,675	6.7	3,08,482	7.1	3,88,816	7.4
b) Other Income	43,041	1.2	60,391	1.4	75,021	1.4
2. Expenditure	2,43,514	7.0	3,26,147	7.5	4,11,066	7.8
a) Interest Expended	1,42,420	4.1	2,08,001	4.8	2,63,221	5.0
b) Operating Expenses	66,319	1.9	77,283	1.8	89,268	1.7
of which : Wage Bill	36,148	1.0	39,954	0.9	47,660	0.9
c) Provision and Contingencies	34,775	1.0	40,864	0.9	58,578	1.1
3. Operating Profit	65,977	1.9	83,590	1.9	1,11,349	2.1
4. Net Profit	31,203	0.9	42,726	1.0	52,771	1.0
5. Net Interest Income/Margin (1a-2a)	89,255	2.6	1,00,481	2.3	1,25,596	2.4

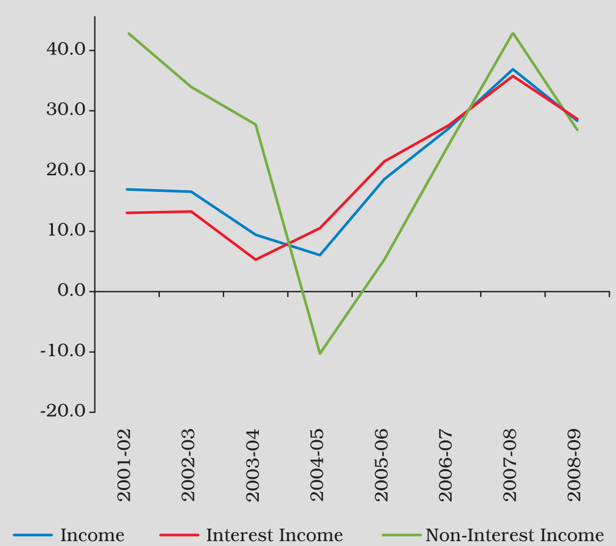
Note: The number of scheduled commercial banks was 82 in 2005-06, 79 in 2006-07 and 80 in 2007-08.

Chart IV.10: Shares of Interest and Non-Interest Income of SCBs



during 2008-09, followed closely by public sector banks (28.4 per cent). The interest income to total assets ratio of all the bank groups improved, while that of SBI group remained constant. The 'other income' component of SCBs witnessed a deceleration. This deceleration was witnessed across all bank groups, except SBI group [Appendix Table IV. 16, Appendix Table IV.17(A to G)].

Chart IV.11:Growth Rate of Interest and Non-Interest Income



Expenditure

4.58 Expenditure of SCBs decelerated to 26.0 per cent as at end March 2009 as compared with 33.9 per cent in the previous year. Among the major components of expenditure of SCBs, growth rate of interest expended decelerated sharply to 26.5 per cent as compared with 46.0 per cent growth in the previous year. Non-interest or operating expenses also decelerated while provisioning increased sharply (Table IV.23).

4.59 The ratio of interest expended as percentage of total assets, for SCBs has been rising since 2005-06. In line with this trend, the ratio increased in 2008-09 to 5.0 per cent from 4.8 per cent last year (Appendix Table IV.22). In a reversal of trend, the net interest income as percentage of total assets of SCBs, which was witnessing a declining trend during 2004-2008, increased to 2.4 per cent (Appendix Table IV.23). Similarly, provisions and contingencies as percentage of total assets ratio also increased in 2008-09 for the first time after declining during 2004-2008 (Appendix Table IV.24). The trend in case of operating expenses to total assets ratio however continued with the ratio falling to 1.7 per cent in 2008-09 from 1.8 per cent during the previous year (Appendix Table IV.25). As a result,

Table IV.23: Variation in Income-Expenditure of Scheduled Commercial Banks

(Amount in Rs. crore)

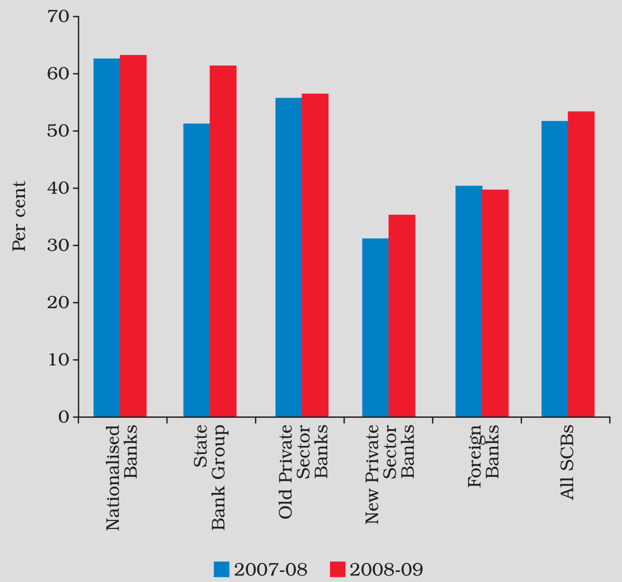
Item	2007-08		2008-09	
	Amount	Per cent	Amount	Per cent
1	2	3	4	5
1. Income (a+b)	**94,157**	**34.3**	**94,964**	**25.7**
a) Interest Income	76,807	33.2	80,334	26.0
b) Other Income	17,350	40.3	14,630	24.2
2. Expenses (a+b+c)	**82,634**	**33.9**	**84,918**	**26.0**
a) Interest Expenses	65,581	46.0	55,219	26.5
b) Other Expenses	10,963	16.5	11,985	15.5
c) Provisioning	6,089	17.5	17,714	43.3
3. Operating Profit	**17,612**	**26.7**	**27,759**	**33.2**
4. Net Profit	**11,523**	**36.9**	**10,046**	**23.5**

Source: Balance Sheets of respective banks.

banks' burden (excess of non-interest expenditure over non-interest income) declined significantly to 0.3 per cent in 2008-09 from 0.4 per cent of total assets in 2007-08 and 0.7 per cent in 2006-07. The efficiency ratio (operating expenses as percentage of net interest income plus non-interest income) declined to 44.5 per cent as at end-March 2009 from 48.0 per cent as at end-March 2008 and 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).

4.60 Reflecting the slowdown in the economy in general, the share of wages in operating expenses for most of the bank groups remained almost stagnant during the year (Chart IV.12). The marginal rise in the share of wages of SCBs was mainly contributed by the new private sector banks and nationalised banks. The wage bill rose by around 18 per cent in case of both these bank groups. In terms of percentage to total assets, the wage bill of SCBs remained stagnant at 0.9 per cent in line with last year. In fact, the wage bill to total assets ratio remained constant in case of all the bank groups, except new private sector banks.

Chart IV.12: Wage Bill to Operating Expenses



Net Interest Income

4.61 The net interest income *i.e.* the difference between interest income and interest expenses SCBs, showed a sharp increase in 2008-09 mainly reflecting the variations in interest rates prevalent at different points of time during the year. The net interest income to assets ratio of almost all the bank groups, except State Bank group, increased during the year (Appendix Table IV.23).

Operating Profit

4.62 The operating profit of SCBs increased sharply by 33.2 per cent as at end-March 2009, mainly due to the sharp deceleration in growth rate of interest expended component. Due to this sharp rise, the operating profits to total assets ratio during 2008-09 increased to 2.1 per cent from 1.9 per cent. The bank group-wise analysis reveals that the operating profits of public sector banks increased sharply but that of private sector banks and foreign banks witnessed a slowdown. The operating profits to assets ratio increased in case of all the bank groups, except 'other public sector banks' (Appendix Table IV.16).

Provisions and Contingencies

4.63 Provisions and contingencies of SCBs during 2008-09 grew at a much higher rate of 43.4 per cent as compared with 17.7 per cent in the previous year. Provisions for NPAs increased by 43.0 per cent, as compared to 28.4 per cent last year. Bank-group wise, provisions and contingencies as percentage of total assets declined for 'other public sector bank', but increased for all other bank groups.

Net Profit

4.64 The growth in net profits of SCBs decelerated to 23.5 per cent during 2008-09 from 36.9 per cent in the previous year. This was mainly on account of sharp increase in the provisions and contingencies (Table IV.24).

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

(Amount in Rs. crore)

Bank Group	Operating Profit				Net Profit			
	2007-08	Percentage Variation	2008-09	Percentage Variation	2007-08	Percentage Variation	2008-09	Percentage Variation
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**83,590**	**26.7**	**1,11,349**	**33.2**	**42,726**	**36.9**	**52,771**	**23.5**
Public Sector Banks	50,307	17.9	66,972	33.1	26,592	32.0	34,394	29.3
Nationalised Banks	31,563	15.0	42,184	33.6	16,856	30.2	21,639	28.4
State Bank Group	17,444	22.1	23,410	34.2	9,006	37.0	11,896	32.1
Other Public Sector Bank	1,299	43.3	1,378	6.0	729	15.7	859	17.7
Old Private Sector Banks	3,604	19.3	4,799	33.2	1,978	76.3	2,409	21.8
New Private Sector Banks	15,632	46.3	19,480	24.6	7,544	41.2	8,459	12.1
Foreign Banks	14,047	46.0	20,098	43.1	6,612	44.2	7,510	13.6

Source: Balance sheets of respective banks.

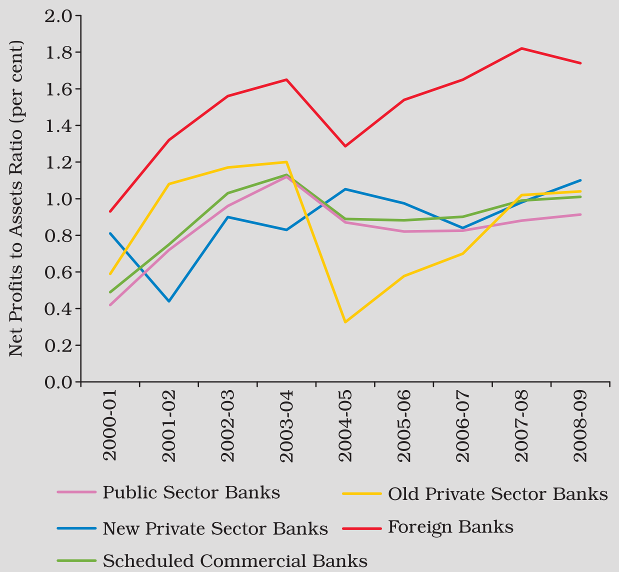
Return on Assets

4.65 Return on Assets (RoA) is an indicator of efficiency with which banks deploy their assets. During 2008-09, the net profits to assets ratio of SCBs increased moderately to 1.02 per cent from 0.99 per cent in 2007-08 (Chart IV.13). In fact, the RoA increased of all the bank groups, except the foreign banks.

Return on Equity

4.66 Return on Equity (RoE), is an indicator of efficiency with which capital is used by banking institutions. The RoE of SCBs increased to 13.2 per cent during 2008-09 from 12.5 per cent in 2007-08. Bank group wise analysis indicates that the RoE of all the bank groups, except the foreign banks, increased during 2008-09.

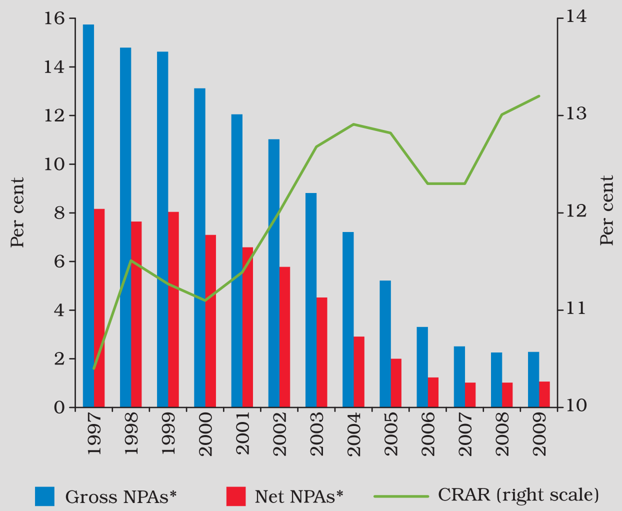
Chart IV.13: Net Profitability of Bank Groups in India



5. Soundness Indicators

4.67 A sound and efficient banking system is *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 13.2 per cent at end-March 2009 from 13.0 per cent at end-March 2008. The asset quality of banks in India has been improving over the past few years as reflected in the declining NPA to advances ratio. It is especially noteworthy that notwithstanding the pressures of a slowdown in the economy and an atmosphere of uncertainty, the net NPA to net advances ratio increased only marginally to 1.1 per cent as at end March 2009 from 1.0 per cent as at end March 2008. Significantly, gross NPA to gross advances ratio remained constant at 2.3 per cent. Thus, in terms of the two crucial soundness indicators, *viz.*, capital and asset quality, the Indian banking sector has exhibited resilience amidst testing times (Chart IV.14).

Chart IV.14: Movements in CRAR and NPAs of SCBs
(As at end-March)



* As percentage of advances.

Asset Quality

4.68 The trend of improvement in the asset quality of banks continued during the year. Indian banks recovered a higher amount of NPAs during 2008-09 than that during the previous year. Though the total amount recovered and written-off at Rs.38,828 in 2008-09 was higher than Rs.28,283 crore in 2007-08, it was lower than fresh addition of NPAs (Rs.52,382 crore) during the year. As a result, the gross NPAs of SCBs increased across all the bank groups (Table IV.25). In this context, it may be noted that in the present context of financial turmoil, some slippage in NPAs could be expected. Nevertheless, it may be noted that this slippage was moderate as compared to the problems faced by banks all over the world.

4.69 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 DRTs, followed by SARFAESI Act (Table IV.26).

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

(Amount in Rs. crore)

Item	Scheduled Commercial Banks	Public Sector Banks	Nationalised Banks	State Bank Group	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
1	2	3	4	5	6	7	8
Gross NPAs							
Closing balance for 2007-08	56,309	40,452	23,410	15,478	2,557	10,440	2,859
Opening balance for 2008-09	55,419	40,089	23,410	15,303	2,557	9,901	2,872
Addition during 2008-09	52,382	31,338	17,822	12,879	2,094	10,520	8,430
Recovered during 2008-09	37,314	26,271	15,863	9,829	1,579	6,510	2,954
Written off during 2008-09	1,514	0	0	0	0	0	1,514
Closing balance for 2008-09	68,973	45,156	25,368	18,352	3,072	13,911	6,833
Net NPAs							
Closing balance for 2007-08	24,730	17,836	8,245	8,509	740	4,907	1,247
Closing balance for 2008-09	31,424	21,033	9,339	10,745	1,165	6,253	2,973

Note: Closing balance for 2007-08 does not match with opening balance for 2008-09 due to the following reasons: a) For one bank, closing balance for 2007-08 does not match with opening balance for 2008-09. b) There were a few mergers of banks and a new foreign bank opened with a positive opening balance of gross NPAs.

Source: Balance sheets of respective banks.

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

(Amount in Rs. crore)

Recovery Channel	2007-08				2008-09			
	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	1,86,535	2,142	176	8.2	5,48,308	4,023	96	5.4
ii) DRTs	3,728	5,819	3,020	51.9	2,004	4,130	3,348	81.1
iii) SARFAESI Act	83,942#	7,263	4,429	61.0	61,760	12,067	3,982	33.0

: Number of notices issued.

4.70 The recovery rate (percentage of recovery to demand) of direct agricultural advances of public sector banks has been declining for last couple of years. In line with this trend, the recovery rate declined to 75.4 per cent for the year ended June 2008 from 79.7 per cent a year ago (Table IV.27).

4.71 The Reserve Bank has so far issued Certificate of Registration (CoR) to 12 Securitisation Companies/Reconstruction Companies (SCs/RCs), of which 11 have commenced their operations. As at end-June 2009, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank was Rs.51,542 crore, showing an increase of 24.5 per cent during the year (July 2008 to June 2009). While security receipts subscribed to by banks/FIs amounted to Rs.9,570 crore, security receipts redeemed amounted to Rs.2,792 crore (Table IV.28).

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

(Amount in Rs. crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
2006	46,567	37,298	9,269	80.1
2007	73,802	58,840	14,958	79.7
2008	95,100	71,739	23,361	75.4

Movements in Provisions for Non-Performing Assets

4.72 Provisioning made during 2008-09 was higher than write-back of excess provisioning during the year. Yet, net NPAs increased during the year due to increase in gross NPAs. Provisions made during the year were higher than write-back of excess provisions for all the bank groups. The outstanding provisions to gross NPA ratio declined in case of all the bank groups except new private sector banks and foreign banks (Table IV.29).

4.73 The gross NPAs to gross advances ratio for SCBs remained constant at 2.3 per cent.

Table IV.28: Details of Financial Assets Securitised by SCs/RCs

(Amount in Rs. crore)

Item	End-June 2008	End-June 2009
1. Book Value of Assets Acquired	41,414	51,542
2. Security Receipts Issued	10,658	12,801
3. Security Receipts Subscribed by		
(a) Banks	8,319	9,570
(b) SCs/RCs	1,647	2,544
(c) FIIs	–	–
(d) Others (QIBs)	692	687
4. Amount of Security Receipts completely redeemed	1,299	2,792

– : nil/negligible.
Source: Quarterly Statement Submitted by SCs/RCs.

Table IV.29: Movements in Provisions for Non-performing Assets - Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks (80)	Public Sector Banks (27)*	Nationalised Banks (19)	State Bank Group (7)	Old Private Sector Banks (15)	New Private Sector Banks (7)	Foreign Banks (31)
1	2	3	4	5	6	7	8
Provisions for NPAs							
As at end-March 2008	29.307	21.091	13,910	6,729	1,719	5,109	1,387
Add : Provisions made during the year	23.129	11.415	6,409	4,807	706	7,907	3,099
Less : Write-off, write back of excess during the year	17.048	10.071	5,853	4,054	613	5,373	989
As at end-March 2009	35.388	22.435	14,465	7,482	1,811	7,642	3,498
Memo:							
Gross NPAs	68.972	45.155	25,368	18,352	3,072	13,911	6,833
Outstanding Provisions to Gross NPAs (per cent)							
End-March 2008	52.0	52.1	59.4	43.5	67.2	48.9	48.5
End-March 2009	51.3	49.7	57.0	40.8	59.0	54.9	51.2

* : Includes IDBI Bank Ltd.
Note: Figures in parentheses indicate the number of banks in that group at end-March 2009.
Source: Balance sheets of respective banks.

The gross NPA to gross advances ratio of public sector banks declined but that of private and foreign banks increased. The net NPA ratio (net NPAs as percentage of net advances) increased marginally in case of SCBs (Table IV.30 and Appendix Tables IV.27 and IV.28).

Table IV.30: 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	Amount	Per cent to Gross Advances	Per cent to total Assets	Amount	Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
All Scheduled Commercial Banks								
2008	25,07,885	56,309	2.3	1.3	24,76,936	24,730	1.0	0.6
2009	30,38,254*	68,973	2.3	1.3	30,00,906	31,424	1.1	0.6
Public Sector Banks								
2008	18,19,074	40,452	2.2	1.3	17,97,401	17,836	1.0	0.6
2009	22,83,473	45,156	2.0	1.2	22,60,156	21,033	0.9	0.6
Old Private Sector Banks								
2008	1,13,404	2,557	2.3	1.3	1,11,670	740	0.7	0.4
2009	1,30,352*	3,072	2.4	1.3	1,28,512	1,165	0.9	0.5
New Private Sector Banks								
2008	4,12,441	10,440	2.5	1.4	4,06,733	4,907	1.2	0.7
2009	4,54,713	13,911	3.1	1.8	4,46,824	6,253	1.4	0.8
Foreign Banks								
2008	1,62,966	2,859	1.8	0.8	1,61,133	1,247	0.8	0.3
2009	1,69,716	6,833	4.0	1.5	1,65,415	2, 973	1.8	0.7

*: For 2009, domestic data (unaudited) for Tamilnad Mercantile Bank Ltd. has been used.
Source: Off-site returns for Col. 2 and balance sheets of respective banks for other columns.

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

(Number of banks)

Bank Group	As at end-March				
	2005	2006	2007	2008	2009
1	2	3	4	5	6
Public Sector Banks	**28**	**28**	**28**	**28**	**27**
Up to 2 per cent	19	23	27	28	27
Above 2 and up to 5 per cent	7	5	1	0	0
Above 5 and up to 10 per cent	2	0	0	0	0
Old Private Sector Banks	**20**	**20**	**17**	**15**	**15**
Up to 2 per cent	4	11	15	15	14
Above 2 and up to 5 per cent	12	7	1	0	1
Above 5 and up to 10 per cent	4	2	1	0	0
New Private Sector Banks	**9**	**8**	**8**	**8**	**7**
Up to 2 per cent	5	6	7	7	4
Above 2 and up to 5 percent	3	2	1	1	3
Above 5 and up to 10 per cent	1	0	0	0	0
Foreign Banks	**31**	**29**	**29**	**28**	**31**
Up to 2 per cent	23	25	27	25	24
Above 2 and up to 5 per cent	2	0	1	2	6
Above 5 and up to 10 per cent	2	0	0	1	1
Above 10 per cent	4	4	1	0	0

Source: Balance sheets of respective banks.

4.74 The net NPAs to net advances ratio of each of the public sector banks as at end-March 2009 was less than 2 per cent. The distribution of this ratio in case of other bank groups was also skewed, with only 10 banks in the 'above 2 per cent and below 5 per cent' category and only 1 bank in the 'above 5 per cent and below 10 per cent category' (Table IV.31). In sharp contrast to the distribution of the ratio as at end-March 2005, no bank had the net NPA to net advances ratio more than 10 per cent. This suggests overall improvement in the financial health of Indian banks in recent years (Appendix Table IV.27 and IV.28).

4.75 It is noteworthy that while the share of NPAs in 'doubtful' and 'loss' category remained more or less static, the share of 'sub-standard' category witnessed some variations. As per the asset classification norms, a sub-standard asset is one which has remained NPA for a period of upto 12 months. Thus, the above-mentioned increase in the share of sub-standard category is indicative of deterioration of the assets in last one year (Table IV.32).

Table IV.32: Classification of Loan Assets - Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total 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											
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
2009	29,61,524	97.7	37,030	1.2	26,998	0.9	6,035	0.2	70,063	2.3	30,31,587
Public Sector Banks											
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
2009	22,37,556	98.0	20,603	0.9	21,019	0.9	4,296	0.2	45,918	2.0	22,83,473
Old Private Sector Banks											
2008	1,10,847	97.7	816	0.7	1,346	1.2	395	0.3	2,557	2.3	1,13,404
2009	1,20,733	97.6	1,295	1.1	1,267	1.0	390	0.3	2,952	2.4	1,23,685
New Private Sector Banks											
2008	4,02,013	97.5	6,473	1.6	3,106	0.8	849	0.2	10,428	2.5	4,12,441
2009	4,40,813	96.9	9,258	2.0	3,708	0.8	934	0.2	13,900	3.1	4,54,713
Foreign Banks											
2008	1,59,882	98.1	1,962	1.2	764	0.5	358	0.2	3,084	1.9	1,62,966
2009	1,62,422	95.7	5,874	3.5	1,004	0.6	416	0.3	7,294	4.3	1,69,716

* : percent to gross advances

Note: 1. Constituent items may not add up to the total due to rounding off.
2. Data for 2009 excludes Tamilnad Merchantile Bank

Source: DSB Returns (BSA) submitted by respective banks.

Table IV.33: Sector-wise NPAs – Bank Group-wise*

(Amount in Rs. crore)

Sector	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs	
	2007- 08	2008-09	2007-08	2008- 09	2007- 08	2008- 09	2007-08	2008-09
1	2	3	4	5	6	7	8	9
A. Priority Sector	25,287 (0.8)	24,318 (0.7)	1,338 (0.7)	1,233 (0.5)	2,080 (0.3)	2,407 (0.3)	28,705 (0.7)	27,958 (0.5)
i) Agriculture	8,268 (0.3)	5,708 (0.2)	243 (0.1)	263 (0.1)	1,225 (0.2)	1,178 (0.2)	9,735 (0.2)	7,149 (0.1)
ii) Small Scale Industries	5,805 (0.2)	6,984 (0.2)	359 (0.2)	307 (0.1)	292 –	363 –	6,456 (0.2)	7,654 (0.2)
iii) Others	11,214 (0.4)	11,626 (0.3)	737 (0.4)	663 (0.3)	563 (0.1)	866 (0.1)	12,514 (0.3)	13,155 (0.3)
B. Public Sector	299 –	474 –	– –	– –	– –	75 –	299 –	549 –
C. Non-Priority Sector	14,163 (0.5)	19,251 (0.5)	1,219 (0.6)	1,839 (0.8)	8,339 (1.1)	11,334 (1.4)	23,721 (0.6)	32,423 (0.6)
Total (A+B+C)	**39,749** **(1.3)**	**44,042** **(1.2)**	**2,557** **(1.3)**	**3,072** **(1.3)**	**10,419** **(1.4)**	**13,815** **(1.7)**	**52,725** **(1.2)**	**60,930** **(1.2)**

* : Excluding foreign banks.
– : nil/negligible.
Note: Figures in brackets indicate percentage to the total assets of the respective bank group.
Source: Based on off-site returns submitted by banks.

Sector-wise NPAs

4.76 While the NPAs of priority sector registered a decline on year-on-year basis, that of non-priority sector registered a rise of 36.7 per cent. The decline in priority sector NPAs was contributed by the agricultural sector, partly reflecting the effect of the debt waiver scheme for farmers announced by the Central Government in 2007. The sharp rise in NPAs of non-priority sector was reflective of the slowdown in the economy and stressed financial conditions of corporates [Table IV.33, Appendix Table IV.29 (A) and 29 (B); and Appendix Table 30 (A) and 30 (B)]. It is noteworthy that the Reserve Bank has issued guidelines regarding restructuring of loans, as a one-time measure and for a limited period of time in view of the extraordinary external factors, for preserving the economic and productive value of assets which were otherwise viable.

Movements in Provisions for Depreciation on Investments

4.77 The provisions for depreciation on investments by SCBs increased by 24.6 per cent as at end-March 2009 as compared with a decline of 11.6 per cent at end-March 2008, reflecting higher provisions made during the year than the write-offs and write-back of excess provisions. The provisions for depreciation on investments declined only in case of the foreign banks reflecting higher write-offs during the year (Table IV.34).

4.78 The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Corporate financial statements, with the notes and narratives surrounding them, are intended to enable investors to predict cash flows, determine returns generated on capital invested, assess the business' liquidity, and evaluate management's performance. A number of different measurement methods are employed to different degrees and in varying combinations in financial statements. They include the Historical Cost, Amortised Cost and Fair Value. Although Fair Value Accounting (FVA) has been

Table IV.34: Movements in Provisions for Depreciation on Investment – Bank Group-wise

(Amount in Rs. crore)

Item	Scheduled Commercial Banks	Public Sector Banks	Nationalised Banks	State Bank Group	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
1	2	3	4	5	6	7	8
Provision for Depreciation on Investment							
As at end-March 2008	10,408	7,800	5,862	1,359	347	909	1,353
Add : Provision made during the year	7,467	6,067	3,540	2,235	211	1,123	66
Less :Write-off, write-back of excess during the year	4,917	3,916	2,103	1,262	140	326	534
As at end-March 2009	12,959	9,951	7,299	2,333	418	1,705	885

*: Includes IDBI Bank Ltd.
Source: Balance sheets of respective banks.

a part of Generally Acceptable Accounting Principles (GAAP) since the early 1990s, the use of fair value measurements has increased steadily over the past decade, primarily in response to investor demand for relevant and timely financial statements that are useful in making better informed decisions. The recent financial crisis has led to a serious debate on the pros and cons of Fair Value Accounting (FVA) posing a major challenge for the very concept of FVA (Box IV.2).

Capital Adequacy

4.79 One of the major indicators suggesting that the Indian banking system has withstood the pressure of global financial turmoil is the improvement in the CRAR. The overall CRAR of all SCBs improved to 13.2 per cent at end-March 2009 from 13.0 per cent a year ago, thus, remaining significantly above the stipulated minimum of 9.0 per cent. The rise in CRAR was mainly due to maintenance of high growth rate of Tier II capital of banks (27.2 per cent from 28.9 per cent last year), notwithstanding deceleration in growth rate of both the Tier I capital (17.0 per cent from 41.4 per cent last year) and that of risk weighted assets (18.4 per cent from 29.7 per cent last year) (Table IV.35).

4.80 The Tier I CRAR has remained 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. As evident in Chart IV.19, the movements in Tier I CRAR and Tier II CRAR of SCBs have complemented each other, enabling a smooth maintenance of CRAR well above the prescribed prudential norms. In continuation of this trend, the marginal fall in Tier I CRAR (to 8.9 per cent as at end-March 2009 from 9.1 per cent last year), was more than compensated by the rise in Tier II CRAR (from 3.9 per cent to 4.2 per cent), thus resulting in an overall increase in CRAR from 13.0 per cent to 13.2 per cent (Chart IV.15).

4.81 During 2008-09, the CRAR of major bank groups remained static or improved, except for a marginal deterioration observed in case of public sector banks. The decline in CRAR of public sector banks was mainly contributed by the SBI Group and associates. In fact the CRAR of public sector banks group alone was below the industry average, while that of old private sector banks, new private sector banks and foreign banks was above the industry average (Table IV.36).

Box IV.2: Fair Value Accounting - Issues and Perspectives

In accounting, 'fair value' is used as an estimate of the market value of an asset (or liability) for which a market price cannot be determined primarily because there is no established market for the asset. Under US Generally Acceptable Accounting Principles (GAAP) (FAS 157), fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, other than in liquidation. On the other side of the balance sheet, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties other than in liquidation. If available, a quoted market price in an active market is the best evidence of fair value and should be used as a basis for the measurement. If quoted market price is not available, then the best information available is required to be used in estimation of the fair value, although it introduces an element of subjectivity. Although Fair Value Accounting (FVA) has been a part of GAAP since the early 1990s, the use of fair value measurements has increased steadily over the past decade, primarily in response to investor demand for relevant and timely financial statements that helps in making better informed decisions.

To increase consistency and comparability in fair value measurements and related disclosures, FAS 157 establishes a fair value hierarchy for assets or liabilities that prioritises the inputs, or assumptions, used in valuation techniques. Thus at level one, liquid assets with quoted prices, like price of liquid security, form the inputs. At the second level, the valuation is based on direct or indirect *market observables*. Examples of observable market inputs include: quoted prices for similar assets, interest rates, yield curve, credit spreads, prepayment speeds, *etc*. At level three, the valuation is based on *non-observable assumption,* like entity's internal valuation model. This method is especially useful when the the cost and effort to obtain external information is very high.

There have been several attempts by the standard setters to enhance the fair value accounting methodologies in recent times. In May 2009, based on the discussions in various international bodies, especially the G 20, in the aftermath of the global financial turmoil, the International Accounting Standards Board (IASB) has published an exposure draft on fair value measurements.

The concept of fair value accounting assumes a greater importance during economic crisis, since the markets are thin for assets and trade is relatively infrequent. During such spells, there are few, if any, buyers for such products thereby complicating the marking process. The recent financial crisis has led to a serious debate on the pros and cons of fair-value accounting. A deeper analysis reveals that the turmoil in the financial markets cannot be attributed to FVA. Instead, much of the controversy results from lack of clarity as to what is new and different about FVA. Second, while there are legitimate concerns about marking to market (or pure FVA) in times of financial crisis, it is less clear whether these problems apply to FVA as stipulated by the accounting standards, be it IFRS or US GAAP. Third, historical cost accounting is unlikely to be the remedy since there are a number of concerns about this as well and these problems could be larger than those with FVA. Fourth, although it is difficult to fault the FVA standards *per se*, implementation issues are a potential concern, especially with respect to litigation.

The accounting rules for which assets and liabilities are held at fair value are complex. For commercial banks and other types of financial services firms, some asset classes are required to be carried at fair value, such as derivatives and marketable equity securities. For other types of assets, such as loan receivables and debt securities, it depends on whether the assets are held for trading (active buying and selling) or for long term/ till maturity. The use of the FVO by banks gives rise to some supervisory concerns. One important concern relates to extending fair value as a measurement basis for illiquid financial instruments for which there are no observable market prices. While allowing the bank use its own assumptions, the available market data, such as interest rates, default rates, prepayment speeds, *etc*. should not be ignored.

Notwithstanding several debates, there is a general consensus that the clock should not be turned back on Fair Value Accounting just to address the issue of temporary market illiquidity.

The Indian accounting standards are generally aligned to the International Financial Reporting Standards, though there are some differences. In India, we are yet to fully adopt the marking-to-market requirements as available in the international standards. The Indian standards are relatively conservative and do not permit recognition of unrealised gains in the profit and loss account or equity, though unrealised losses are required to be accounted. Banks are required to mark-to-market the investments in the Held for Trading (HFT) and Available for Sale (AFS) categories at periodical intervals, on a portfolio basis, and provide for the net losses and ignore the net gains. This has proved to be a stabilising factor, inasmuch as it has not induced an imbalance in the incentive structures and has also proved to be less pro-cyclical.

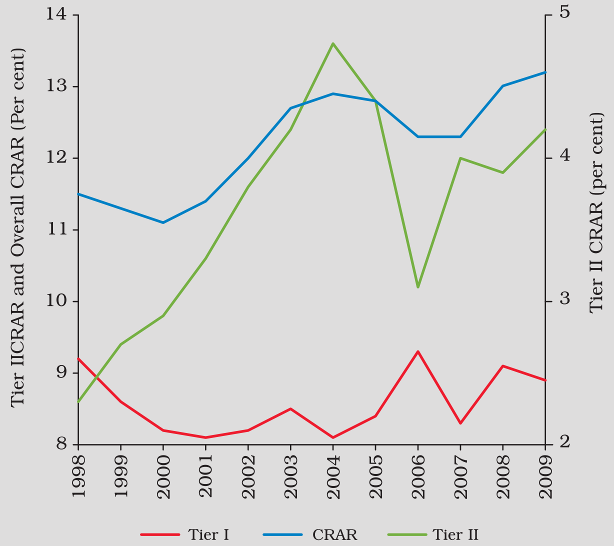
Table IV.35: Scheduled Commercial Banks – Component-wise CRAR
(As at end-March)

(Amount in Rs. crore)

Item / End-March	2007	2008	2009
1	2	3	4
A. Capital Funds (i+ii)	**2,96,191**	**4,06,835**	**4,88,653**
i) Tier I Capital	2,00,386	2,83,339	3,31,513
of which:			
Paid-up Capital	29,462	41,178	46,339
Reserves	1,64,077	2,40,248	2,55,793
Unallocated/ Remittable Surplus	20,387	23,846	53,336
Deductions for Tier-I Capital	13,662	21,933	19,576
ii) Tier-II Capital	95,794	1,23,496	1,57,141
of which:			
Discounted Subordinated Debt	63,834	73,297	86,396
B. Risk-weighted Assets	**24,12,236**	**31,28,093**	**37,05,166**
of which:			
Risk-weighted Loans and Advances	17,17,810	21,66,234	25,67,787
C. CRAR (A as per cent of B)	**12.3**	**13.0**	**13.2**
of which:			
Tier I	8.3	9.1	8.9
Tier II	4.0	3.9	4.2

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

Chart IV.15: CRAR of Scheduled Commercial Banks (As at end-March)



4.82 Among the five largest SCBs in India, all the banks except ICICI bank witnessed a marginal decline during 2008-09, while still maintaining CRAR much higher than the 9 per cent prudential norm. It is noteworthy that notwithstanding the marginal decline in the CRAR of each of these banks, their Tier I capital as well as Tier II capital has risen during the year. The decline in CRAR is thus a mere reflection of higher risk weights assigned to the assets of these bank, in face of higher uncertainties prevalent in the financial markets and is not a cause of regulatory concern (Chart IV.16).

4.83 As mentioned earlier, one of the significant indictors of the resilience of the

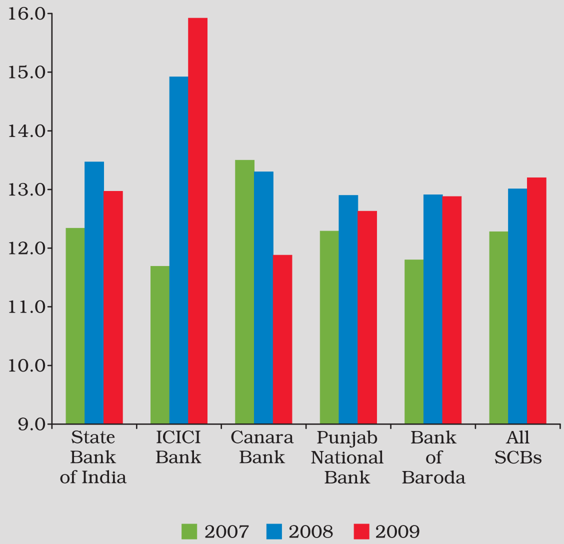
Table IV.36: Capital Adequacy Ratio – Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	2	3	4	5	6	7	8	9	10
Scheduled Commercial Banks	11.4	12.0	12.7	12.9	12.8	12.3	12.3	13.0	13.2
Public Sector Banks	11.2	11.8	12.6	13.2	12.9	12.2	12.4	12.5	12.3
Nationalised Banks	10.2	10.9	12.2	13.1	13.2	12.3	12.4	12.1	12.1
SBI Group	12.7	13.3	13.4	13.4	12.4	11.9	12.3	13.2	12.7
Old Private Sector Banks	11.9	12.5	12.8	13.7	12.5	11.7	12.1	14.1	14.3
New Private Sector Banks	11.5	12.3	11.3	10.2	12.1	12.6	12.0	14.4	15.1
Foreign Banks	12.6	12.9	15.2	15.0	14.0	13.0	12.4	13.1	15.1

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

Chart IV.16: CRAR of Five Largest Banks
(As at end-March)



Indian banking sector is the improvement in CRAR of all the SCBs. At the individual bank level, the CRAR of all SCBs was above the prescribed requirement of 9 per cent at end-March 2009. While the CRAR of as many as 78 banks was above 10 per cent, that of only one bank was in the range of 9 to 10 per cent (Table IV.37).

4.84 The SCBs in India have switched over to the simple approaches available in the Basel II framework. This is expected to help in aligning the banks' regulatory capital with their economic capital and thereby improving capital efficiency (Box IV.3).

6. Banks' Operations in the Capital Market

Resources raised by Banks from the Primary Capital Market

4.85 SCBs did not raise any resources from primary market during 2008-09 as against Rs.29,955 crore raised in the previous year. This could be explained mainly in terms of drying up of liquidity in the primary segment of the Indian capital market reflecting both lacklustre performance of the secondary market as well as postponement of investment demand by Indian corporate as a fallout of the international financial crisis. Comfortable liquidity with the banking system could be one important reason for the banks' desisting from raising resources from the primary capital market (Table IV.38).

4.86 Banks preferred to raise resources through debt issues in the private placement market, which increased by 34.6 per cent during 2008-09 (Table IV.39).

Table IV.37: Distribution of Scheduled Commercial Banks by CRAR

(Number of banks)

Bank Group	2007-08			2008-09		
	Below 9 per cent	Between 9-10 per cent	Above 10 per cent	Below 9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7
Nationalised Banks*	–	–	20	–	1	19
State Bank Group	–	–	8	–	–	7
Old Private Sector Banks	–	1	14	–	–	15
New Private Sector Banks	–	–	8	–	–	7
Foreign Banks	–	1	27	–	–	30
Total	**–**	**2**	**77**	**–**	**1**	**78**

– : Nil/Negligible.
* : Includes data for IDBI Bank Ltd.
Source: Based on off-site returns submitted by banks.

Box IV.3: Capital Adequacy under Basel-I and Basel-II: Indian Experience

Traditionally, banks held capital as a buffer against insolvency, and liquid assets – cash and securities – to guard against unexpected withdrawals by depositors or drawdowns by borrowers (Saidenberg and Strahan, 1999). Traditional approaches to bank regulation emphasise the positive features of capital adequacy requirements (Dewatripont and Tirole, 1994). On the other hand, it has been argued that capital requirements may increase risk taking behavior. If equity capital is more expensive to raise than deposits, then an increase in risk-based capital requirements tends to reduce banks' willingness to screen and lend (Thakor, 1996). It has also been found that raising capital requirements forces banks to supply fewer deposits, which reduces the liquidity-providing role of banks. Given these pros and cons, it is now argued that capital that needs to be maintained should be consistent with the risk profile and operating environment. The Basel II framework is a step in this direction as these norms aim at aligning minimum capital requirements to banks' underlying risk profiles.

The Basel I framework was confined to the minimum capital requirements for banks, and largely focussed on the credit risk. The Basel II framework, on the other hand expands this approach to include, *inter alia*, a largely new, risk-adequate calculation of capital requirements which (for the first time) explicitly includes operational risk in addition to market and credit risk. While Basel I required lenders to calculate a minimum level of capital based on a single risk weight for each of the limited number of asset classes, under Basel II, the capital requirements are more risk sensitive. Basel II capital adequacy rules are based on a 'menu' approach that allows differences in approaches in relationship in the nature of banks and the nature of markets in which they operate. Thus, Basel II prescriptions have ushered in a transition from capital adequacy to capital efficiency which implies that banks adopt a more dynamic use of capital, in which capital will flow quickly to its most efficient use. These elements of Basel II take the regulatory framework closer to the business models employed in several large banks.

All the SCBs in India have adopted the Standardised Approach (SA) for credit risk, Basic Indicator Approach (BIA) for operational risk and Standardised Duration approach for market risk for computing their capital requirements under the revised framework as at end-March 2009. Banks are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis. The Reserve Bank will take into account the relevant risk factors and the internal capital adequacy assessments of each bank to ensure that the capital held by a bank is commensurate with the bank's overall risk profile. This would include, among others, the effectiveness of the 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. Accordingly, the Reserve Bank will consider prescribing a higher level of minimum capital ratio for each bank under the Pillar 2 framework on the basis of their respective risk profiles and their risk management systems. Further, in terms of the Pillar 2 requirements of the New Capital Adequacy Framework, banks are expected to operate at a level well above the minimum requirement.

Furthermore, the minimum capital maintained by banks on implementation of the revised framework will be subjected to a prudential floor, which shall be higher of the following amounts: a) Minimum capital required to be maintained as per the Revised Framework; b) A specified per cent of the minimum capital required to be maintained as per the Basel I framework for credit and market risks. The specified per cent will progressively decline as indicated in Table 1.

Table 1: Prudential Floor

Financial Year Ending*	March 2009	March 2010	March 2011
Prudential floor(as % of minimum capital requirement computed as per current (Basel I) framework for credit and market risks)	100	90	80

*: The relevant periods shall be March 2009, March 2010 and March 2011 for banks implementing the revised framework with effect from March 31, 2009.

Data on bank-wise CRAR based on Basel I and Basel II are available and are reported in Appendix IV.31. Out of 80 banks, all banks except Bank Internasional Indonesia and Sonali Bank have reported CRAR under Basel II and 14 banks have not reported CRAR under Basel I. A frequency distribution based on data of 64 banks, which have reported CRAR under both Basel I and Basel II, suggests that 12 per cent to 15 per cent is the modal range of CRAR (Table 2).

A bank-group wise analysis reveals that for the State Bank of India and all its associates, the CRAR under Basel II was higher than that under Basel I for the year 2008-09. Same trend was also observed in case of majority of nationalised banks. On the other hand, majority of the foreign sector banks reported higher CRAR under Basel I than that under Basel II. The private sector banks, however reported a mixed trend (Appendix IV.31).

Table 2: Distribution of banks based on CRAR

CRAR (%)	No. of banks as on March 31, 2009					
	Basel-I			Basel-II		
	Indian	Foreign	Total	Indian	Foreign	Total
9-12	12	0	12	6	0	6
12-15 (Modal range)	**26**	**4**	**30**	**29**	**4**	**33**
15-18	2	2	4	5	4	9
18-21	2	2	4	2	0	2
21-24	1	0	1	1	1	2
24-27	0	0	0	0	3	3
27-30	0	2	2	0	0	0
30-33	0	2	2	0	0	0
33 & above	1	8	9	1	8	9
Total	**44**	**20**	**64**	**44**	**20**	**64**

References:

Dewatripont, M. and J. Tirole. 1994. *The Prudential Regulation of Banks*. Cambridge: MA MIT Press, Elizalde, A. and R. Repullo. 2006. "Economic and Regulatory Capital in Banking: What is the Difference?."*C.E.P.R. Discussion Papers*. 4770.

Saidenberg, M. and P. Strahan. 1999. "Are Banks Important for Financing Large Businesses?" *Current Issues in Economics and Finance, 5*(12).

Thakor, A. 1996. "Capital Requirements, Monetary Policy and Aggregate Bank Lending: Theory and Evidence." *Journal of Finance*, 51:279–324.

Table IV.38: Public Issues by the Banking Sector

(Amount in Rs. crore)

Year	Public Sector Banks		Private Sector Banks		Total		**Grand Total**
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8
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	7,82	–	284	–	1,066	–	1,066
2007-08	17,552	–	12,403	500	29,955	500	30,455
2008-09	–	–	–	–	–	–	–

– : Nil/Negligible.

Table IV.39: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	2007-08		2008-09	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	10	2,090	13	6,967
Public Sector Banks	58	24,109	52	28,304
Total	**68**	**26,199**	**65**	**35,271**

Source: Merchant Bankers and Financial Institutions.

Performance of Banking Stocks in the Secondary Market

4.87 The domestic stock markets in India which had witnessed buoyant conditions since 2003-04, registered considerable losses during 2008-09 as a fallout of the global financial crisis. The BSE Sensex registered a decline of 37.9 per cent during 2008-09. The BSE Bankex recorded a decline of 41.8 per cent during 2008-09 which was higher than that of BSE Sensex.

4.88 The volatility (as measured by the coefficient of variation) of BSE Bankex (23.8 per cent) was only marginally lower than that of BSE Sensex (24.2 per cent) during 2008-09 (Table IV.40).

4.89 In 2009-10 so far however, the BSE Bankex registered a sharper recovery as compared with BSE Sensex, even though its volatility was higher *vis-a-vis* that of BSE Sensex.

4.90 In line with the overall trend, all the bank stocks listed on BSE witnessed a downtrend during the year, except Union Bank of India. The downtrend in prices also reflected in the lower Price Earning (P/E) ratios of the bank stocks. It is noteworthy that, on an average, the decline in P/E ratios of private sector banks was sharper than the same in case of public sector banks. This was partly due to the fact that private sector banks, which had higher valuations during 2007-08, witnessed a sharper decline in stock

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

Indices	Returns*			Volatility@		
	2007-08	2008-09	2009-10#	2007-08	2008-09	2009-10#
1	2	3	4	5	6	7
BSE Bankex	18.0	-41.8	119.5	13.8	23.8	15.6
BSE Sensex	19.7	-37.9	76.4	12.0	24.2	12.5

* : Percentage variations on a point-to-point basis.
@ : Defined as coefficient of variation.
# : Up to end-September, 2009.
Source: Bloomberg.

Table IV.41: 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	12.3	7.7

* : 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 IV.42: Private Shareholding in Public Sector Banks*
(As at end-March)

Category	2008	2009
1	2	3
Up to 10 per cent	2	2
More than 10 and up to 20 per cent	2	2
More than 20 and up to 30 per cent	3	2
More than 30 and up to 40 per cent	3	4
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.

prices during 2008-09 as compared to the public sector banks (Appendix Table IV.32).

4.91 Bank stocks continued to constitute 7 per cent of the market capitalisation of the Indian equity market. More significantly, the share of banking stocks in total turnover of NSE nearly doubled during 2008-09 (Table IV.41).

Shareholding Pattern in Public Sector Banks

4.92 In line with the stated policy, the Government shareholding in public sector banks has remained above the 51 per cent mark. The private shareholding pattern of public sector banks, constituting shareholding of resident and non-resident financial institutions, resident and non-resident corporate and resident and non-resident individuals, remained same as last year, except for that of the UCO Bank. Following the Government initiative to restructure the capital, the Government shareholding in UCO bank has fallen to 63.6 per cent from 75.0 per cent last year (Table IV.42 and Appendix Table IV.33).

4.93 The shareholding of Foreign Financial Institutions (FFIs) in Indian banks, especially public sector banks, witnessed a mixed trend. The reduced shareholding by FFIs in some of the public sector banks is reflective of the subdued conditions in the stock market in general and banking sector stocks in particular, coupled with net outflow of portfolio investments during the year (Table IV.43).

Table IV.43: 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	
	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7
Nil	12	11	2	2	7	7
Up to 10 per cent	3	8	–	–	–	–
More than 10 and up to 20 per cent	13	8	1	1	2	2
More than 20 and up to 30 per cent	–	–	2	1	3	3
More than 30 and up to 40 per cent	–	–	1	2	1	3
More than 40 and up to 50 per cent	–	–	1	–	1	–
More than 50 and up to 60 per cent	–	–	–	–	1	–
More than 60 and up to 70 per cent	–	–	1	1	–	–
More than 70 and up to 80 per cent	–	–	–	–	–	–
Total	**28**	**27**	**8**	**7**	**15**	**15**

7. Technological Developments in Banks

4.94 Use of technology in expanding banking is one of the key focus areas of the Reserve Bank. The banks in India are using Information Technology (IT) not only to improve their own internal processes but also to increase facilities and services to their customers. Efficient use of technology has facilitated accurate and timely management of the increased transaction volume of banks that comes with a larger customer base. One of the visible outcomes of this is that banks are aiming to serve the hitherto unbanked population of the country at their doorstep by undertaking large scale financial inclusion by offering specially designed, simple, safe, yet technology based products.

4.95 During the year, the transmission of clearing data - both for cheque and Electronic Clearing services, collation of inputs from currency chests as part of the Integrated Currency Chest Operations and Management System (ICCOMS) was done using the secured web site. 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 (CPADS), which is more secure, robust and user friendly system.

4.96 To facilitate a smoother and faster bidding in the Primary Dated Securities Auctions held by Reserve Bank a new version of the Negotiated Dealing System Auction module, developed and hosted by Clearing Corporation of India was launched with effect from May 11, 2009. The new auction platform replaced the Auction platform which was available under the PDO NDS application hosted at the Reserve Bank.

4.97 The IDRBT, as 'certifying authority' for the banking sector in India, has issued over 1,20,000 Digital Certificates enabling banks to work in secured environment while operating RTGS, CFMS, Corporate e-mail, SFMS, CTS, Internet Banking Web Server, OLTAS and CCIL settlement applications *etc.* There are 133 Registration Authority (RA) covering 33 public sector banks, 31 private sector banks and 5 financial institutions, including 16 Registration Authority Offices created for State Bank of India. IDRBT is also acting as Registration Authority Office for banks and financial institutions that do not have an RA set up.

4.98 One of the major achievements during the year under review was the increase in coverage of the number of branches providing Core Banking Solution (CBS). The total number of branches of public sector banks which have implemented CBS increased from 35,464 as on March 31, 2008 to 44,304 as on March 31, 2009. The process of computerisation of the banking sector, which is regarded as the precursor to other technological initiatives, is almost on the completion stage. Public sector banks continued to spend large amounts on computerisation and development of communication networks. In fact the growth rate of amount spent by public sector banks on computerisation, which had shown some deceleration in 2007-08, accelerated during 2008-09. The cumulative amount spent from September 1999 to March 2009 aggregated Rs.18,168 crore, registering an increase of 21.0 per cent over the previous year (Appendix Table IV.34). In line with the trend witnessed last year, the proportion of branches providing core banking solution in total branches increased significantly during 2008-09 (Table IV.44).

4.99 The proportion of public sector bank branches which achieved full computerisation increased from 93.7 per cent as at end-March 2008 to 95.0 per cent as at end-March 2009. Continuous progress is being made by banks to achieve a higher target, as more number of banks have moved into the 'more than 90 per cent but less than 100 per cent' category (Appendix Table IV.35).

Table IV.44: Computerisation in Public Sector Banks
(As at end-March)

(Per cent of total bank branches)

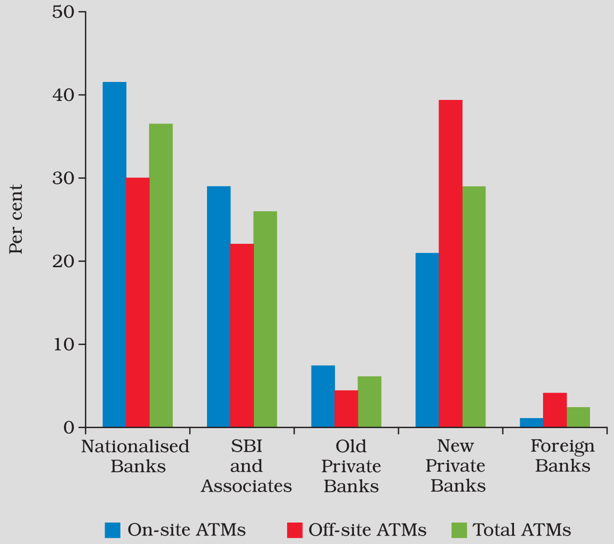
Category	2008	2009
1	2	3
Fully Computerised Branches (i+ii)	93.7	95.0
i) Branches Under Core Banking Solution	67.0	79.4
ii) Branches already Fully Computerised #	26.6	15.6
Partially Computerised Branches	6.3	5.0

: Other than branches under Core Banking Solution.

4.100 During 2008-09, the total number of ATMs installed by the banks grew by 25.4 per cent, with number of ATMs of SBI Group registering a sharp growth of 34.5 per cent. While, the ATMs installed by new private sector banks and foreign banks were more than 3 times of their respective branches, the ATM to branch ratio was much lower for other bank groups (Table IV.45, Appendix Table IV.36).

4.101 Of all the ATMs installed in the country at end-March 2009, new private sector banks had the largest share in off-site ATMs, while nationalised banks had the largest share in on-site ATMs (Chart IV.17).

Chart IV.17: ATMs - Bank Group-wise Share (As at end-March 2009)



4.102 In recent years, the use of electronic payments has witnessed manifold increase, partly reflecting increased adoption of technology. The growth of volume of transactions directed through electronic payment method, however, decelerated from 41.4 per cent in 2007-08 to 24.8 per cent in 2008-09 (Table IV.46). More strikingly, the value of transactions directed through electronic payment method declined sharply during 2008-09. The entire decline is due to 87.5

Table IV.45: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2009)

Bank Group	Number of Bank/Branches					Number of ATMs			Off-site ATMs as percent age of total ATMs	ATMs as percent-age of Branches
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11
i) Nationalised Banks	13,381	8,669	8,951	8,375	**39,376**	10,233	5,705	**15,938**	35.8	**40.2**
ii) State Bank Group	5,560	4,835	3,043	2,624	**16,062**	7,146	4,193	**11,339**	37.0	**29.0**
iii) Old Private SectorBanks	842	1,554	1,344	933	**4,673**	1,830	844	**2,674**	31.6	**56.9**
iv) New Private Sector Banks	271	1,084	1,371	1,478	**4,204**	5,166	7,480	**12,646**	59.2	**296.6**
v) Foreign Banks	4	4	52	233	**293**	270	784	**1,054**	74.4	**357.3**
Total (i to v)	**20,058**	**16,146**	**14,761**	**13,643**	**64,608**	**24,645**	**19,006**	**43,651**	**43.5**	**67.0**

Table IV.46: 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)	
	2006-07	2007-08	2008-09	2007-08	2008-09	2006-07	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11
1. ECS-Credit	69,019	78,365	88,394	13.5	12.8	83,273	7,82,222	97,487	839.3	-87.5
2. ECS-Debit	75,202	1,27,120	1,60,055	69.0	25.9	25,441	48,937	66,976	92.3	36.9
3. EFT/ NEFT	4,776	13,315	32,161	178.8	141.5	77,446	1,40,326	2,51,956	81.2	79.6
4. Credit Cards	1,69,536	2,28,203	2,59,561	34.6	13.7	41,361	57,984	65,356	40.2	12.7
5. Debit Cards	60,177	88,306	1,27,654	46.7	44.6	8,172	12,521	18,547	53.2	48.1
Total	**3,78,710**	**5,35,309**	**6,67,825**	**41.4**	**24.8**	**2,35,693**	**10,41,990**	**5,00,322**	**342.1**	**-52.0**

per cent fall in value of transaction in respect of ECS-credit. It is noteworthy in this regard that the sharp rise in ECS credit value during 2007-08 was mainly due to the refund of the oversubscription amount of IPOs floated by companies using electronic mode as mandated by the stock exchange. Therefore, the decline in value of ECS credit transactions during 2008-09 may be interpreted more as returning to normal trend rather than a matter of concern.

4.103 The volume of ECS credit and more significantly ECS debit continued to show an increasing trend during 2008-09 in line with the trend witnessed during past few years [Chart IV.18(a) and IV.18(b)].

4.104 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-August 2009, 107 participants (96 banks, 8 primary dealers, the Reserve Bank and the Deposit Insurance, Credit Guarantee Corporation and Clearing Corporation of India Limited) are members of the RTGS system. The reach and utilisation of the RTGS is consistently increasing. The bank/branch network coverage increased to 58,720 branches at more than 10,000 centres leading to increased usage of this mode of funds transfer. The daily average volume of transactions is 90,000 for about Rs.1,200 billion of which 82,000 transactions for about Rs.980 billion pertain to customer transactions as at end of August 2009 (Chart IV.19).

Chart IV.18: Electronic Transactions

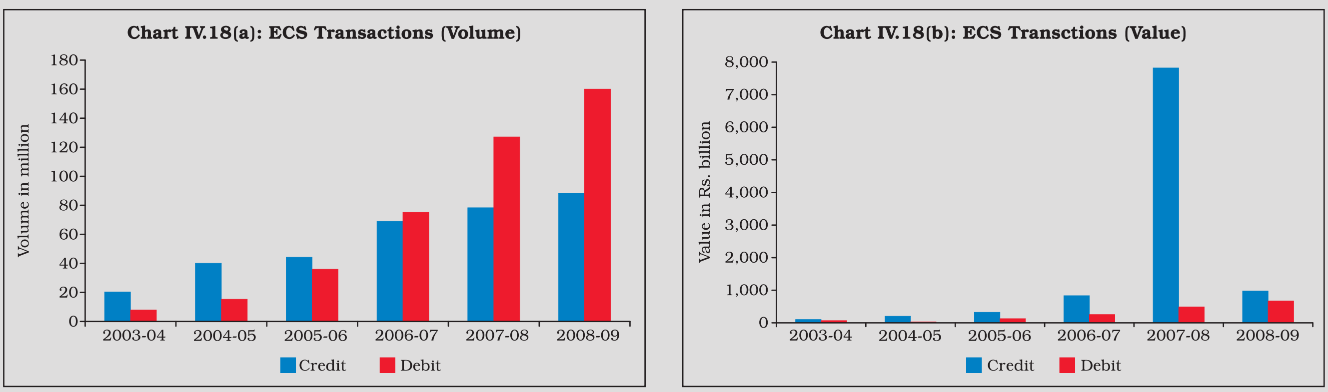


Chart IV.19: Progress in RTGS

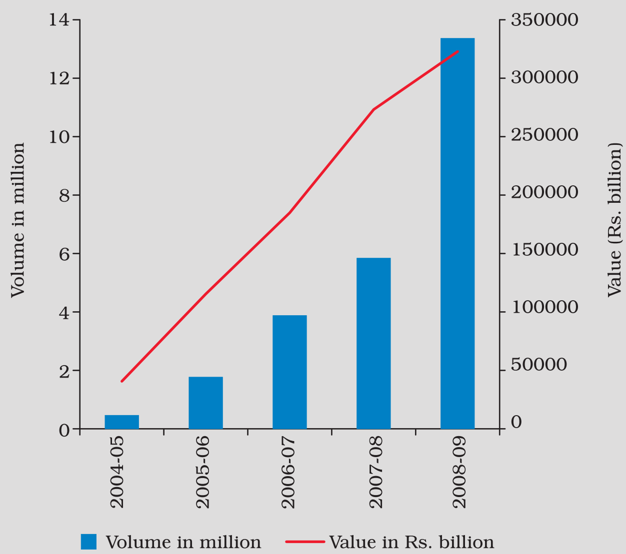
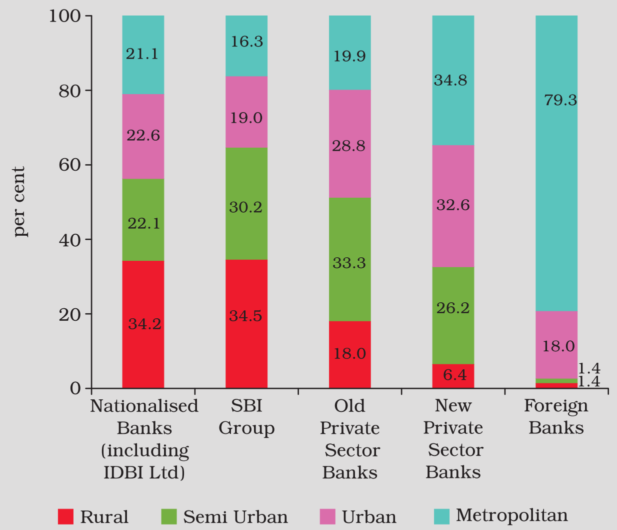


Chart IV.20: Bank Group-wise Distribution of Branches of Scheduled Commercial Banks
(As at end-March 2009)



8. Regional Spread of Banking

4.105 Access to reasonably priced and conveniently located financial and banking services, play a crucial role in financial inclusion initiatives of a country. The equitable regional spread of banking assumes special importance in a vast country like India, with its diverse regional characteristics. The Basic Statistical Return system is especially designed and suitably modified over the years to provide granular data on regional spread of banking. This dataset provides comprehensive information on the banking operations across country and is therefore a valuable and indispensible dataset for policy formulation.

4.106 The total number of branches of SCBs registered an increase of 5.7 per cent as at end-March 2009 as compared with the growth rate of 7.2 per cent during the last year. In absolute terms, number of bank branches are highest in rural area, mainly reflecting the policy thrust of the Reserve Bank. On the other hand, however, the share of rural braches in the total is witnessing a fall in recent years, while that of urban and metropolitan branches is witnessing a rise. As revealed by Table IV.52, the major part of business for the banks is earned by the top hundred centres, mainly situated in metropolitan and urban areas. The SBI Group and the Nationalised Banks had maximum proportion of branches in rural areas. Foreign bank branches were, however, mostly concentrated in the urban and metropolitan areas with negligible presence in rural and semi-urban areas (Chart IV.20 and Appendix Table IV.36).

4.107 The top hundred centres accounted for around a quarter of the total number of offices but nearly 70 per cent of total deposits and 78.5 per cent of total credit. This indicates the continuing crucial role played by top hundred centres both in raising deposits as well as allocation of credit (Table IV.47).

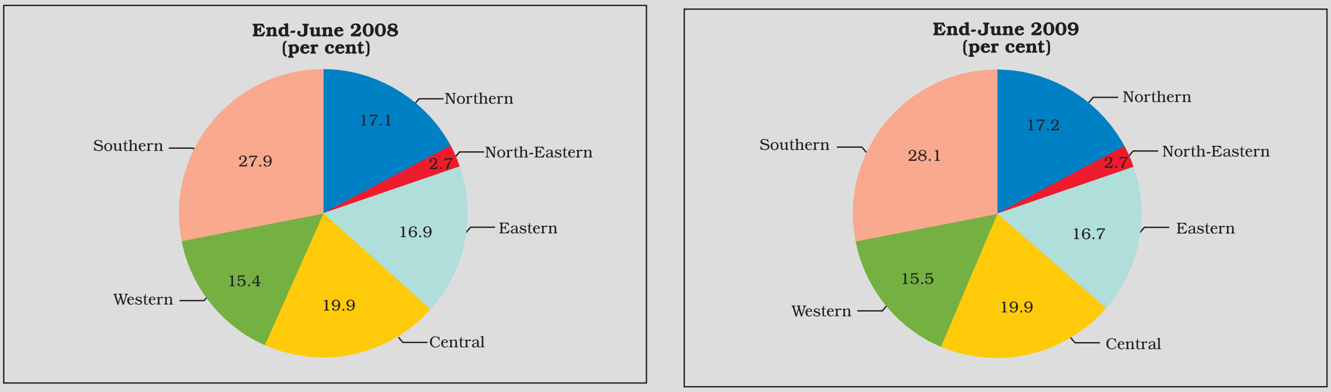
Table IV.47: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(Per cent)

End-March	Deposits		Credit	
	Offices	Amount	Offices	Amount
1	2	3	4	5
2008	25.7	69.7	25.6	77.8
2009	26.2	69.2	26.2	78.5

Source: Basic Statistical Return-7.

Chart IV.21: Regional Distribution of Bank Branches



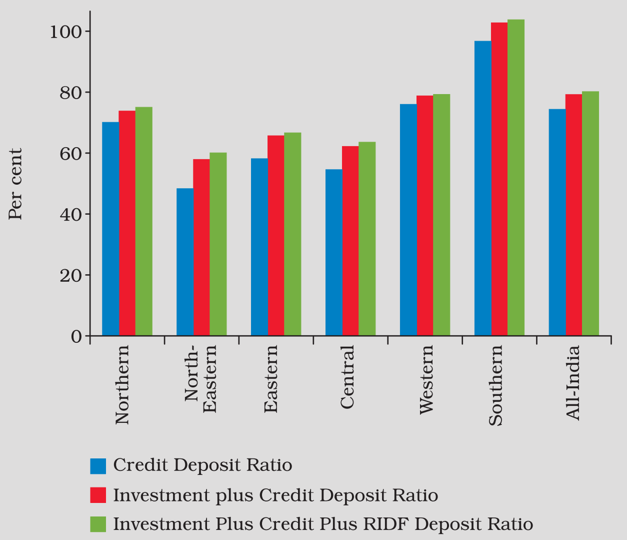
4.108 The rate of expansion of total number of bank branches decelerated to 4.5 per cent during 2008-09 from 5.2 per cent during the 2007-08. The average population served by a single bank branch remained unchanged at 15,000 as at end-June 2009 as compared with end-June 2008 (Appendix Table IV.37).In continuation of the trend, the Southern region continued to account for the largest percentage of existing bank branches during 2008-09, followed by the Central, Northern, Eastern, Western and the North-Eastern regions. The share of Southern, Northern and Western region increased during 2008-09 while that of Eastern region fell (Chart IV.21, Appendix Table IV.38). The Southern region (30.7 per cent of incremental branches) and the Central region (19.8 per cent of incremental branches) continued to be the leaders in opening new branches during July 2008 to June 2009.

4.109 The region-wise credit-deposit (C-D) ratio is one of the indicators to evaluate the performance of banks at the regional level in the context of its role to enable development of the region. The 'Expert Group on Credit – Deposit Ratio' (Chairman: Shri. Y. S. P. Thorat) (November 2004), suggested that as the C-D ratio should realistically reflect efforts of the banking system in contributing to the economic development of the States, the investments made by banks in State Government securities and bonds of State level enterprises should also be factored into the concept. Following this recommendation, in addition to the C-D ratio, the investment *plus* credit to deposit ratio is also being used widely. Further, as the RIDF represents the resource support provided by banks to the States, it was felt that use of investment *plus* credit *plus* RIDF deposit ratio would provide a better picture regarding banks' performance[9]. In view of this, region-wise data on investment *plus* credit *plus* RIDF deposit ratio are now being compiled and disseminated (Appendix IV. 39).

4.110 Continuing the trend witnessed during 2007-08, the all-India C-D ratio declined further to 72.6 per cent at the end-March 2009, reflecting some deceleration in the overall credit growth. The C-D ratio (as per sanction) as well as investment *plus* credit to deposit ratio of the Southern region was the highest among all the regions, followed by the Western region. The same trend is witnessed in investment plus credit deposit ratio as well as investment plus credit plus RIDF deposit ratio (Chart IV.22).

[9] Refer to 'Chapter V: Developments in Co-operative Banking' for details on RIDF.

Chart IV.22: Region-wise Credit-Deposit Ratio of SCBs
(end-March 2008- as per utilisation)



Foreign Banks' Operations in India

4.111 As at end-June 2009, 32 foreign banks were operating in India with 293 branches as compared with 30 foreign banks with 279 branches as at end-June 2008. These banks originated from 23 different countries. In addition, 43 foreign banks operated in India through representative offices. During the period from July 2008 to June 2009, permission has been granted to the four existing foreign banks to open 12 branches and to three new foreign banks, (*viz.*, CIMB Bank Berhad, Malaysia, Commonwealth Bank of Australia and FirstRand Bank Ltd.) to open one maiden branch each in India. During the same period, permission was granted to three foreign banks (*viz.*, Kfw-IPEX Bank GmbH, Toronto Dominion Bank and Duncan Lawrie Ltd.) to open a representative office each in India. Three foreign banks *viz.*, DBS Bank Ltd., Deutsche Bank AG and FirstRand Bank Ltd. together set up 12 branches during July 2008 to June 2009. Besides, two foreign banks, *viz.*, DnB NOR Bank and KfW IPEX Bank GmbH opened a representative office each in India during the same period.

Indian Banks' Operations Abroad

4.112 Indian banks continued to expand their presence overseas. Even though Bank of Baroda continued to have largest overseas presence, State Bank of India also increased its operations overseas significantly during the year to narrow the gap (Table IV.48). During the year 2008-09, the total assets of the overseas branches increased by USD 6,570 million (10.9 per cent), and stood at USD 67,129 million as on March 31, 2009. The growth in assets was mainly contributed by net increase in customer credit by USD 5,988 million during the year. The asset growth had been largely funded by inter-branch borrowings and customer deposits, which had gone up by USD 2,906 million (121.8 per cent) and USD 2,107.44 million (10.4 per cent) and stood at USD 5,293 million and USD 2,2376 million respectively as on March 31, 2009.

9. Customer Service and Financial Inclusion

4.113 Banking Ombudsman (BO) offices receive the complaints from general public relating to their 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. These complaints are tracked by BO offices by means of a complaint tracking software. During 2008-09, 69,117 complaints were received by 15 BO offices as against 47,887 complaints received during the previous year. Maximum number of complaints related to credit cards, followed by complaints relating to failure to meet commitments made. A significant number of complaints related to pension payments (especially in case of public sector banks) and direct selling agents (especially for new private sector banks) (Table IV.49 and Appendix Table IV.40).

Table IV.48: Overseas Operations of Indian Banks

(Actually Operational)

Name of the Bank	Branch		Subsidiary		Representative Office		Joint Venture Bank		Total	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11
I. Public Sector Banks	**121**	**130**	**19**	**18**	**28**	**34**	**7**	**7**	**175**	**189**
1 Allahabad Bank	1	1	–	–	1	1	–	–	2	2
2 Andhra Bank	–	–	–	–	1	2	–	–	1	2
3 Bank of Baroda	45	46	8	8	4	3	1	1	58	58
4 Bank of India	23	24	3	3	4	5	1	1	31	33
5 Canara Bank	2	3	–	–	1	–	–	–	3	3
6 Indian Bank	3	3	–	–	–	–	–	–	3	3
7 Corporation Bank	–	–	–	–	–	2	–	–	–	2
8 Indian Overseas Bank	6	6	1	1	3	3	–	–	10	10
9 Punjab National Bank	2	3	1	1	3	4	1	1	7	9
10 State Bank of India	33	38	6	5	7	8	4	4	50	55
11 Syndicate Bank	1	1	–	–	–	–	–	–	1	1
12 UCO Bank	4	4	–	–	2	2	–	–	6	6
13 Union Bank	1	1	–	–	2	3	–	–	3	4
14 Oriental Bank of Commerce	–	–	–	–	–	1	–	–	–	1
II. New Private Sector Banks	**10**	**11**	**3**	**3**	**15**	**16**	**–**	**–**	**28**	**30**
14 Axis Bank	3	3	–	–	2	2	–	–	5	5
15 HDFC Bank Ltd.	–	1	–	–	2	2	–	–	2	3
16 ICICI Bank Ltd.	7	7	3	3	8	8	–	–	18	18
17 IndusInd Bank Ltd.	–	–	–	–	2	2	–	–	2	2
18 Federal Bank Ltd.	–	–	–	–	1	1	–	–	1	1
19 Kotak Mahindra Bank Ltd.	–	–	–	–	–	1	–	–	–	1
Total	**131**	**141**	**22**	**21**	**43**	**50**	**7**	**7**	**203**	**219**

–: Nil

Note: Data relate to end-June.

4.114 BO offices at New Delhi, Chennai, and Mumbai together accounted for 44.1 per cent of the total complaints received during 2008-09 as compared to 36.3 per cent during the previous year (Table IV.50).

4.115 In terms of the BO Scheme, 2006 (as amended up to May 2007), complainants/banks can appeal to the Appellate Authority (Deputy Governor) against the decisions given by Banking Ombudsman. 269 such appeals were received during 2008-09, as compared to 186 appeals received during the previous year.

'No-frills' Accounts

4.116 With a view to providing financial inclusion, the Reserve Bank advised all banks in November 2005 to make available a basic banking 'no-frills' account either with 'nil' or low minimum balances as well as charges. The basic idea behind this was that extending banking services to lower income groups would trigger a virtuous cycle whereby access to banking services would enable more equitable distribution of the benefits of high economic growth, resulting in improvement in the level of income of the lower income groups. This will lead to increase in average deposit size in the accounts opened by the lower income groups, thereby making financial inclusion an operationally profitable and sustainable business proposition for banks. The low cost or free of cost account is internationally considered to be helpful in expanding the access of banking services, particularly to the low

Table IV.49: Bank-Group-wise Complaints received at Banking Ombudsman Offices – 2008-09

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	UCBs/ RRBs/ others	Total
1	2	3	4	5	6	7	8	9	10	11
Total Complaints Received (1 to 10)	**66,823**	**33,141**	**14,974**	**18,167**	**21,982**	**1,177**	**20,805**	**11,700**	**2,294**	**69,117**
1) Deposit Accounts	6,550	3,353	1,941	1,412	2,470	126	2,344	727	156	6,706
2) Remittances	5,210	3,523	1,722	1,801	1,386	94	1,292	301	125	5,335
3) Credit Cards	17,603	5,916	1,220	4,596	5,950	73	5,877	5,737	45	17,648
4) Loans/Advances (a+b)	7,863	4,201	2,536	1,665	2,666	204	2,462	996	311	8,174
a) General	7,040	3,867	2,333	1,534	2,291	191	2,100	882	291	7,331
b) Housing Loans	823	334	203	131	375	13	362	114	20	843
5) Charges without Prior Notice	4,740	1,898	898	1,000	2,080	132	1,948	762	54	4,794
6) Pension	2,907	2,862	842	2,020	33	6	27	12	9	2,916
7) Failure on Commitments Made	11,446	6,560	3,434	3,126	3,736	326	3,410	1,150	378	11,824
8) Direct Selling Agents	2,954	1,410	780	630	1,016	58	958	528	64	3,018
9) Notes and Coins	110	64	34	30	35	4	31	11	3	113
10) Others	7,440	3,354	1,567	1,787	2,610	154	2,456	1,476	1,149	8,589

Table IV.50: Region-wise Complaints received at Banking Ombudsman Offices

Sr. No.	Office	No. of Complaints received 2007-08	2008-09
1	2	3	4
1	Ahmedabad	2,855	3,732
2	Bangalore	2,975	3,255
3	Bhopal	3,402	3,375
4	Bhubaneswar	998	1,159
5	Chandigarh	2,331	2,634
6	Chennai	4,545	10,381
7	Guwahati	282	455
8	Hyderabad	2,843	3,961
9	Jaipur	3,369	3,688
10	Kanpur	5,340	7,776
11	Kolkata	2,815	3,671
12	Mumbai	6,070	9,631
13	New Delhi	6,742	10,473
14	Patna	1,480	2,110
15	Thiruvananthapuram	1,840	2,816
Total		**47,887**	**69,117**

income groups. Similar types of accounts, though with different names, have also been extended by banks in various other countries with a view to making financial services accessible to the common man either at the behest of banks themselves or the respective Governments[10]. There has been a significant progress in the number of 'no frills' accounts opened by banks in India (Table IV.51).

Table IV.51: Number of No-frills Accounts Opened by SCBs

Bank Group	End-March 2007	End-March 2008	End-March 2009
1	2	3	4
Public Sector Banks	5,865,419	13,909,935	29,859,178
Private Sector Banks	860,997	1,845,869	3,124,101
Foreign Banks	5,919	33,115	41,482
Total	6,732,335	15,788,919	33,024,761

Note: Data are provisional.

[10] Reserve Bank of India, (2008): Report on Currency and Finance, 2006-08.

10. Micro Finance

4.117 Micro finance is the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. The beginning of the micro finance movement in India could be traced to the self-help group (SHGs) - 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 microfinance delivery through micro finance institutions (MFIs) also emerged subsequently in the country. The MFIs in India are characterised by diverse institutional and legal forms. Recognising the potential of micro finance to positively influence the development 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.

SHG-Bank Linkage Programme (SBLP) Approach

4.118 An SHG is a small homogenous affinity group of about 15 to 20 people who join together to address common issues. Voluntary thrift activities are undertaken on a regular basis by the group and these pooled savings are used to make interest bearing loans to the group members. Apart from inculcating the habit of thrift, the SHG activity also imbibes concepts like financial intermediation and handling of resources. Once the group is stabilised, it gets linked to the banks and avails financial services from banks.

4.119 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 to SHGs. As per the trend witnessed so far, the commercial banks continued to be the leaders in disbursing loans to SHGs, followed by RRBs and co-operative banks in 2008-09 as well (Table IV.52).

4.120 Under the SBLP, as on March 31, 2009, 4.2 million SHGs had outstanding bank loans of Rs.22,680 crore. The share of commercial banks in total outstanding loans increased from 68 per cent to 71 per cent, with a corresponding decline in the share of regional rural banks and co-operative banks (Table IV.53).

4.121 As on March 31, 2009, the number of SHGs maintaining savings bank accounts with

Table IV.52: Agency-wise SHG-Bank Linkage Programme
(as at end-March)

(Amount in Rs. crore)

Agency	No. of SHGs (in '000)				Bank Loan Disbursed			
	2007-08		2008-09		2007-08		2008-09	
	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*
1	2	3	4	5	6	7	8	9
Commercial Banks	735	161	1,005	133	5,404	1,104	8,061	1,102
Regional Rural Banks	328	65	406	82	2,652	598	3,193	655
Co-operative Banks	165	21	199	50	794	156	999	258
Total	**1,228**	**247**	**1,610**	**265**	**8,849**	**1,858**	**12,254**	**2,015**

* : Inclusive of '*Swarnjayanti Gram Swarozgar Yojna*' (SGSY) and other sponsored schemes.
Note: Totals may not add up due to rounding off.
Source: NABARD.

Table IV.53: Bank Loans Outstanding under SBLP
(as at end-March)

(Amount in Rs. crore)

Agency	No. of SHGs (in '000)				Outstanding Loans			
	2007-08		2008-09		2007-08		2008-09	
	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*
1	2	3	4	5	6	7	8	9
Commercial Banks	2,378	638	2,831	645	11,475	3,226	16,149	3,961
Regional Rural Banks	876	223	978	259	4,421	1,332	5,224	1,508
Co-operative Banks	371	55	415	73	1,103	259	1,306	392
Total	**3,626**	**917**	**4,224**	**977**	**17,000**	**4,817**	**22,680**	**5,862**

* : Inclusive of '*Swarnjayanti Gram Swarozgar Yojna*' (SGSY) and other sponsored schemes.
Note: Totals may not add up due to rounding off.
Source: NABARD.

the banking sector was 6.1 million with outstanding savings of Rs.5,546 crore. Though commercial banks continued to have the maximum share of the SHG's savings, their share declined from 55 per cent as at end March 2008 to 50 per cent as at end-March 2009. While the share of co-operative banks remained almost same, that of RRBs rose from 31 per cent to 36 per cent during the same period (Table IV.54).

4.122 The recovery performance of bank loans to SHGs remained at a higher level with recovery rate of 80-94 per cent being the modal class, in case of all the bank groups except the private sector banks. In case of private sector banks, 95 per cent and above was the modal class (Table IV. 55).

MFI Approach

4.123 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 2008-09, bank loan amounting Rs.3,732 crore was

Table IV.54: Savings of SHGs with Banks
(as at end-March)

(Amount in Rs. crore)

Agency	No. of SHGs (in '000)				Savings of SHGs			
	2007-08		2008-09		2007-08		2008-09	
	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*	Total	Of which under SGSY*
1	2	3	4	5	6	7	8	9
Commercial Banks	2,811	766	3,550	931	2,078	527	2,773	682
Regional Rural Banks	1,387	357	1,629	434	1,166	211	1,990	775
Co-operative Banks	812	80	943	140	541	72	783	107
Total	**5,010**	**1,203**	**6,121**	**1,506**	**3,785**	**810**	**5,546**	**1,563**

* : Inclusive of '*Swarnjayanti Gram Swarozgar Yojna*' (SGSY) and other sponsored schemes.
Note: Totals may not add up due to rounding off.
Source: NABARD.

Table IV.55: Recovery Performance of Bank loans to SHG - Agency-wise
(As at end-March 2009)

(No of banks)

Category of Bank	Total no. of reporting banks	Recovery Performance of Bank Loans to SHG			
		95 per cent and above	80-94 per cent	50-79 per cent	less than 50 per cent
1	2	3	4	5	6
Public Sector Banks	25	6 (24.0)	12 (48.0)	7 (28.0)	0 (0.0)
Private Sector Bank	7	5 (71.4)	1 (14.3)	0 (0.0)	1 (14.3)
Regional Rural Banks (RRBs)	65	12 (18.5)	31 (47.7)	15 (23.1)	7 (10.8)
Cooperative Banks	170	56 (32.9)	58 (34.1)	37 (21.8)	19 (11.2)
Total	**267**	**79** **(29.6)**	**102** **(38.2)**	**59** **(22.1)**	**27** **(10.1)**

Note: Figures in brackets indicate percentage shares in agency-wise totals.
Source: NABARD.

disbursed to 581 MFIs, taking the total loans outstanding to Rs.5,009 crore to 1915 MFIs as on March 31, 2009 (Table IV.56).

4.124 The microfinance movement has been playing a crucial role in the financial inclusion efforts in the Indian context. Against the backdrop of current global financial crisis however, concerns have been raised internationally about possibilities of surge in non-performing loans, shortage of liquidity and funding, declining profitability and weakness in management and corporate governance[11].

Table IV.56: Bank Loans Provided to MFIs
(as at end-March)

(Amount in Rs. crore

Category of Bank	Loans disbursed by to Banks MFIs		Outstanding Bank Loans against MFIs	
	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5
Commercial Banks	1,969 (497)	3,719 (522)	2,745 (1,072)	4,978 (1,762)
Regional Rural Banks	2 (8)	13 (59)	4 (24)	31 (153)
Co-operative Banks	0.04 (13)	– (0)	0.02 (13)	– (0)
Total	**1,970** **(518)**	**3,732** **(581)**	**2,749** **(1,109)**	**5,009** **(1,915)**

– : nil/ negligible.

Note: 1. Figures in parentheses represent the number of MFIs.
2. The actual number of FIs would be less as some FIs have availed loans from more than one bank.

11. Regional Rural Banks

4.125 The origin of the Regional Rural Banks in India can be traced back to the promulgation of RRB Act of 1976. The idea behind creation of this new set of regionally oriented rural banks, was to combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. The RRBs equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35.

4.126 In a multi-agency approach for agricultural and rural credit in India, RRBs

[11] Centre for the Study of Financial Innovation (2009): 'Microfinance Banana Skins: Confronting Crisis and Change', June. Available on http://www.cgap.org.

have a special place. Being local level institutions, RRBs are ideally suited for achieving financial inclusion. RRBs, together with commercial and co-operative banks, have a critical role in the multi-agency approach to delivery of agriculture and rural credit. After the concerns expressed by Narasimhan Committee (1991) about the poor financial health of RRBs in India, a number of policy initiatives were taken by the Reserve Bank and NABARD to improve their performance.

4.127 Khankhoje and Sathye (2008)[12] calculated the production efficiency score of regional rural banks in India for the years 1990 to 2002. The scores were calculated using the non-parametric technique of Data Envelopment Analysis. As major restructuring of these banks occurred in the year 1993-94, the mean efficiency scores of pre-restructuring and post restructuring years were compared using ANOVA to test whether restructuring has resulted in improving efficiency of these banks. The study shows that the mean efficiency score of RRBs has shown a significant increase. This study recommends that the existing policy of bringing down non-performing assets as well as curtailing the establishment expenditure through voluntary retirement scheme for bank staff and rationalisation of rural branches are steps in the right direction that could help these banks in improving efficiency further over a period of time.

4.128 The Advisory Committee on Flow of Credit to Agriculture and Related Activities (Chairman : Prof V S Vyas) in June 2004 recommended restructuring of RRBs in order to improve the operational viability of RRBs and take advantage of the economies of scale. Following this, an Internal Working Group on RRBs was set up by the Reserve Bank to examine various alternatives available within the existing legal framework for strengthening the RRBs. In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, the Government of India, after consultation with NABARD, the concerned State Governments and the sponsor banks initiated State-level sponsor bank-wise amalgamation of RRBs from September 2005 to overcome the deficiencies prevailing in RRBs and make them viable and profitable. As at end-March 2009, there were 86 RRBs including 45 amalgamated and 41 stand-alone RRBs.

Recapitalisation of RRBs

4.129 A scheme for phased recapitalisation of RRBs with negative net worth was announced in the budget for 2007-08. 27 RRBs having negative net worth as on March 31, 2007 were taken up for recapitalisation. The amount required for recapitalisation aggregated to Rs.1,796 crore. Of this, the contribution of the State Governments, sponsor banks and Government of India were to be Rs.269 crore (15 per cent), Rs.629 (35 per cent) and Rs.898 crore (50 per cent) respectively. The recapitalisation process has been completed in respect of aforesaid 27 RRBs.

Financial Performance of RRBs

4.130 The consolidated balance sheet of RRBs showed an increase in size of 16.5 per cent during 2008-09 as compared to 16.8 per cent in 2007-08. On the assets side, net advances of RRBs increased by 19.9 per cent during the period. Among the major items on the liabilities side, deposits and borrowings increased by 19.1 and 1.7 per cent respectively during the year. Credit-deposit ratio of RRBs declined marginally to 58.5 per cent as at end-March 2009 from 59.5 per cent last year (Table IV.57).

[12] Khankhoje, D. and Sathye M. (2008), 'Efficiency of Rural Banks: The Case of India', *International Business Research*, Vol. 1, No. 2, April. Available on http://www.ccsenet.org/journal.html

Table IV.57: Regional Rural Banks: Consolidated Balance Sheet

(Amount in Rs. crore)

Item	March 31, 2008	March 31, 2009P	Percentage Variation
1	2	3	4
Liabilities	**1,25,194**	**1,45,824**	**16.5**
Share Capital	196	197	0.5
Reserves	5,703	5,914	3.7
Share Capital Deposits	2,833	3,946	29.3
Deposits	**99093**	**117984**	**19.1**
Current	5716	6204	8.5
Savings	53371	66920	25.4
Term	40006	44860	12.1
Borrowings	**11494**	**11686**	**1.7**
NABARD	7992	8191	2.5
Sponsor Bank	3078	3228	4.9
Others	424	267	-37.0
Other Liabilities	5875	6097	3.8
Assets	**125194**	**145824**	**16.5**
Cash in Hand	1404	1502	7.0
Balances with RBI	7164	10317	44.0
Other Bank Balances	22338	23361	4.6
Other Investments	30166	34168	13.3
Loans and Advances (net)	57568	69030	19.9
Fixed Assets	241	292	21.2
Other Assets#	6313	7154	13.3
Memorandum Items:			
a. Credit-Deposit Ratio	59.5	58.5	
b. Investment-Deposit Ratio	49.0	48.8	
c. (Credit+Investment)-Deposit Ratio	108.5	107.2	

P : Provisional. – : Nil/Negligible. # : Includes accumulated loss.
Source: NABARD.

Table IV.58: Purpose-wise Outstanding Advances by RRBs

(Amount in Rs. crore)

Purpose/End-March	2007	2008	2009P
1	2	3	4
I. Agriculture (i to iii)	**27,452**	**33,216**	**36,466**
Per cent to total loans outstanding	**56.6**	**56.3**	**52.8**
i. Short-term loans (crop loans)	18,707	22,748	24,986
ii. Term loans (for agriculture and allied activities)	3,745	10,468	11,480
iii. Indirect Advances	–	–	–
II. Non-agriculture (iv to vii)	**21,041**	**25,768**	**32,564**
Per cent to total loans outstanding	**43.4**	**43.9**	**41.2**
iv. Rural Artisans, *etc.*	736	671	820
v. Other Industries	880	1,227	1,400
vi. Retail Trade, *etc.*	3,677	4,531	5,015
vii. Other purposes	15,748	19,339	25,329
Total (I+II)	**48,493**	**58,984**	**69,030**
Memo item:			
a) Priority Sector	39,852	48,894	57,528
b) Non-priority Sector	8,641	10,090	11,502
c) Share of Priority Sector (Per cent to Total)	82.2	82.9	83.3

P : Provisional. – : Nil/Negligible.
Source: NABARD.

4.131 As per the provisional data available so far, during 2008-09, 86 RRBs extended new loans to the extent of Rs.41,273 crore to 9.4 million borrowers as against Rs.38,464 crore during 2007-08 to 9.3 million borrowers. Of this, the share of priority sector loans issued was 82.6 per cent. In terms of number of borrowers' coverage, the share of priority sector was about 84 per cent to total loans issued during 2008-09. As at end-March 2009, the outstanding advances of RRBs were Rs.69,030 crore and the share of priority sector was 83.3 percent. The share of agricultural loans declined marginally to 52.8 percent as at the end of March 2009 from 56.3 per cent a year ago (Table IV.58).

4.132 Following the amalgamation of RRBs, the number of profit making RRBs increased to 80 and loss making RRBs declined to 6 as at end-March 2009 from 82 and 8 respectively at end March 2008.

4.133 The growth rate of aggregate income of RRBs decelerated to 19.5 per cent as at end-March 2009 from 20.0 per cent last year. This deceleration was mainly on account of slowdown in 'other income'. The expenditure of RRBs, however, rose sharply mainly on account of increase in interest expended and rise in provision and contingencies. Out of 86 RRBs, 80 RRBs earned profit amounting to Rs.1,405 crore, whereas 6 RRBs incurred loss amounting to Rs.36 crore for the year 2008-09. Thus, RRBs together earned net profits of Rs.1,369 crore during the year 2008-09 as compared to Rs.1,027 crore during the previous year. The improvement in the performance of RRBs is also reflected in the decline of NPAs (both gross and net) during 2008-09. While gross NPAs to total loan assets ratio declined to 4.2 per cent as at the end of March 2009 from 6.1 per cent a

Table IV.59: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

	Particulars	2007-08			2008-09(P)			Variation	
		Loss Making [8]	Profit Making [82]	Total RRBs [90]	Loss Making [6]	Profit Making [80]	Total RRBs [86]	Col. (7) over Col. (4)	
								Amount	Per cent
	1	2	3	4	5	6	7	8	9
A.	**Income (i+ii)**	**286**	**9,120**	**9,406**	**276**	**10,975**	**11,251**	**1,831**	**19.5**
	i) Interest income	271	8,468	8,739	262	10,181	10,443	1,690	19.3
	ii) Other income	15	652	667	14	794	808	141	21.1
B.	**Expenditure (i+ii+iii)**	**342**	**8,037**	**8,379**	**312**	**9,570**	**9,882**	**1,503**	17.9
	i) Interest expended	212	4,545	4,757	200	5,517	5,717	960	20.2
	ii) Provisions and contingencies	13	819	832	12	1,246	1,258	426	51.2
	iii) Operating expenses	117	2,673	2,790	100	2,807	2,907	117	4.2
	of which : Wage Bill	100	1,954	2,054	85	2,018	2,103	49	2.4
C.	**Profit**								
	i) Operating Profit/Loss	**-43**	**1,902**	**1,859**	**-24**	**2,651**	**2,627**	**768**	**41.3**
	ii) Net Profit/Loss	**-56**	**1,083**	**1,027**	**-36**	**1,405**	**1,369**	**342**	**33.3**
D.	**Total Assets**	**4,548**	**1,20,646**	**1,25,194**	**3,250**	**1,42,574**	**1,45,824**	**20,630**	**16.5**
E.	**Financial Ratios @**								
	i) Operating Profit	-1.0	1.6	1.5	-0.7	1.8	1.8	–	–
	ii) Net Profit	-1.2	1.0	0.9	-1.1	1.0	0.9	–	–
	iii) Income	6.3	7.6	7.5	8.5	7.6	7.7	–	–
	a) Interest income	6.0	7.0	7.0	8.1	7.1	7.2	–	–
	b) Other Income	0.3	0.5	0.5	0.4	0.6	0.6	–	–
	iv) Expenditure	7.5	6.7	6.7	9.7	6.7	6.8	–	–
	a) Interest expended	4.7	3.8	3.8	6.2	3.8	3.9	–	–
	b) Operating expenses	2.6	2.2	2.2	3.1	2.0	2.0	–	–
	of which: Wage Bill	2.2	1.6	1.6	2.6	1.4	1.4	–	–
	v) Provisions and contingencies	0.3	0.7	0.7	0.4	0.9	0.9	–	–
	vi) Gross NPAs			6.1			4.2	–	–
	vii) Net NPAs			3.4			1.8	–	–

P : Provisional. @ : Ratios to total assets. * : Before tax.

Note: Figures in brackets represent number of RRBs.

Source: NABARD.

year ago, the net NPAs to loan assets ratio declined to 1.8 per cent from 3.4 per cent for the same period (Table IV.59).

4.134 In line with the trend witnessed during last few years, productivity of RRBs, both in terms of per branch and per employee, showed further improvement during 2008-09. While accumulated loss as percentage to assets remained at previous year's level, financial return and net margins improved during 2008-09 (Table IV.60).

12. Local Area Banks

4.135 The Local Area Bank Scheme was introduced in August 1996 pursuant to the announcement made in the Union Budget of that year. The idea behind setting up of new private local banks with jurisdiction over two or three contiguous districts was to help the mobilisation of rural savings by local institutions and make them available for investments in the local areas. The Local Area Banks (LABs) were expected to bridge the gaps in credit availability and strengthen

Table IV.60: Business and Financial Indicators of RRBs

Indicator	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 P
1	2	3	4	5	6	7	8
No. of RRBs	196	196	196	133 #	96 #	90 #	86 #
Net profit [1] (Rs crore)	519	769	748	617	596	1328	1830
Per Branch Productivity [2] (Rs. crore)	5.0	5.7	6.6	7.7	9.1	10.7	12.4
Per Employee Productivity [3] (Rs. crore)	1.0	1.2	1.4	1.6	1.9	2.3	2.7
Accumulated loss as percentage to assets	4.4	3.9	3.5	2.9	2.6	2.1	2.1
Salary as percentage to Assets	2.3	2.6	2.0	2.1	1.9	1.9	1.8
Financial Return [4] (per cent)	9.6	8.9	8.2	7.7	7.7	8.1	8.2
Financial Cost [5] (per cent)	6.1	5.4	4.6	4.1	4.1	4.4	4.5
Financial margin [6] (per cent)	3.5	3.5	3.6	3.6	3.6	3.7	3.7
Risk, operational and other cost (per cent)	2.6	2.2	2.3	2.8	2.9	2.7	2.6
Net margin[7](per cent)	0.9	1.3	1.3	0.8	0.7	1.0	1.1

#: 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).

Data for 2008-09 are provisional

Note:
1. Net profit *i.e.* difference between the gross profit (before tax) and losses incurred by RRBs.
2. Average level of business (in terms of total deposits and gross advances) per branch during the reporting year.
3. Average level of business (in terms of total deposits and gross advances) per employee of RRBs during the year.
4. Percentage of total income from both advances and investments against average working funds during the year.
5. Percentage of total interest expended for deposits, borrowings etc. against average working funds during the year.
6. Difference between the financial return and financial cost.
7. Difference between the financial margin and risk, operational and other costs, plus miscellaneous income.

Source: NABARD.

the institutional credit framework in the rural and semi-urban areas. Following this, guidelines for setting up of LABs in the private sector were announced by the Reserve Bank of India (RBI) in August 1996. There were four local area banks (LABs) in the country at end-March 2009.

4.136 During 2008-09, the growth rate of aggregate assets, deposits and gross advanced of LABs witnessed a deceleration, partly reflecting the overall slowdown in economic activity and increased uncertainty. In particular, aggregate assets increased by 20.3 per cent, deposits by 20.0 per cent and gross advances by 23.8 per cent during 2008-09 as compared with the growth rate of 32.2 per cent, 32.4 per cent and 35.5 per cent, respectively during 2007-08. 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 IV.61).

Table IV.61: Profile of Local Area Banks

(Amount in Rs. crore)

Bank	Assets		Deposits		Gross Advances	
	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7
Capital Local Area Bank Ltd.	466	549	393	461	243	296
Coastal Local Area Bank Ltd.	76	100	56	73	43	57
Krishna Bhima Samruddhi Local Area Bank Ltd.	81	99	43	56	52	64
Subhadra Local Area Bank Ltd.	31	39	22	27	17	23
Total	**654**	**787**	**514**	**616**	**355**	**439**

Source: Based on off-site returns.

Table IV.62: Financial Performance of Local Area Banks
(As at end-March)

(Rs. crore)

Particulars			2007-08	2008-09	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**68.2**	**90.6**	**22.5**	**33.0**
	i)	Interest income	54.9	74.9	20.0	36.4
	ii)	Other income	13.3	15.8	2.5	18.5
B.	**Expenditure (i+ii+iii)**		**58.3**	**76.5**	**18.2**	**31.2**
	i)	Interest expended	29.9	41.7	11.8	39.4
	ii)	Provisions and contingencies	6.1	7.8	1.7	27.4
	iii)	Operating expenses	22.3	27.0	4.7	21.2
		of which :				
		Wage Bill	9.9	12.2	2.3	23.1
C.	**Profit**					
	i)	**Operating Profit/Loss**	**15.6**	**21.9**	**6.3**	**40.5**
	ii)	**Net Profit/Loss**	**9.5**	**14.1**	**4.6**	**48.9**
D.	**Spread (Net Interest Income)**		**25.0**	**33.2**	**8.2**	**32.9**
E.	**Total Assets**		**653.5**	**786.6**	**133.1**	**20.4**
F.	**Financial Ratios@**					
	i)	Operating Profit	2.4	2.8		
	ii)	Net Profit	1.5	1.8		
	iii)	Income	10.4	11.5		
	iv)	Interest income	8.4	9.5		
	v)	Other Income	2.0	2.0		
	vi)	Expenditure	8.9	9.7		
	vii)	Interest expended	4.6	5.3		
	viii)	Operating expenses	3.4	3.4		
	ix)	Wage Bill	1.5	1.5		
	x)	Provisions and Contingencies	0.9	1.0		
	xi)	Spread (Net Interest Income)	3.8	4.2		

Note: @ Ratios to Total Assets.
Source: Based on off-site returns.

4.137 Similar to the trend mentioned above, the financial performance of LABs also witnessed a slowdown. Thus during 2008-09, all the relevant variables like income, expenditure, profit and total assets increased at a slower pace as compared with 2007-08. Both the growth rate of interest income and non-interest income witnessed a deceleration, though the deceleration in growth of other income was more pronounced. On the expenditure side, growth rate of interest expended, provisions and contingencies as well as that of wage bills decelerated sharply. On balance, notwithstanding this deceleration in growth rate of expenditure, the growth rate of operating profits and that of net profits decelerated sharply. On the positive side, however, the financial ratios of operating profit and net profit increased during 2008-09 as compared with 2007-08 (Table IV.62).

13. Conclusion

4.138 The Indian banking system has exhibited resilience against the backdrop of global financial turmoil and slowdown of the Indian economy. Notwithstanding some slowdown in growth of balance sheet, income and profitability, the overall CRAR has improved and the asset quality remains at a comfortable level. The Indian banking system has thus remained sound and robust. As the commercial banks are the dominant institutions with linkages to other segments of the Indian financial system, the strength of this sector has provided an anchor to the Indian economy in turbulent times. The off-balance sheet exposures of banks, which had seen an exponential growth in recent years, witnessed some slowdown this year. It is however, necessary to constantly monitor and evaluate the risks entailed by such types of exposures of banks, given their systemic implications. SCBs are now fully Basel II complaint; going forward the need to increase public sector banks' capital has to be assessed and suitable policy measures may be initiated. Further, the banks need to strengthen their corporate governance practices. With the economy showing some signs of recovery after the slowdown, the banking sector needs to gear up to meet the credit needs of the economy. During an uptrend, the banks will have to tread the balance between risk and return carefully.

Chapter V

Developments in Cooperative Banking

This chapter analyses the financial performance of urban cooperative banks during the year 2008-09 and that of rural credit cooperatives for the year 2007-08 (given the lagged availability of data for these institutions) in the context of various policy initiatives by the Reserve Bank as discussed in Chapter III. During the year, there has been a continued progress towards consolidation of the urban cooperative banking sector with a growth in financially stronger entities and exit of weaker ones. Urban Cooperative Banks (UCBs) have posted high growth in credit and deposits during the year unlike their rural counterparts. Further, credit to small enterprises as part of priority sector lending of UCBs too has increased significantly during the year contrary to the expectations of a decline following the global crisis. However, both urban and rural cooperatives remain geographically concentrated having a dominant presence in the western region. In the case of urban cooperatives, there has been an increase in the concentration of banking business in few large entities. Moreover, high levels of Non-Performing Assets (NPAs) for UCBs and rural credit cooperative institutions continue to be the major area of concern and thus, cooperative sector, as observed by the Committee on Financial Sector Assessment (CFSA) 2009, remains 'one of the weak links in the Indian financial landscape'.

1. Introduction

5.1 Cooperatives occupy an important position in the Indian financial system. Cooperatives were the first formal institution to be conceived and developed to purvey credit to rural India. Thus far, cooperatives have been a key instrument of financial inclusion in reaching out to the last mile in rural areas. The urban counterparts of rural cooperatives, the Urban Cooperative Banks (UCBs), too have traditionally been an important channel of financial inclusion for the middle and low income sections in the semi-urban and urban areas.

5.2 Notwithstanding the important role played by cooperatives in financial inclusion, their financial viability and soundness remain some of the key areas of concern. Expectedly, enhancing the financial health of these institutions would further strengthen their efforts towards financial inclusion.

5.3 While there has been an improvement in the financial performance of the urban cooperative banking sector in recent times, the high levels of NPAs of UCBs continue to pose a threat to the financial soundness of these institutions. Rural credit cooperative institutions both of the short- and long-term nature too are beset with several structural weaknesses, such as poor resource base and high levels of accumulated losses. Besides, both rural and urban cooperatives have traditionally been subjected to a multiplicity of control from the Reserve Bank and State Governments. The CFSA (2009) characterises the dual control as “the single most important regulatory and supervisory weakness” in the cooperative banking sector.

5.4 In order to deal with the issue of dual control, the Reserve Bank has taken several steps to develop a stronger and unified regulatory framework for the cooperative sector. These steps include the preparation of a Vision Document by the Reserve Bank in 2005, which recommended a State-specific strategy of the State Governments entering into a Memorandum of Understanding (MoU) with the Reserve Bank to deal with the dual regulatory control over UCBs and the establishment of a Task Force for UCBs in these

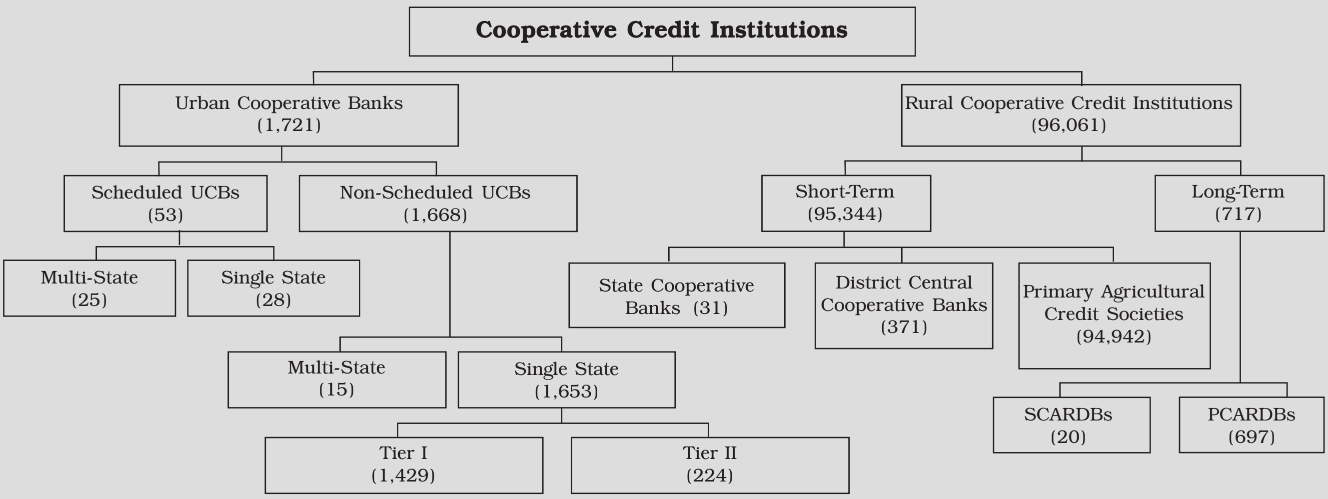
States as already discussed in Chapter III of the Report. Similarly, the Task Force on Revival of Cooperative Credit Institutions constituted by the Government of India in 2004 recommended the State Governments to enter into MoU with the Central Government and National Bank for Agriculture and Rural Development (NABARD) for implementation of the revival package for rural cooperative institutions.

5.5 This chapter provides an analysis of the recent trends in the operations and performance of the urban and rural cooperative credit institutions. This chapter is organised into six sections. Section 2 discusses the existing structure of the cooperative credit institutions in India. Section 3 discusses the business operations and performance of UCBs during 2008-09, while Section 4 focuses on the performance of rural cooperative credit institutions during 2007-08. Section 5 discusses the initiatives taken by NABARD in the development of rural credit cooperatives during 2008-09 followed by conclusions in Section 6.

2. Structure of Cooperative Credit Institutions in India

5.6 The distinctive feature of the cooperative credit structure in India is its heterogeneity. The structure differs across rural and urban areas as well as across States and tenures of loans (Chart V.1). The urban areas are served by Urban Cooperative Banks (UCBs), which are further sub-divided into scheduled and non-scheduled UCBs. Scheduled UCBs form a small proportion of the total number of UCBs. The operations of both scheduled and non-scheduled UCBs are limited to either one State (single-State) or stretch across States (multi-State). Most of the non-scheduled UCBs are primarily single State UCBs having a single tier structure[1].

Chart V.1: Structure of Cooperative Credit Institutions in India



SCARDBs: State Cooperative Agriculture and Rural Development Banks.
PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.

Note: 1. Figures in parentheses indicate the number of institutions at end-March 2009 for UCBs and at end-March 2008 for rural cooperative credit institutions.
2. For rural cooperatives, the number of banks refers to reporting banks.

[1] Tier 1 UCBs include i) 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; 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.

5.7 Rural cooperatives structure is bifurcated into short-term and long-term structure. The short-term cooperative structure is a three tier structure having State Cooperative Banks (StCBs) at the apex level followed by District Central Cooperative Banks (DCCBs) at the intermediate district level followed by Primary Agricultural Credit Societies (PACS) at the village level. This structure is often referred to as federal structure of the short-term credit cooperatives. The unitary structure is mainly observed in the North-eastern region, wherein the StCBs provide credit directly to PACS instead of any district level intermediary.

5.8 The long-term cooperative structure has the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level followed by the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. This is often referred to as the federal structure of long-term credit cooperatives. There is also a unitary structure under which the SCARDBs channel credit through their own branches. Finally, in some States, there is also a mixed structure under which both unitary and federal structures co-exist. In the States that do not have the long-term structure, separate sections of the StCBs look after the long-term credit requirements of rural areas. In 2008, this was the case with all States from the north-eastern region except Assam, Manipur and Tripura, which had a separate long-term structure. In 2008, 10 States had a federal structure, while two States namely, West Bengal and Himachal Pradesh had a mixed structure of long-term cooperative credit. Further, eight States had a unitary structure of long-term cooperative credit institutions.

3. Urban Cooperative Banks

A Profile of UCBs

Grade-wise Distribution of UCBs

5.9 UCBs are graded into four categories on the basis of their financial performance. This financial performance is determined by various parameters including capital adequacy, level of NPAs and history of profit/loss. While UCBs from Grades I and II can be considered as relatively stronger banks, the banks belonging to Grades III and IV can be classified as sick or weak banks.

5.10 There was a decline in the number of UCBs from 1,770 at end-March 2008 to 1,721 at end-March 2009. This decline was an outcome of the process of consolidation of this sector as evident from a fall in the number of sick/weak banks belonging to Grade III and IV (Table V.1 read with Box V.1). On the other hand, the number of UCBs in Grade I increased over the year. On account of the increase, the percentage share of UCBs, which were financially more sound belonging to Grades I and II, increased further to 77.2 per cent at end-March 2009.

5.11 More importantly, the percentage share of UCBs from Grade I in total deposits increased

Table V.1: Grade-wise Distribution of Urban Cooperative Banks

End-March	No. of UCBs	Grade I	Grade II	Grade III	Grade IV	Grade I+II	Grade III+IV	Grade I+II (As percentage to total)	Grade III+IV (As percentage to total)
1	2	3	4	5	6	7	8	9	10
2008	1,770	748	526	258	238	1,274	496	71.9	28.0
2009 P	1,721	845	484	219	173	1,329	392	77.2	22.8

P: Provisional.

Box V.1: Impact of MoUs and TAFCUBs on the UCB Sector: Exit of Weak Banks

Pursuant to the announcement in the Mid-Term Review of the Annual Policy Statement for 2004-05, a Vision Document for UCBs was prepared and placed in public domain in March 2005. Based on the feedback received on this Document, a Medium-Term Framework (MTF) for UCBs was put into place. The Vision Document and MTF envisaged regulatory coordination between the two main regulatory authorities of the urban cooperative banking sector, *viz.*, the Reserve Bank and the respective State Governments (Central Government for multi-State UCBs). This coordination was to be achieved by signing of a Memorandum of Understanding (MoU) in each State to address the problems of dual control, within the existing legal framework.

As on July 20, 2009, MoUs were signed with 26 States. MoU has also been entered into with the Central Government in respect of multi-State UCBs. As such, over 99 per cent of total number of UCBs have been covered under MoUs accounting for 99.2 per cent of total deposits as well advances of the sector. Following the MoUs, the Reserve Bank is committed to constituting State level Task Force for Cooperative Urban Banks (TAFCUB) comprising representatives of the Reserve Bank, State Government and the UCB sector. Accordingly, TAFCUBs have been constituted in all States with which MoUs have been signed. A Central TAFCUB has 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 into societies or liquidation, as the last option. The supervisory actions taken on the basis of the recommendations of the TAFCUBs include exiting banks through mergers with other UCBs, cancellation of licenses of non-viable UCBs and rejection of license applications of unlicensed UCBs.

There has been a distinct positive impact of the MoUs and TAFCUBs on the UCB sector. This is evident from a decline in the number of UCBs in Grade III and Grade IV taken together, signifying weak or sick banks from 725 as at end-March 2005 to 392 as on end-March 2009. In particular, there has been a steady decline in the number of UCBs in Grade III after 2004. Although UCBs in Grade IV increased at end-March 2005 and 2006, the number declined thereafter – from 270 as at end-March 2006 to 173 at end-March 2009 (Table 1).

Table 1: Changing Profile of the UCB Sector

Year (as at end-March)	No of UCBs	No. of banks in Grade				Percentage of Banks in Grade III and IV
		I	II	III	IV	
1	2	3	4	5	6	7
2004	1,919*	880	307	529	203	38
2005	1,872	807	340	497	228	39
2006	1,853	716	460	407	270	37
2007	1,813	652	598	295	268	31
2008	1,770	748	526	258	238	28
2009	1,721	845	484	219	173	23

* Out of 1,926 UCBs.

significantly from 53.3 per cent at end-March 2008 to 65.2 per cent at end-March 2009. A similar increase could also be seen in the percentage share of advances of UCBs from Grade I. This increase for the Grade I UCBs in deposits and advances meant a decline in the shares of UCBs from all the remaining categories of UCBs. The changing composition of deposits and advances of UCBs across grades implied the growing concentration of banking business in UCBs with sound financial performance (Table V.2).

Table V.2: Grade-wise Distribution of Deposits and Advances of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Grade	Number of banks	Number of banks as percentage to total	Amount of Deposits	Deposits as percentage to total	Amount of Advances	Advances as percentage to total
1	2	3	4	5	6	7
I	845	49.1	1,03,432	65.2	62,842	64.2
II	484	28.1	30,956	19.5	19,251	19.7
III	219	12.7	8,040	5.1	5,498	5.6
IV	173	10.1	16,304	10.3	10,326	10.5
Total	**1,721**	**100.0**	**1,58,733**	**100.0**	**97,918**	**100.0**

Note: Data for 2009 are provisional.

Distribution of UCBs by Size of Business and Assets

5.12 For the analysis in this section, UCBs were classified on the basis of the size of their business (deposits and advances) and assets. The distribution of UCBs by the size of their deposits was highly skewed with few UCBs commanding a large percentage of the total deposit base of the UCB sector. At end-March 2009, only 1.2 per cent of the total number of UCBs had a deposit base exceeding Rs.1,000 crore and these UCBs together accounted for 33.6 per cent of the total deposits of the entire UCB sector (Table V.3). Moreover, the distribution of deposits of UCBs has become increasingly skewed in the recent years. This is evident from the fact that as at end-March 2008, only 0.9 per cent of UCBs had a deposit base exceeding Rs.1,000 crore and these UCBs held about 28.8 per cent of the total deposits of the UCB sector.

5.13 The pattern of distribution of advances of UCBs was similar to that of deposits (Table V.4). At end-March 2009, less than one per cent of the total UCBs accounted for about one-fourth of the total advances. As advances constituted about half of the total assets of these banks, the pattern of distribution of advances was comparable with that of assets (Table V.5). Evidently, as the consolidation has been in progress in the UCB sector, there has been a growing concentration of banking business in favour of a few UCBs.

Table V.4: Distribution of Urban Cooperative Banks by Size of Advances
(As at end-March 2009)

Size of advances (Rs. crore)	Number of UCBs		Advances	
	Number	Percentage share in total	Amount	Percentage share in total
1	2	3	4	5
Ad ≥ 1000	11	0.6	25,033	25.6
500 ≤ Ad < 1000	16	0.9	11,093	11.3
250 ≤ Ad < 500	37	2.1	12,668	12.9
100 ≤ Ad < 250	116	6.7	17,721	18.1
50 ≤ Ad < 100	154	8.9	11,634	11.9
25 ≤ Ad < 50	236	13.7	8,658	8.8
10 ≤ Ad < 25	441	25.6	7,279	7.4
Ad < 10	710	41.3	3,831	3.9
Total	**1,721**	**100.0**	**97,918**	**100.0**

Ad : Size of advances.
Note: Data are provisional.

Table V.3: Distribution of Urban Cooperative Banks by Size of Deposits
(As at end-March 2009)

Deposit base (Rs. crore)	Number of UCBs		Deposits	
	Number	Percentage share in total	Amount (Rs. crore)	Percentage share in total
1	2	3	4	5
D ≥ 1000	20	1.2	53,281	33.6
500 ≤ D < 1000	27	1.6	18,749	11.8
250 ≤ D < 500	56	3.3	20,754	13.1
100 ≤ D < 250	189	11.0	28,526	18.0
50 ≤ D < 100	196	11.4	15,069	9.5
25 ≤ D < 50	317	18.4	11,757	7.4
10 ≤ D < 25	452	26.3	7,621	4.8
D < 10	464	27.0	2,975	1.9
Total	**1,721**	**100.0**	**1,58,733**	**100.0**

D : Deposit base.
Note: Data are provisional.

Table V.5: Distribution of Urban Cooperative Banks by Size of Assets
(As at end-March 2009)

Asset size (Rs. crore)	Number of UCBs		Assets	
	Number	Percentage share in total	Amount (Rs. crore)	Percentage share in total
1	2	3	4	5
A ≥ 2000	16	0.9	62,339	31.7
1000 ≤ A < 2000	10	0.6	12,378	6.3
500 ≤ A < 1000	39	2.3	26,422	13.5
250 ≤ A < 500	73	4.2	24,365	12.4
100 ≤ A< 250	226	13.1	33,554	17.1
50 ≤ A < 100	244	14.2	16,204	8.3
25 ≤ A < 50	336	19.5	11,567	5.9
15 ≤ A < 25	285	16.6	5,130	2.6
A < 15	492	28.6	4,436	2.3
Total	**1,721**	**100.0**	**1,96,395**	**100.0**

A : Asset size.
Note: Data are provisional.

Table V.6: A Profile of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Category	No. of UCBs	Deposits	Loans and Advances	Assets
1	2	3	4	5
All UCBs	**1,721**	**1,58,733 (100.0)**	**97,918 (100.0)**	**1,96,395 (100.0)**
Scheduled UCBs	53	67,929 (42.8)	42,234 (43.1)	85,895 (43.7)
Non-Scheduled UCBs	1,668	90,804 (57.2)	55,684 (56.9)	1,10,500 (56.3)

Note: Data are provisional.

Distribution of UCBs as Scheduled and Non-Scheduled Banks

5.14 The non-scheduled UCBs outnumber scheduled UCBs. At end-March 2009, the number of scheduled UCBs remained unchanged at 53, while the number of non-scheduled UCBs declined to 1,668 from 1,717 in the previous year. In other words, all the UCBs from Grade III/IV that wound up their business between 2008 and 2009 were non-scheduled UCBs.

5.15 At end-March 2009, non-scheduled UCBs had a relatively larger share in total deposits as well as advances of all UCBs (Table V.6). However, there has been a fall in the share of non-scheduled UCBs in total deposits and advances in the recent years. Scheduled UCBs accounted for 42.8 per cent of total deposits at end-March 2009 as compared to 41.8 per cent at end-March 2008. Further, the share of scheduled UCBs in total advances was 40.0 per cent at end-March 2008, which increased to 43.1 per cent at end-March 2009.

Tier-wise Distribution of UCBs

5.16 UCBs are categorised into two tiers, namely Tier I and Tier II, for regulatory purposes. As at end-March 2009, the number of Tier I UCBs far exceeded the number of Tier II UCBs. However, the share of Tier I UCBs in total deposits and advances ranged less than 24 per cent; the remaining was accounted for by Tier II UCBs (Table V.7).

Balance Sheet Operations of UCBs

5.17 There was a slowdown in the rate of growth of total assets of UCBs during 2008-09. The growth in total assets of UCBs declined from 11.1 per cent during 2007-08 to 9.5 per cent during 2008-09 (Table V.8). Loans and advances, which constituted about half of the total assets of UCBs, posted a growth of 8.3 per cent during the year. The most important driving factor on the assets side during 2008-09 were investments of UCBs, which grew at the rate of 12.8 per cent. On the liabilities side, the major source of expansion was from deposits, which grew at the rate of 13.5 per cent during the year down by 1.7 percentage points from the growth of 15.2 per cent during the previous year. However, the sustained double digit growth in deposits during the last two years as compared with the growth of 6.1 per cent recorded during

Table V.7: Tier-wise Distribution of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Tier	Number of UCBs		Deposits		Advances		Assets	
	Number	Percentage share in total	Amount	Percentage share in total	Amount	Percentage share in total	Amount	Percentage share in total
1	2	3	4	5	6	7	8	9
Tier I UCBs	1,429	83.0	37,937	23.9	22,913	23.4	47,528	24.2
Tier II UCBs	292	17.0	1,20,796	76.1	75,005	76.6	1,48,867	75.8
All UCBs	**1,721**	**100.0**	**1,58,733**	**100.0**	**97,918**	**100.0**	**1,96,395**	**100.0**

Note: Data are provisional.

Table V.8: Liabilities and Assets of Urban Cooperative Banks

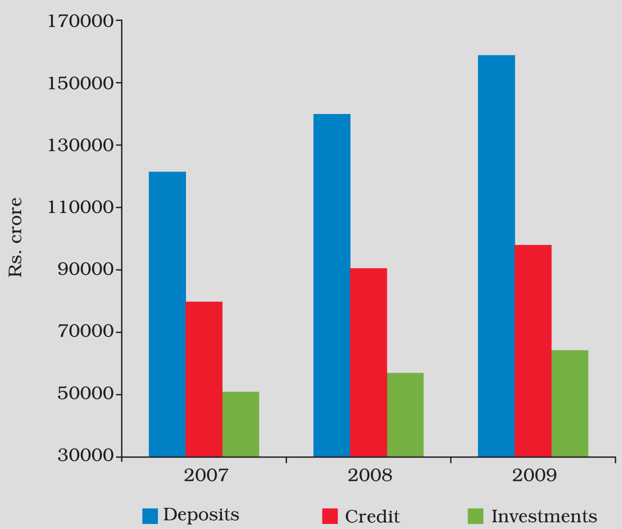
(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	4,769 (2.7)	5,261 (2.7)	20.2	10.3
2. Reserves	15,339 (8.5)	15,591 (7.9)	7.7	1.6
3. Deposits	1,39,871 (78.0)	1,58,733 (80.8)	15.2	13.5
4. Borrowings	2,680 (1.5)	2,554 (1.3)	0.9	-4.7
5. Other Liabilities	16,752 (9.3)	14,256 (7.3)	-12.7	-14.9
Assets				
1. Cash in Hand	1,935 (1.1)	1,907 (1.0)	19.3	-1.4
2. Balances with Banks	17,555 (9.8)	18,193 (9.3)	97.1	3.6
3. Money at Call and Short Notice	1,895 (1.1)	2,112 (1.1)	0.6	11.5
4. Investments	56,912 (31.7)	64,171 (32.7)	11.9	12.8
5. Loans and Advances	90,444 (50.4)	97,918 (49.9)	13.4	8.3
6. Other Assets	10,671 (5.9)	12,095 (6.2)	-42.2	13.3
Total Liabilities/Assets	**1,79,412 (100.0)**	**1,96,395 (100.0)**	**11.1**	**9.5**

P: Provisional.
Note: Figures in parentheses are percentages to total liabilities/assets.

2006-07 indicated the growing public confidence in this sector (Chart V.2).

Chart V.2: Deposits, Credit and Investments of UCBs



5.18 UCBs relied heavily on deposits as a source of funds, which accounted for 80.8 per cent of their total liabilities in 2009. Borrowings on the other hand formed only 1.3 per cent of their liabilities. This dependence on deposits over borrowings marked the striking difference between the operations of the urban and rural cooperative banks.

5.19 Similar to rural cooperative banks and also SCBs, SLR investment was the most preferred form of investment for UCBs. SLR investments accounted for the bulk of total investments of UCBs with a share of 91.4 per cent at end-March 2009 (Table V.9). As noted in Chapter III, UCBs are also allowed to treat the term deposits held by them with DCCBs of the district concerned and StCBs of the State concerned as SLR investments. During 2008-09, term deposits with StCBs and DCCBs together were the second most important form of SLR investments for UCBs after investments in Central Government securities.

Table V.9: Investments by Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation
	2008	2009P	2008-09P
1	2	3	4
Total Investments (A+B)	**56,912 (100.0)**	**64,171 (100.0)**	**12.8**
A. SLR Investments (i to vi)	**52,302 (91.9)**	**58,677 (91.4)**	**12.2**
i) Central Government Securities	33,408 (58.7)	36,205 (56.4)	8.4
ii) State Government Securities	4,330 (7.6)	4,564 (7.1)	5.4
iii) Other Approved Securities	1,040 (1.8)	819 (1.3)	-21.3
iv) Term Deposits with StCBs	4,081 (7.2)	5,406 (8.4)	32.5
v) Term Deposits with DCCBs	8,163 (14.3)	9,258 (14.4)	13.4
vi) Others, if any	1,280 (2.2)	2,425 (3.8)	89.5
B. Non-SLR Investments (in bonds of public sector institutions/AIFIs, shares of AIFIs and Units of UTI)	**4,610 (8.1)**	**5,494 (8.6)**	**19.2**

P: Provisional.
Note: Figures in parentheses are percentages to total.

Balance Sheet Operations of Scheduled and Non-Scheduled UCBs

5.20 The year 2008-09 was a year of considerable expansion in the size of the balance sheet of scheduled UCBs as compared to non-scheduled UCBs (Tables V.10 and V.11)[2]. The decline in balance sheet size of non-scheduled UCBs came about from its two important components on the assets and liabilities side, namely, advances and deposits. Despite a decline in deposit growth during 2008-09 for non-scheduled UCBs, there was a rise in the share of deposits in the total liabilities of these banks. For scheduled UCBs, there was an increase in the growth as well as share of deposits in total liabilities. Borrowings constituted a relatively small source of funds for both scheduled and non-scheduled UCBs.

Table V.10: Liabilities and Assets of Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	1,322 (1.8)	1,510 (1.8)	32.9	14.2
2. Reserves	6,759 (9.0)	6,900 (8.0)	-2.0	2.1
3. Deposits	58,871 (78.5)	67,929 (79.1)	15.0	15.4
4. Borrowings	1,476 (2.0)	1,833 (2.1)	9.7	24.2
5. Other Liabilities	6,600 (8.8)	7,724 (9.0)	-43.5	17.0
Assets				
1. Cash in hand	546 (0.7)	508 (0.6)	28.8	-7.0
2. Balances with Banks	7,584 (10.1)	7,774 (9.1)	67.0	2.5
3. Money at call and short notice	1,009 (1.3)	1,425 (1.7)	-8.0	41.2
4. Investments	25,776 (34.4)	29,210 (34.0)	12.7	13.3
5. Loans and Advances	36,147 (48.2)	42,234 (49.2)	10.2	16.8
6. Other Assets	3,966 (5.3)	4,744 (5.5)	-61.6	19.6
Total Liabilities/Assets	**75,028 (100.0)**	**85,895 (100.0)**	**4.1**	**14.5**

P: Provisional.
Note: Figures in parentheses are percentages to total liabilities/assets.

Table V.11: Liabilities and Assets of Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	3,447 (3.3)	3,752 (3.4)	15.9	8.8
2. Reserves	8,580 (8.2)	8,691 (7.9)	16.9	1.3
3. Deposits	81,000 (77.6)	90,804 (82.2)	15.4	12.1
4. Borrowings	1,204 (1.2)	722 (0.7)	-8.2	-40.0
5. Other Liabilities	10,152 (9.7)	6,532 (5.9)	35.0	-35.7
Assets				
1. Cash in Hand	1,388 (1.3)	1,398 (1.3)	15.9	0.7
2. Balances with Banks	9,971 (9.6)	10,419 (9.4)	128.5	4.5
3. Money at Call and Short Notice	885 (0.8)	687 (0.6)	12.5	-22.4
4. Investments	31,136 (29.8)	34,961 (31.6)	11.3	12.3
5. Loans and Advances	54,297 (52.0)	55,684 (50.4)	15.7	2.6
6. Other Assets	6,705 (6.4)	7351 (6.7)	-17.3	9.6
Total Liabilities/ Assets	**1,04,383 (100.0)**	**1,10,500 (100.0)**	**16.8**	**5.9**

P : Provisional.
Note: Figures in parentheses are percentages to total liabilities/assets.

5.21 Loans and advances accounted for a relatively smaller share in the balance sheets of scheduled UCBs as compared to non-scheduled UCBs. The annual rate of growth of loans and advances for scheduled UCBs, however, was observed to be significantly higher than that for non-scheduled UCBs during 2008-09.

[2] Bank-wise details about the financial performance of scheduled UCBs have been given in Appendix Tables V.1 and V.2.

Table V.12: Composition of Investments of Scheduled and Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2007-08	2008-09P	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5	6	7
SLR Investments	22,986 (89.2)	26,067 (89.2)	29,315 (94.2)	32,610 (93.3)	52,302 (91.9)	58,677 (91.4)
Non-SLR Investments	2,790 (10.8)	3,143 (10.8)	1,821 (5.8)	2,351 (6.7)	4,610 (8.1)	5,494 (8.6)
Total Investments	**25,776 (100.0)**	**29,210 (100.0)**	**31,136 (100.0)**	**34,961 (100.0)**	**56,912 (100.0)**	**64,171 (100.0)**

P : Provisional.
Note: Figures in parentheses are percentages to total.

5.22 The importance of SLR investments could be seen in the investment profile of both scheduled and non-scheduled UCBs (Table V.12). However, in the case of scheduled UCBs, SLR investments posted a higher rate of growth during 2008-09 than non-scheduled UCBs. Moreover, during the year, the share of SLR investments in total investments of non-scheduled UCBs posted a fall, while that for scheduled UCBs remained unchanged.

Financial Performance of UCBs

5.23 During 2008-09, there was a slowdown in the growth of operating profits of UCBs. The decline in the growth of net profits was relatively starker on account of an increase in provisions and contingencies. However, it is noteworthy that net profits of UCBs have consistently posted positive growth during the last two years. Moreover, with respect to profitability, UCBs have outperformed rural cooperatives during 2007-08 (the comparable year for which data are available for rural cooperatives) (Table V.13 read with Tables V.26 and V.29).

Financial Performance of Scheduled and Non-Scheduled UCBs

5.24 The net interest income for non-scheduled UCBs increased significantly during the year. As a result, net profits registered a growth of 37.3 per cent during the year. In contrast, scheduled UCBs experienced a small reduction in their profitability during the year (Tables V.14 and V.15).

Table V.13: Financial Performance of Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	**15,385 (100.0)**	**18,952 (100.0)**	**25.3**	**23.2**
i. Interest Income	13,833 (89.9)	17,027 (89.8)	23.3	23.1
ii. Non-Interest Income	1,552 (10.1)	1,925 (10.2)	45.7	24.0
B. Total Expenditure (i+ii)	**12,400 (100.0)**	**15,402 (100.0)**	**26.6**	**24.2**
i. Interest Expenditure	8,966 (72.3)	10,992 (71.4)	33.9	22.6
ii. Non-Interest Expenditure	3,434 (27.7)	4,411 (28.6)	10.8	28.5
of which: Wage Bill	1,836	2,445	59.8	33.2
C. Profit				
i. Amount of Operating Profit	2,985	3,549	20.2	18.9
ii. Provisions, Contingencies, Taxes	1,464	1,803	11.8	23.2
iii. Amount of Net Profit	1,520	1,746	29.6	14.9

P: Provisional.
Note: Figures in the parentheses are percentages to respective totals.

Soundness Indicators

Asset Quality

5.25 Notwithstanding the slowdown in economic activity and expectations about higher loan defaults following the global crisis, there was a decline in the (gross) NPA ratio of the UCB sector in 2008-09. Further, during the year, there was a decline in the amount of (gross) NPAs as well (Table V.16). It is also noteworthy that the NPA ratio for UCBs was on a decline between 2005 and 2009 reflecting the growing financial soundness of this sector (Chart V.3)[3].

5.26 Though there has been a decline in the NPA ratio for UCBs, the ratio still remains much higher than that of SCBs. The ratio for UCBs, however, is fairly lower than their rural counterparts, namely, rural cooperatives (Table V.16 read with Table V.23).

Table V.14: Financial Performance of Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	**6,420 (100.0)**	**8,205 (100.0)**	**39.7**	**27.8**
i. Interest Income	5,605 (87.3)	7,161 (87.3)	38.1	27.8
ii. Non-Interest Income	815 (12.7)	1,044 (12.7)	52.9	28.1
B. Total Expenditure (i+ii)	**5,039 (100.0)**	**6,527 (100.0)**	**32.9**	**29.5**
i. Interest Expenditure	3,574 (70.9)	4,713 (72.2)	43.6	31.9
ii. Non-Interest Expenditure	1,465 (29.1)	1,814 (27.8)	12.5	23.8
of which: Wage Bill	773	903	96.2	16.8
C. Profit				
i. Amount of Operating Profit	1,381	1,678	72.0	21.5
ii. Provisions, Contingencies, Taxes	472	772	58.4	63.6
iii. Amount of Net Profit	909	906	80.0	-0.3

P: Provisional.
Note: Figures in the parentheses are percentages to respective totals.

Table V.15: Financial Performance of Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	**8,965 (100.0)**	**10,747 (100.0)**	**16.6**	**19.9**
i. Interest Income	8,228 (91.8)	9,866 (91.8)	15.0	19.9
ii. Non-Interest Income	736 (8.2)	881 (8.2)	38.3	19.7
B. Total Expenditure (i+ii)	**7,361 (100.0)**	**8,875 (100.0)**	**22.6**	**20.6**
i. Interest Expenditure	5,391 (73.2)	6,279 (70.7)	28.1	16.5
ii. Non-Interest Expenditure	1,969 (26.7)	2,596 (29.3)	9.5	31.8
of which: Wage Bill	1,063	1,542	40.8	45.1
C. Profit				
i. Amount of Operating Profit	1,604	1,871	-4.5	16.6
ii. Provisions, Contingencies, Taxes	992	1,031	-2.0	3.9
iii. Amount of Net Profit	612	840	-8.4	37.3

P : Provisional.
Note: Figures in parentheses are percentages to respective totals.

Table V.16: Gross Non-Performing Assets of Urban Cooperative Banks

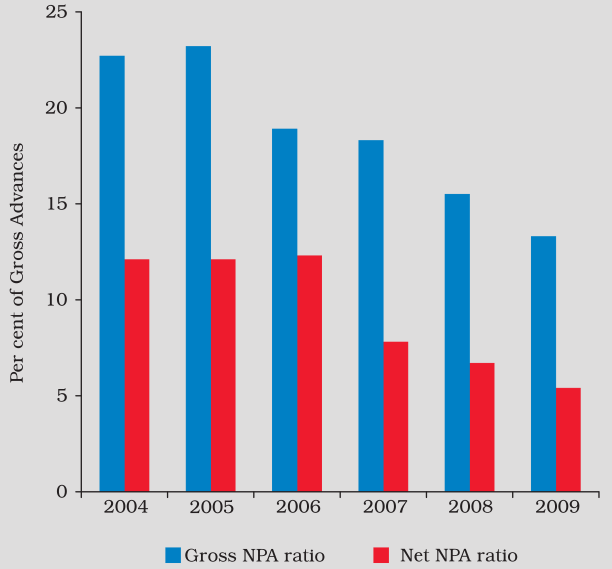
(Amount in Rs. crore)

As at end-March	No. of reporting UCBs	Gross NPAs	Gross NPAs as percentage of Gross Advances	Net NPAs	Net NPAs as percentage of Net Advances
1	2	3	4	5	6
2007	1,813	14,541	18.3	6,235	8.8
2008	1,770	14,037	15.5	6,083	7.7
2009P	1,721	13,043	13.3	5,318	6.1

P: Provisional.

[3] In Chart V.3, gross and net NPAs of UCBs are taken as per cent of gross advances, as data on net advances are available only for the years after 2007.

Chart V.3: Gross and Net NPA Ratio of UCBs



Capital Adequacy

5.27 At present, the regulatory minimum CRAR for UCBs stands at 9 per cent. As at end-March 2009, 1,485 UCBs of the total 1,721 were complying with the regulatory minimum (Table V.17). There has been an improvement in capital adequacy for UCBs as evident from an increasing proportion of banks having CRAR of 9 per cent and above; as at end-March 2008, their proportion was 82.3 per cent, which had risen to 86.3 per cent at end-March 2009.

Table V.17: Distribution of Urban Cooperative Banks by CRAR
(As at end-March 2009)

Range of CRAR (Per cent)	CRAR <3	3≤ CRAR <6	6≤ CRAR <9	CRAR ≥9	**Total**
1	2	3	4	5	**6**
Non-Scheduled UCBs	136	24	66	1,442	**1,668**
Scheduled UCBs	8	1	1	43	**53**
All UCBs	**144**	**25**	**67**	**1,485**	**1,721**

Note: Data are provisional.

5.28 Notwithstanding the overall improvement in capital adequacy, it is noteworthy that about 8 per cent of the non-scheduled UCBs and 15 per cent of the scheduled UCBs had CRAR below 3 per cent signifying serious inadequacy of capital for these banks to cushion any potential loss. The stress test carried out by the CFSA for UCBs also revealed the underlying fragility of this sector (Box V.2).

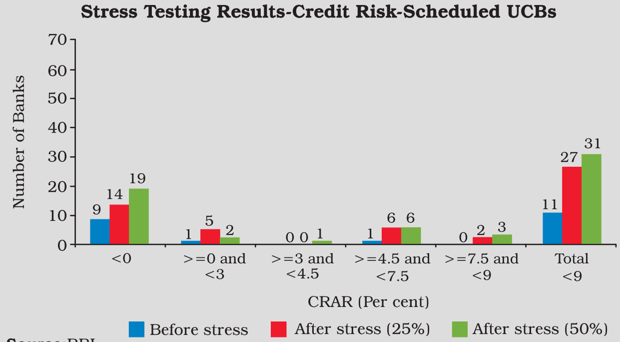
Box V.2: Financial Assessment of the UCB Sector by the CFSA

The Committee on Financial Sector Assessment (CFSA) undertook a comprehensive self-assessment of the Indian financial system. Among other sectors, the CFSA assessed the financial health of the UCB sector. Apart from discussing some of the major concerns related to the UCBs sector, such as duality of control and high levels of NPAs, the Committee also carried out stress tests on this sector, which highlighted the weak financial health of this sector.

On account of data limitations, the stress tests were carried out on 52 scheduled UCBs accounting for 43 per cent of the total assets at end-March 2007 of all scheduled UCBs. The tests were restricted to the credit portfolio of these banks. The credit portfolios of the UCBs were given shocks in the form of an increase in the provisioning requirement and an increase of 25 per cent and 50 per cent in the non-performing assets.

The tests revealed that as at end-March 2007, 27 banks (accounting for 38 per cent of scheduled UCBs' assets) would not have been able to comply with the 9 per cent CRAR norm with an increase in NPA levels by 25 per cent. At the system level, the CRAR declined from 11.4 per cent to 5.6 per cent at 25 per cent stress in NPAS. Further, with an increase in NPA levels by 50 per cent, the number of banks that would not have been able to comply with the stipulated minimum increased to 31. Moreover, at the system level, the CRAR dipped sharply to 2.8 per cent (Chart below).

Stress Testing Results-Credit Risk-Scheduled UCBs



Source:RBI

Priority Sector Advances

5.29 UCBs were subjected to priority sector lending targets in 1983 on account of the important role played by these institutions in purveying banking facilities to low and middle income groups from urban and semi-urban areas. Presently, UCBs have to extend 40 per cent of their Adjusted Net Bank Credit (ANBC) or credit equivalent of Off-Balance Sheet Exposure (OBE), whichever is higher, as on March 31 of the previous year, to priority sectors. Of this target, at least 25 per cent needs to be given to 'weaker sections'. However, unlike SCBs, UCBs are not bound by any separate target for agriculture given the primarily urban focus of these banks.

5.30 As at end-March 2009, a large part (38.5 per cent) of the priority sector advances of UCBs was towards small enterprises closely followed by housing loans (with a share of 25.1 per cent). Further, UCB credit to small enterprises recorded a phenomenal growth of 41.7 per cent during 2008-09 contrary to the concerns about a slowdown in bank credit to these enterprises following the global crisis. As a result, loans to small enterprises, which had a share of 16.9 per cent in total advances of UCBs as at end-March 2008 increased 21.7 per cent at end-March 2009 (Table V.18).

Table V.18: Advances to Priority Sectors and Weaker Sections by Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Sector	Priority Sector		Weaker Sections	
	Amount	Per-centage share in total advances	Amount	Per-centage share in total advances
1	2	3	4	5
Agriculture and Allied Activities	**4,731**	**4.8**	**1,732**	**1.8**
1. Direct Finance	1,415	1.4	537	0.5
2. Indirect Finance	3,316	3.4	1,195	1.2
Retail Trade	**10,235**	**10.5**	**2,958**	**3.0**
Small Enterprises	**21,283**	**21.7**	**3,748**	**3.8**
1. Direct Finance	15,331	15.7	2,866	2.9
2. Indirect Finance	5,952	6.1	882	0.9
Educational Loans	**1,461**	**1.5**	**557**	**0.6**
Housing Loans	**13,882**	**14.2**	**4,271**	**4.4**
Micro Credit	**3,130**	**3.2**	**1,035**	**1.1**
State Sponsored Organisations for SC/ST	**526**	**0.5**	**273**	**0.3**
Total Credit to Priority Sectors	**55,248**	**56.4**	**14,573**	**14.9**

Note: Data are provisional.

Regional Profile of UCBs

5.31 The operations of UCBs were largely concentrated in three States, *viz*., Maharashtra (including Goa), Gujarat and Karnataka. These three States together accounted for 64.8 per cent of the total number of UCBs operational in the country as at end-March 2009 (Table V.19). The

Table V.19: State-wise Distribution of Number of Urban Cooperative Banks
(As at end-March 2009)

State	Number of UCBs	Number of Branches*	Number of Extension Counters	Number of ATMs**
1	2	3	4	5
Andhra Pradesh	114	234	7	1
Assam/North-east	17	28	0	0
Bihar/Jharkhand	5	6	1	0
Chattisgarh	13	21	2	1
Gujarat	260	886	10	57
Jammu and Kashmir	4	16	4	0
Karnataka	273	828	9	16
Kerala	60	332	2	0
Madhya Pradesh	55	84	0	0
Maharashtra/Goa	583	4,148	165	573
New Delhi	15	62	1	0
Orissa	13	50	4	4
Punjab/Haryana/ Himachal Pradesh	16	40	3	1
Rajasthan	39	149	3	1
Tamil Nadu/ Puducherry	130	310	0	1
Uttar Pradesh	70	179	19	0
Uttarakhand	5	49	2	3
West Bengal/Sikkim	49	100	2	1
Total	**1,721**	**7,522**	**234**	**659**

* : Including head office cum branch.
** : Out of 659 ATMs, 12 were offsite ATMs and rest were onsite ATMs. All offsite ATMs were located in Maharashtra.
Note: Data are provisional.

Table V.20: State-wise Distribution of Deposits and Advances of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

State	Deposits		Advances		Total number of districts with presence of UCBs
	Amount	Percentage share in total	Amount	Percentage share in total	
1	2	3	4	5	6
Andhra Pradesh	3,653	2.3	2,541	2.6	21
Assam	269	0.2	155	0.2	6
Bihar	41	0.02	22	0.02	2
Chhattisgarh	271	0.2	90	0.1	7
Gujarat	25,564	16.1	14,091	14.4	26
Haryana	274	0.2	160	0.2	7
Himachal Pradesh	266	0.2	161	0.2	4
Jammu & Kashmir	253	0.2	153	0.2	5
Jharkhand	11	0.006	7	0.007	2
Karnataka	10,391	6.5	7,183	7.3	26
Kerala	3,849	2.4	2,493	2.5	14
Madhya Pradesh	1,027	0.6	498	0.5	25
Goa	1,290	0.8	751	0.8	5
Maharashtra	96,249	60.6	60,634	61.9	35
Manipur	129	0.1	58	0.1	3
Meghalaya	60	0.03	28	0.02	3
Mizoram	10	0.006	4	0.004	1
New Delhi	1,241	0.8	523	0.5	1
Orissa	854	0.5	532	0.5	13
Puducherry	101	0.1	79	0.1	1
Punjab	552	0.3	277	0.3	2
Rajasthan	2,468	1.6	1,402	1.4	23
Sikkim	5	0.003	4	0.004	1
Tamil Nadu	3,598	2.3	2,608	2.7	30
Tripura	10	0.003	6	0.006	1
Uttar Pradesh	2,554	1.6	1,483	1.5	36
Uttarakhand	1,194	0.8	668	0.7	7
West Bengal	2,551	1.6	1,309	1.3	11
Total	**1,58,733**	**100.0**	**97,918**	**100.0**	**318**

Note: 1. Data are provisional.
2. State-wise figures on credit and deposits may not add up exactly to the total due to rounding off.

State-wise distribution of advances and deposits of UCBs was even more skewed with Maharashtra alone accounting for over 60 per cent of the total advances and deposits of all UCBs (Table V.20). Across all centres in the country, the percentage of sound UCBs belonging to Grades I and II was more than 50 per cent (Table V.21).

4. Rural Cooperatives

Supervision of Rural Cooperatives

5.32 The supervision of StCBs and DCCBs rests with NABARD in accordance with the powers vested with it under Section 35(6) of the B. R. Act, 1949 (AACS). For effective

Table V.21: Centre-wise Number of Urban Cooperative Banks classified by Grades
(As at end-March 2009)

State	Grade I	Grade II	Grade III	Grade IV	**Total**
1	2	3	4	5	6
Ahmedabad	116	100	16	28	**260**
Bangalore	128	82	47	16	**273**
Bhopal	13	25	12	5	**55**
Bhubaneswar	3	4	3	3	**13**
Chandigarh	10	2	1	3	**16**
Chennai	88	34	3	5	**130**
Dehradun	4	-	1	-	**5**
Guwahati	7	8	1	1	**17**
Hyderabad	75	25	6	8	**114**
Jaipur	25	11	1	2	**39**
Jammu	3	-	1	-	**4**
Kolkata	27	11	1	10	**49**
Lucknow	46	10	9	5	**70**
Mumbai	202	100	64	54	**420**
Nagpur	55	40	39	29	**163**
New Delhi	11	2	1	1	**15**
Patna	5	-	-	-	**5**
Raipur	7	3	1	2	**13**
Thiruvananthapuram	20	27	12	1	**60**
Total	**845**	**484**	**219**	**173**	**1,721**

Note: Data are provisional.

regulation, NABARD's inspections are focussed on ensuring conformity with banking regulations and facilitating internalisation of prudential norms.

5.33 In 2008-09, the frequency for statutory inspections of all StCBs and DCCBs, which did not comply with minimum capital requirements continued to be annual. The frequency was annual for voluntary inspections of all SCARDBs as well. The statutory inspections of DCCBs having positive net worth were conducted once in two years. During the year, NABARD conducted statutory inspections of 273 banks (30 StCBs and 243 DCCBs) and voluntary inspections of 17 SCARDBs.

5.34 The inspections by NABARD during the year revealed, *inter alia*, the following supervisory concerns: (i) non-compliance with statutory provisions; (ii) high level of NPA/ erosion of assets; (iii) deficiencies in sanction, appraisal of loans/ advances and post-disbursement follow-up; (iv) inadequate risk management systems; (v) delay in submission of returns and satisfactory compliance to inspection observations; (vi) lack of corporate governance and (vii) incidence of frauds.

5.35 The Board of Supervision (BoS) was constituted by NABARD under Section 13(3) of NABARD Act, 1981 as an Internal Committee to the Board of Directors of NABARD. The Board primarily gives directions and guidance in respect of policies and matters relating to supervision and inspection of StCBs, DCCBs and RRBs. The Board met three times during the year. Among other issues, it reviewed the following: (i) functioning of StCBs and SCARDBs; (ii) functioning of cooperative credit institutions and RRBs of Kerala, Bihar and Rajasthan; (iii) functioning of insolvent, weak DCCBs and RRBs; (iv) impact of supervision on banks' performance; (v) scheduling of amalgamated RRBs; and (vi) supervisory trends pertaining to rating of banks.

5.36 NABARD revised the inspection guidelines for all banks keeping in view the latest developments and policy environment. The revised guidelines stressed *inter alia* on the following: (i) asset liability management; (ii) Codes of Standards and Fair Practices; (iii) lenders' financial discipline and (iv) CRAR norms.

Management of Cooperatives

5.37 The phenomenon of supersession of elected Boards continued during the year in some States despite the policy of NABARD to emphasise on the need for cooperative banks to be managed by duly elected Boards of Management. However, there was a decline in the percentage of institutions where such supersession was observed. As on March 31, 2008, the percentage of (reporting) institutions where the elected boards were superseded was 41.9 per cent as compared to 46.4 per cent last year (Table V.22). The phenomenon of supersession was most prominent among SCARDBs and DCCBs.

Operations and Financial Performance of Rural Cooperatives

5.38 Data for rural credit cooperatives (comprising StCBs, DCCBs, PACS, SCARDBs and PCARDBs) are available with a lag of one year and hence, the analysis in the present section relates to 2007-08.

5.39 During 2007-08, there was a fall in the total number of rural credit cooperatives by 2,282; this was attributable primarily to the fall in the number of PACS (Table V.23). Further, there was a considerable deterioration in the asset quality of both short-term and long-term cooperative institutions during 2007-08. The overall ratio of NPAs to loans outstanding for all credit cooperatives moved up to 25.9 per cent as at end-March 2008 from 19.8 per cent as at end-March 2007. Also, the number of loss making credit cooperatives far exceeded the number of profit making entities at end-March 2008, which has been a regular feature of credit cooperatives in the past. All credit cooperatives taken together booked an overall loss of Rs.3,954 crore during the year.

Short-term Structure of Rural Cooperatives

5.40 The short-term structure comprising State, district and primary cooperative credit institutions caters primarily to the various short/medium-term production and marketing credit needs in agriculture. Of the total credit outstanding with the cooperative structure as a whole in 2007-08, short-term credit structure had a dominant share of about 88 per cent (Table V.23). Further, of the total deposits mobilised though the rural cooperative structure as a whole, about 99 per cent were mobilised by the short-term cooperative credit institutions.

Table V.22: Elected Boards under Supersession
(As at end-March 2008)

Item	StCBs	DCCBs	SCARDBs	PCARDBs	**Total**
1	2	3	4	5	6
(i) Total number of Institutions	31	371	20	697	**1,119**
(ii) Number of Reporting Institutions	28	324	15	642	**1,009**
(iii) Number of Institutions where Boards were under Supersession	9	146	8	260	**423**
Percentage of Reporting Boards under Supersession [(iii) as per cent of (ii)]	**32.1**	**45.1**	**53.3**	**40.5**	**41.9**

Source: NABARD.

Table V.23: A Profile of Rural Cooperative Credit Institutions
(At end-March 2008)

(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 Cooperative Banks	31	371	94,942	20	697	**96,061**
B. Balance Sheet Indicators						
i) Owned Funds (Capital + Reserves)	10,718	24,754	10,984	3,713	3,039	**53,208**
ii) Deposits	52,973	1,02,986	25,449	645	331	**1,82,384**
iii) Borrowings	22,164	26,096	47,848	15,843	10,206	**1,22,157**
iv) Loans and Advances Issued*	57,455	93,162	57,643	2,226	1,773	**2,12,259**
v) Loans and Advances Outstanding	48,228	91,374	65,666	18,217	9,529	**2,33,014**
vi) Investments	29,060	44,419	-	2,526	752	**76,757**
vii) Total Liabilities/Assets	90,151	1,61,932	88,107 +	24,403	18,209	**3,82,802**
C. Financial Performance^^						
i) Institutions in Profit						
a) No.	23	234	38,307	9	203	**38,776**
b) Amount of Profit	234	760	2,230	151	170	**3,545**
ii) Institutions in Loss						
a) No.	5	88	48,520	8	258	**48,879**
b) Amount of Loss	-49	-825	-5,711	-398	-516	**-7,499**
iii) Overall Profit/Loss	185	-65	-3,481	-247	-346	**-3,954**
iv) Accumulated Loss	-429	-6,106	-	-1,257	-3,214	**-11,006**
D. Non-performing Assets**						
i) Amount	6,169	18,728	24,004 ++	6,292	5,114	**60,307**
ii) As percentage of Loans Outstanding	12.8	20.5	36.6 ^^^	34.5	53.7	**25.9**
iii) Recovery of Loans to Demand (Per cent)	84.6	55.6	64.3	49.0	44.0	

^ : Data for PCARDBs in Himachal Pradesh, Kerala, and Tamil Nadu are not available.
** : NPA and Recovery to Demand data for StCBs in Bihar, Himachal Pradesh and Manipur and DCCBs from Bihar and Himachal Pradesh are repeated from previous year for the all-India calculation.
# : Profit/loss data in respect of DCCBs in Andhra Pradesh, Bihar and Himachal Pradesh are not available.
^^ : One DCCB in Gujarat and Madhya Pradesh each was in no profit no loss position.
@ : Data for Bihar, Himachal Pradesh and Tamil Nadu SCARDB are not available.
+ : Working capital. * : April- March. ^^^ : Percentage of overdues to loans outstanding. ++ : Total overdues.
- : Not available.
Note: 1. SCARDB in Manipur is defunct.
2. Data are provisional.
Source: NABARD and NAFSCOB.

State Cooperative Banks

5.41 The growth in the balance sheets of StCBs slowed down during 2007-08 with the total assets/liabilities growing at a decelerated rate of 5.1 per cent as compared to 12.1 per cent during the previous year (Table V.24). This slowdown came about mainly from a sharp fall in the growth of loans and advances of StCBs on the assets side. This fall in growth resulted in bringing down the share of loans and advances in the total assets of StCBs *albeit* marginally. Loans and advances continued to constitute more than half of the total assets of these institutions. As a major part of the loans from StCBs being apex level institutions go towards the lower tier institutions in short-term credit structure, a decline in the growth of loans from StCBs implied reduced lending to the lower tier institutions. Compensating for a fall

Table V.24: Liabilities and Assets of State Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	1,246 (1.5)	1,468 (1.6)	11.8	17.9
2. Reserves	9,303 (10.8)	9,250 (10.3)	-1.4	-0.6
3. Deposits	48,560 (56.6)	52,973 (58.8)	6.9	9.1
4. Borrowings	22,256 (26.0)	22,164 (24.6)	31.0	-0.4
5. Other Liabilities	4,392 (5.1)	4,296 (4.8)	24.0	-2.2
Assets				
1. Cash and Bank Balance	9,290 (10.8)	8,065 (8.9)	114.9	-13.2
2. Investments	24,140 (28.1)	29,060 (32.2)	-12.8	20.4
3. Loans and Advances	47,354 (55.2)	48,228 (53.5)	19.3	1.8
4. Other Assets	4,971 (5.8)	4,798 (5.3)	4.0	-3.5
Total Liabilities/ Assets	**85,756 (100.0)**	**90,151 (100.0)**	**12.1**	**5.1**

P: 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 V.25: Salient Balance Sheet Indicators of Scheduled StCBs

(Amount in Rs. crore)

Item	As on Last Reporting Friday of March		
	2007	2008	2009
1	2	3	4
Aggregate Deposits	36,544	42,396 (16.0)	52,568 (24.0)
Bank Credit	44,663	46,886 (5.0)	42,372 -(9.6)
SLR Investments	13,408	15,773 (17.6)	17,179 (8.9)

Note: Figures in parentheses indicate percentage change over the previous year.

Source: Form B returns of Section 42(2) data.

in the share of loans and advances were investments by StCBs, which grew at high rate of 20.4 per cent in 2007-08. Consequently, their share in total assets rose by about four percentage points during the year. This increase in investments of StCBs was in the form of SLR investments, which constituted over 60 per cent of the total investments of these institutions in 2007-08.

5.42 Section 42(2) data are available on some of the major heads of assets and liabilities for 16 scheduled StCBs as on the last reporting Friday of March 2009. These data indicate a steep increase in aggregate deposits of StCBs, which is the most important component of liabilities of these institutions. Aggregate deposits grew by 24.0 per cent during 2008-09 over and above a growth of 16.0 per cent during 2007-08 (Table V.25). During 2008-09, there was a fall in bank credit of these institutions at the rate of 9.6 per cent as compared to an increase by 5.0 per cent during 2007-08.

StCBs - Financial Performance

5.43 Unlike Scheduled Commercial Banks, sources of non-interest income are relatively weak for StCBs. Interest income constituted the largest component having a share of 98.4 per cent in the total income of StCBs in 2007-08 (Table V.26). Moreover, the growth as well as share of interest income was on a rise for these institutions. Similarly, on the expenditure side, the most important component was interest expended by StCBs. Like interest earned, interest expended too posted an increase in terms of growth and share during 2007-08. In the entire short-term structure, StCBs were the only institutions that made net profits during the year (Table V.23). About 82 per cent of the total number of reporting StCBs were in profit in 2007-08. Although StCBs booked net profits during the year, there was a decline in the rate of growth of their profits (Table V.26).

Table V.26: Financial Performance of State Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	**5,242 (100.0)**	**5,750 (100.0)**	**-7.3**	**9.7**
i. Interest Income	4,974 (94.9)	5,657 (98.4)	-6.5	13.7
ii. Other Income	269 (5.1)	93 (1.6)	-20.0	-65.4
B. Expenditure (i+ii+iii)	**4,967 (100.0)**	**5,565 (100.0)**	**-5.9**	**12.0**
i. Interest Expended	3,708 (74.7)	4,397 (79.0)	1.4	18.6
ii. Provisions and Contingencies	502 (10.1)	372 (6.7)	-51.7	-25.8
iii. Operating Expenses	757 (15.2)	796 (14.3)	30.3	5.1
of which: Wage Bill	398 (8.0)	425 (7.6)	4.4	6.8
C. Profit				
i. Operating Profit	777	557	-45.2	-28.3
ii. Net Profit	275	185	-27.2	-32.8
D. Total Assets (end-March)	**85,756**	**90,151**	**12.1**	**5.1**

P: Provisional.
Note: Figures in parentheses are percentages to the respective totals.
Source: NABARD.

Table V.27: Asset Quality of State Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**6,704**	**6,169**	**-0.5**	**-8.0**
i) Sub-standard	2,957	2,779	7.0	-6.0
ii) Doubtful	2,625	2,652	14.5	1.1
iii) Loss	1,122	737	-33.2	-34.3
B. NPAs to Loans Ratio	**14.2**	**12.8**		
Memo Item:				
C. Recovery to Demand (Per cent)	85.7	84.6		
D. Provisions Required	2,820	2,654	-15.9	-5.9
E. Provisions Made	3,200	2,998	-11.1	-6.3

P : Provisional.
Source: NABARD.

StCBs - Asset Quality and Recovery Performance

5.44 During 2007-08, NPAs of StCBs posted a decline in absolute terms (Table V.27). The ratio of NPAs (to loans outstanding) also stood at a lower level of 12.8 per cent at end-March 2008 as compared to its corresponding level of 14.2 per cent at end-March 2007. Recent trends in the asset quality of these institutions are summarised in Box V.3.

5.45 A cursory comparison of the NPA ratio of StCBs with that of scheduled commercial banks reveals that the asset quality of StCBs was considerably weaker with a (gross) NPA ratio of 12.8 per cent at end-March 2008. Nevertheless, StCBs seemed better placed in terms of asset quality than their urban counterparts namely the UCBs, which had a higher (gross) NPA ratio of 15.5 per cent at end-March 2008 (reference to Table V.16).

5.46 Of the various categories of NPAs, 'sub-standard' and 'doubtful' assets each constituted over 40 per cent of the total NPAs of StCBs at end-March 2008. The third category of 'loss' assets had a share of 11.9 per cent at end-March 2008. There was a fall in terms of both growth and share of 'loss' assets between 2007 and 2008 (Chart V.4).

StCBs - Regional Profile

5.47 There was considerable variation in the profitability and asset quality of StCBs across States (Appendix Table V.3). While on the one hand, StCBs from the northern region had the lowest NPA ratio of around 3 per cent during 2007-08, the StCBs from the north-eastern region had as high as 40 per cent of their total loan assets classified as non-performing in nature. However, it is noteworthy that the NPA ratio for the north-eastern region as a whole has been on a decline in the recent past signifying relative improvement in the asset quality of these banks over the years. The improvement in asset quality was particularly discernible in the case of StCB of Assam. In the

Box V.3: Recent Trends in Asset Quality of StCBs and DCCBs

The application of prudential regulations in 1996-97 for StCBs and DCCBs introduced the norms for income recognition, asset classification and provisioning. In a study, Sharma *et al* (2001) attempted to analyse the trends in asset quality of StCBs taking data for two years (1996-97 and 1997-98) after the prudential regulations were made applicable to these institutions. During the short span of two years, they found a substantial increase in absolute terms in NPA levels for StCBs and DCCBs. Taking the same exercise forward for the years after 2000-01, it can be seen that there was a rising trend in the NPA ratio for StCBs till 2002-03. Thereafter, there was a falling trend in this ratio (Table 1). The ratio has continued to be significantly higher than the corresponding ratio for Scheduled Commercial Banks (SCBs). The amount of NPAs has grown at a positive rate between 2000-01 and 2007-08, which has been lower than the rate of growth of total loans outstanding of these institutions over the corresponding period. However, there has been particularly high growth in assets classified as loss making assets of StCBs over this period.

Table 1: Asset Quality of StCBs

(Amount in Rs. crore)

Year	Sub-Standard Assets	Doubtful Assets	Loss Assets	Total NPAs	Total Loans Out-standing	NPAs to Loans Out-standing Ratio (Per cent)
1	2	3	4	5	6	7
2000-01	2,178	1,520	191	3,889	29,848	13.0
2001-02	2,403	1,821	261	4,485	32,111	14.0
2002-03	3,535	2,443	306	6,284	32,798	19.2
2003-04	3,288	3,010	250	6,548	35,105	18.7
2004-05	2,961	1,975	1,136	6,072	37,346	16.3
2005-06	2,763	2,292	1,680	6,735	39,684	17.0
2006-07	2,957	2,625	1,122	6,704	47,354	14.2
2007-08	2,779	2,652	737	6,169	48,228	12.8
CGR (Per cent)	3.1	7.2	18.4	5.9	6.2	–

Note: CGR- Compound annual rate of growth.
Source: NABARD.

The NPA ratio for DCCBs has shown a by and large increasing trend between 2000-01 and 2007-08 (Table 2). The rate of growth of NPAs has been relatively higher than the growth in total advances of DCCBs over this period. The growth in 'loss' assets has also been comparatively higher than the other two asset categories for DCCBs. In other words, there has been a considerable deterioration in the asset quality of DCCBs as compared to StCBs in the recent period.

Table 2: Asset Quality of DCCBs

(Amount in Rs. crore)

Year	Sub-Standard Assets	Doubtful Assets	Loss Assets	Total NPAs	Total Loans Out-standing	NPAs to Loans Out-standing Ratio (Per cent)
1	2	3	4	5	6	7
2000-01	4,994	3,466	911	9,371	52,491	17.9
2001-02	6,325	4,245	1,268	11,838	59,269	20.0
2002-03	7,603	5,060	1,199	13,862	63,198	21.9
2003-04	8,428	6,068	1,648	16,144	67,152	24.0
2004-05	6,468	6,053	1,999	14,520	73,125	19.9
2005-06	6,905	6,699	2,106	15,709	79,202	19.8
2006-07	6,375	7,648	2,471	16,495	89,037	18.5
2007-08	7,858	8,210	2,660	18,728	91,374	20.5
CGR (Per cent)	5.8	11.4	14.3	9.0	7.2	–

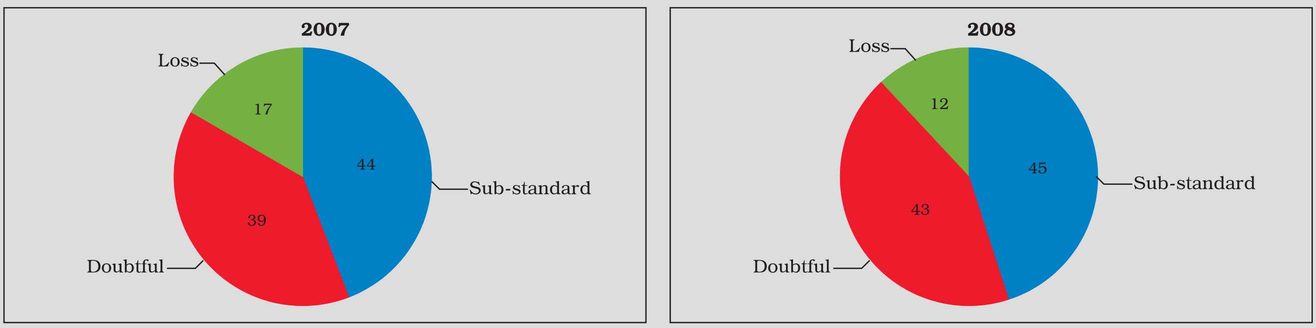
Note: CGR- Compound annual rate of growth.
Source: NABARD.

Reference:

Sharma, K. C., P. Josh, J.C. Mishra, Sanjay Kumar (2001), "Recovery Management in Rural Credit", NABARD Occasional Paper No. 21.

northern region, the NPA ratio was exceptionally low for StCBs of Haryana and Punjab ranging less than 2 per cent. More importantly, this trend of low NPA ratio for Haryana and Punjab StCBs was not a one-year phenomenon but has been observed consistently over the years.

Chart V.4: Percentage Distribution of NPAs of StCBs



StCBs, which had high NPA ratios, such as those from the north-eastern region, reported net losses during the year.

District Central Cooperative Banks

5.48 The balance sheets of District Central Cooperative Banks (DCCBs) seem fairly comparable with that of StCBs (Table V.28 read with Table V.24). Loans and advances constitute the most important form of assets for DCCBs; the share of loans and advances worked out to 56.4 per cent at end-March 2008. Investments were next in line with a share of 27.4 per cent. Similarly, deposits made up the largest portion of the total liabilities of DCCBs; the share of deposits at end-March 2008 was about 63.6 per cent.

Table V.28: Liabilities and Assets of District Central Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	5,458 (3.4)	4,967 (3.1)	15.0	-9.0
2. Reserves	20,722 (13.0)	19,787 (12.2)	10.8	-4.5
3. Deposits	94,529 (59.5)	1,02,986 (63.6)	8.0	8.9
4. Borrowings	29,912 (18.8)	26,096 (16.1)	23.5	-12.8
5. Other Liabilities	8,273 (5.2)	8,096 (5.0)	4.8	-2.1
Assets				
1. Cash and Bank Balance	11,274 (7.1)	9,759 (6.0)	5.4	-13.4
2. Investments	41,006 (25.8)	44,419 (27.4)	12.0	8.3
3. Loans and Advances	89,038 (56.0)	91,374 (56.4)	12.4	2.6
4. Other Assets	17,576 (11.1)	16,380 (10.1)	6.1	-6.8
Total Liabilities/ Assets	**1,58,894 (100.0)**	**1,61,932 (100.0)**	**11.0**	**1.9**

P: 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.

5.49 Notwithstanding the broad similarities, there are certain features about the balance sheet of DCCBs which set them apart from StCBs. First, the dependence of DCCBs on deposits was relatively more than StCBs. DCCBs relied less on borrowings. Needless to say, borrowings of DCCBs are primarily from the StCBs given that StCBs are the apex institutions in the short-term cooperative hierarchy providing finance to the lower tiers. It is also noteworthy that the deposits of DCCBs have shown a consistent rise in the recent past with their rate of growth picking from 3.8 per cent in 2004-05 to 8.9 per cent in 2007-08. Borrowings, on the other hand, have been a fairly variable component of the liabilities of DCCBs showing considerable fluctuations in terms of growth year after year but with their share showing by and large a declining trend.

DCCBs - Financial Performance

5.50 The most salient feature of the financial performance of DCCBs is their relatively high share of 'other' (non-interest) income in comparison with StCBs (Table V.29 read with Table V.26). In 2007-08, other income had a share of 7.8 per cent for DCCBs *vis-à-vis* 1.6 per cent in the case of StCBs. Further, wage bill was a more important constituent of the operating expenses of DCCBs as compared to StCBs. During the year, share of wage bill in the total expenses of DCCBs worked out to 15.9 per cent *vis-à-vis* 7.6 per cent for StCBs.

5.51 DCCBs recorded overall losses during 2007-08 as against profits in the previous year. What is more, profits of DCCBs have been on a decline in the recent past falling rapidly from Rs.971 crore in 2004-05 to (-) Rs.65 crore in 2007-08. Notwithstanding the overall losses at the aggregate level, it needs to be noted that about 73 per cent of the total number of (reporting) DCCBs were in profits during 2007-08 (reference to Table V.23). One of the reasons

Table V.29: Financial Performance of District Central Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	**11,652 (100.0)**	**11,702 (100.0)**	**-0.3**	**0.4**
i. Interest Income	10,597 (90.9)	10,793 (92.2)	-0.8	1.8
ii. Other Income	1,055 (9.1)	909 (7.8)	5.5	-13.8
B. Expenditure(i+ii+iii)	**11,622 (100.0)**	**11,767 (100.0)**	**1.2**	**1.2**
i. Interest Expended	6,668 (57.4)	7,038 (59.8)	1.4	5.5
ii. Provisions and Contingencies	2,284 (19.7)	1,934 (16.4)	-10.9	-15.3
iii. Operating Expenses	2,670 (23.0)	2,795 (23.7)	14.0	4.7
of which, Wage Bill	1,837 (15.8)	1,865 (15.9)	11.5	1.5
C. Profit				
i. Operating Profit	2,314	1,869	-16.4	-19.2
ii. Net Profit	31	-65	-85.0	–
D. Total Assets (end-March)	**1,58,893**	**1,61,932**	**11.0**	**1.9**

P : Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

for the deterioration in the overall profitability of DCCBs during 2007-08 was a steep fall in their 'other' income.

Table V.30: Asset Quality of District Central Cooperative Banks

(Amount in Rs. crore)

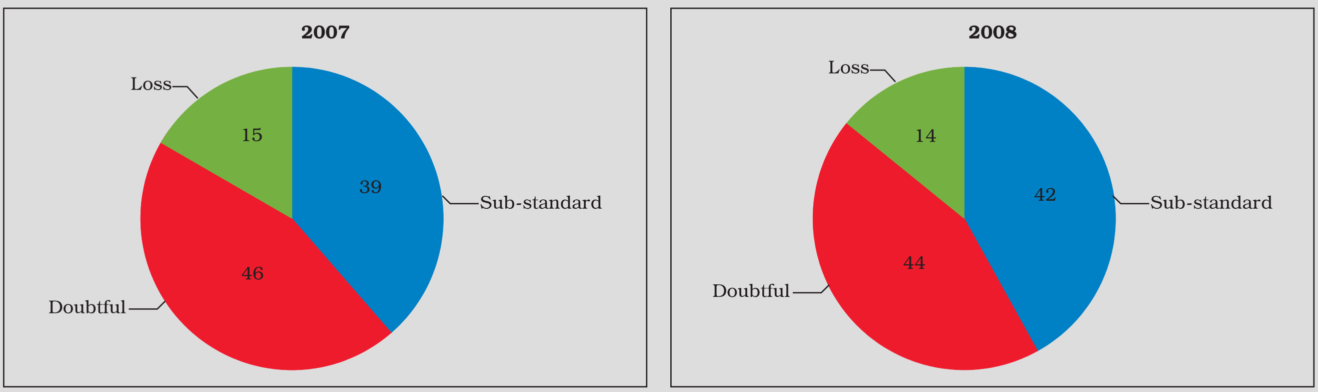
Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**16,495**	**18,728**	**5.0**	**13.5**
i) Sub-standard	6,375	7,858	-7.7	23.3
ii) Doubtful	7,648	8,210	14.2	7.3
iii) Loss	2,471	2,660	17.4	7.6
B. NPAs to Loans ratio	**18.5**	**20.5**		
Memo Item:				
i) Recovery to Demand (Per cent)	71.0	55.6		
ii) Provisions Required	10,222	10,391	17.3	1.7
iii) Provision Made	12,163	12,075	17.4	-0.7

P: Provisional.
Source: NABARD.

DCCBs - Asset Quality and Recovery Performance

5.52 There was deterioration in the NPAs to loans ratio in 2007-08 for DCCBs (Table V.30). However, the increased NPAs were primarily in the 'sub-standard' category, while there was a reduction in the NPAs in the 'doubtful' and 'loss' category (Chart V.5). Hence, there was a migration of loan assets towards sub-standard category during 2007-08 as was also the case with StCBs. This was a positive development with regards to the NPA profile of DCCBs.

Chart V.5: Percentage Distribution of NPAs of DCCBs



Further, DCCBs like StCBs made more provisions than what was required for their NPAs levels during 2007-08.

DCCBs - Regional Profile

5.53 Similar to StCBs, the profitability and asset quality of DCCBs varied widely across regions/States (Appendix Table V.4)[4]. The DCCBs from the northern region in general outperformed other regions in terms of the number of (reporting) DCCBs that were earning profits during 2007-08. The percentage of DCCBs from the northern region that made profits during the year was about 78 per cent in comparison with the all-India average of 73 per cent. Furthermore, DCCBs from each region except the northern and southern regions booked an overall loss during the year. The NPA ratio too was the lowest for the DCCBs from the northern region in general and Haryana in particular, in 2007-08. For DCCBs from Haryana, only 5.1 per cent of their loans outstanding were classified non-performing in 2007-08. It needs to be reiterated that the NPA ratio was also the lowest in the country for the StCB from Haryana (0.1 per cent) (Appendix Table V.3). In contrast with Haryana, the DCCBs from Jharkhand (at 75.9 per cent) followed by Bihar (at 54.5 per cent) had the highest NPA ratio in the country.

Primary Agricultural Credit Societies

5.54 Primary Agricultural Credit Societies (PACS) form the third and lowest tier in the short-term credit cooperative structure that operates directly at the grassroots *i.e.* in villages. As these institutions are the direct purveyors of credit to the rural borrowers, both the coverage and viability of PACS needs to be strengthened in order to ensure inclusive finance from the cooperative structure as well as to enhance the stability of the short-term cooperative structure, itself. Further, given that the business of the short-term cooperative credit and banking structure - in terms of both credit and deposits - is a more dominant constituent of the rural cooperative structure, the stability of the short-term structure has major implications for the stability of the entire rural cooperative structure and thereby, of the rural financial system as a whole.

5.55 Borrowings constituted about 56.7 per cent of the total resources of PACs during 2007-08 (Table V.31). In 2007-08, borrowings registered a growth of 9.5 per cent while deposits posted a growth of 8.4 per cent. Consequently, borrowings by PACS in 2007-08 were almost double of their deposits.

5.56 The percentage of overdues to total loans outstanding, which is a rough indicator of the non-performing assets of PACS, worked out to be the highest among all three tiers of the short-term cooperative credit structure (Table V.31 read with Table V.30 and Table V.27). Moreover, there was a sharp increase in this ratio from 26.9 per cent at end-March 2007 to 36.6 per cent at end-March 2008.

5.57 Of the total number of (reporting) PACS, 44 per cent were making profits, while the remaining 56 per cent were in losses during 2007-08 (Table V.23). During the year, PACS reported an overall loss of Rs.3,481 crore.

PACS - Profile of Members and Borrowers

5.58 The profile of members and borrowers of PACS provides an insight into whether or not the PACS are able to cater to the credit needs of the vulnerable sections of the rural population as they are expected to. It is thus a reflection of the role of PACS in the financial inclusion process.

[4] As States from the north-eastern region have a unitary short-term cooperative credit structure, there are no DCCBs in these States.

Table V.31: Primary Agricultural Credit Societies - Select Balance Sheet Indicators

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008	2006-07	2007-08
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	78,237	84,281	12.0	7.7
2. Owned Funds (a+b)	11,038	10,984	18.8	-0.5
a) Paid-up Capital	6,138	6,597	8.8	7.5
of which, Government Contribution	648	629	4.2	-2.9
b) Total Reserves	4,900	4,387	34.3	-10.5
3. Deposits	23,484	25,449	20.1	8.4
4. Borrowings	43,715	47,848	6.6	9.5
5. Working Capital	79,959	88,107	9.0	10.2
B. Assets				
1. Total Loans Issued (a+b)*	49,613	57,643	15.6	16.2
a) Short-Term	40,796	47,390	14.5	16.1
b) Medium-Term	8,817	10,253	20.8	16.3
2. Total Loans Outstanding (a+b)	58,620	65,666	13.2	12.0
a) Short-Term	37,764	43,696	10.6	15.7
b) Medium-Term	20,856	21,970	18.2	5.3
C. Overdues				
1. Total Demand	54,112	67,293	6.1	24.4
2. Total Collection	38,359	43,290	8.0	12.9
3. Total Overdues (a+b)	15,753	24,003	1.8	52.4
a) Short-Term	11,558	20,182	1.5	74.6
b) Medium-Term	4,194	3,821	2.6	-8.9
4. Percentage of Overdues to Loans Outstanding	26.9	36.6		

*** :** During the year.

Source: NAFSCOB.

5.59 During 2007-08, PACS had a remarkably high borrower to member ratio of 60 per cent as compared to only 38 per cent during the previous year. Being a member is a necessary but not a sufficient condition for being a borrower of a cooperative society, and hence, an increasing proportion of borrowing members needs to be taken as a positive reflection of an increasing access to cooperative credit among the members of PACS. Of the total members,

Table V.32: Primary Agricultural Credit Societies - Members and Borrowers

Item	As at end-March	
	2007	2008
1	2	3
1. No. of Societies	**97,224**	**94,942**
2. Total Membership (in million)	**126**	**132**
of which:		
a) SC	29 (23.0)	30 (22.7)
b) ST	11 (8.7)	11 (8.3)
3. Total number of Borrowers (in million)	**48**	**79**
of which:		
a) SC	6 (12.5)	8 (10.1)
b) ST	3 (6.2)	5 (6.3)

Note: 1. Figures in parentheses are percentages to respective totals.
2. SC- Scheduled Castes; ST – Scheduled Tribes.

Source: NAFSCOB.

30 per cent were from Scheduled Castes and Tribes (SC/ST) categories together (Table V.32). In the recent years, however, while there has been a growing presence of small farmers as members and borrowers of PACS, there has been a reduction in the number of SC/ST member and borrowers (Box V.4).

PACS – Regional Profile

5.60 Apart from the profile of members and borrowers, the regional profile of PACS is also a reflection of their role in financial inclusion. One of the striking features of the regional profile of PACS has been the disparity in the development of the PACS network across regions in India. There has been a considerable concentration of PACS in the western region, particularly in the State of Maharashtra (Appendix Table V.5). In 2007-08, on an average, there were seven villages per PACS for India as a whole, while the ratio was only two for the western region. On the other hand, the ratio exceeded ten villages per PACS for central,

Box V.4: Coverage of Vulnerable Sections of the Rural Population by PACS

PACS being the grass-root level institution in the short-term cooperative credit structure are looked upon as an important channel of financial inclusion in rural areas. They are expected to purvey credit to vulnerable sections of the rural population including *inter alia* small, marginal farmers, Scheduled Castes and Tribes (SC/ST).

An analysis of the profile of members and borrowers since 2002-03 reveals that there has been an increasing trend in the proportion of small farmers in the total number of members and borrowers of PACS. Further, it is noteworthy that the number of small farmers as borrowers of PACS has grown at a much faster rate (7.2 per cent per annum) than the number of members (2.0 per cent) (Table 1). This indicated that an increasing number of small farmers were able to seek credit from PACS in recent times.

Between 2002-03 and 2007-08, however, there has been a fall in the percentage of SC/ST in the total number of members and borrowers of PACS barring an increase in 2004-05. Similarly, there has been a fall in the percentage share of rural artisans in total members and borrowers of PACS. Moreover, the actual number of SC/ST members and borrowers too has fallen over this period. With unorganised segment meeting a significant portion of the rural debt, there is an urgent need to make PACS more inclusive in their operations.

Table 1: Profile of Borrowers and Members of PACS

(in '000)

Category	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	CGR (Per cent)
1	2	3	4	5	6	7	8
Members							
Total members	**1,23,552 (100.0)**	**1,35,411 (100.0)**	**1,27,406 (100.0)**	**1,25,197 (100.0)**	**1,25,792 (100.0)**	**1,31,530 (100.0)**	**1.0**
Of which,							
1. SC	(26.9)	(22.6)	(24.3)	(24.4)	(23.4)	(22.6)	-1.8
2. ST	(9.7)	(8.8)	(9.3)	(9.3)	(8.8)	(8.5)	-1.2
3. Small Farmers	(35.2)	(37.0)	(38.8)	(35.7)	(35.1)	(37.3)	2.0
4. Rural Artisans	(6.1)	(4.7)	(5.7)	(5.2)	(3.4)	(3.6)	-7.5
Borrowers							
Total borrowers	**63,880 (100.0)**	**51,265 (100.0)**	**45,070 (100.0)**	**46,081 (100.0)**	**47,910 (100.0)**	**79,408 (100.0)**	**3.7**
Of which,							
1. SC	(18.0)	(9.2)	(16.1)	(15.1)	(11.8)	(9.7)	-6.4
2. ST	(12.6)	(6.7)	(7.7)	(7.2)	(7.2)	(6.3)	-7.6
3. Small Farmers	(26.9)	(26.3)	(28.2)	(31.8)	(32.2)	(32.8)	7.2
4. Rural Artisans	(4.8)	(4.9)	(4.7)	(3.9)	(4.0)	(2.6)	-6.4

CGR : Compound Annual Growth Rate
SC : Scheduled Castes;
ST : Scheduled Tribes
Small farmers : With land up to two hectares.

Note: Figures in parentheses are percentages to total.

Source: NAFSCOB.

eastern and north-eastern regions reflecting poor penetration of PACS in these regions[5].

5.61 The percentage of PACS reporting profits in 2007-08 was the highest for the northern region. Though Maharashtra had a remarkably widespread network of PACS, it had one of the lowest percentage of profit making PACS in the country. Punjab, Haryana and Kerala were the States with the highest percentage of PACS classified as viable.

Long-Term Structure of Rural Cooperatives

5.62 The long-term structure of rural cooperatives comprises State and Primary Cooperative Agriculture and Rural Development Banks. These institutions were conceived with the objective of meeting long-term credit needs in agriculture. Though the volume of business of the long-term cooperative credit institutions is relatively smaller than that of the short-term cooperative credit institutions, the long-term

[5] Village per PACS, however, is a basic indicator of the spread of PACS. It offers limited insight into the effective access to PACS given the differences in the population size of villages and distance between villages across regions.

credit institutions have a definite and specialised role to play in the rural financial system. Further, the long-term institutions have certain structure-specific concerns and hence, the operations of these institutions merits a separate treatment.

State Cooperative Agriculture and Rural Development Banks

5.63 The balance sheets of SCARDBs bring out the heavy dependence of these institutions on borrowings from sources, such as NABARD. Borrowings constituted about 64.9 per cent of the total liabilities of these institutions in 2007-08 as against deposits, which constituted only 2.6 per cent of their total liabilities (Table V.33).

5.64 On the assets side, loans and advances constituted about three fourths of the total assets of SCARDBs in 2007-08, while investments made up about 10 per cent of their assets. However, it is noteworthy that over the recent past, there has been an increasing share of investments in the total assets of these institutions.

Table V.33: Liabilities and Assets of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	794 (3.3)	1,208 (5.0)	-0.9	52.1
2. Reserves	2,137 (8.8)	2,505 (10.3)	-9.2	17.2
3. Deposits	605 (2.5)	645 (2.6)	-4.9	6.6
4. Borrowings	16,662 (68.5)	15,843 (64.9)	-2.4	-4.9
5. Other Liabilities	4,138 (17.0)	4,202 (17.2)	-10.7	1.5
Assets				
1. Cash and Bank Balance	279 (1.1)	239 (1.0)	-23.6	-14.3
2. Investments	1,916 (7.9)	2,526 (10.3)	1.6	31.8
3. Loans and Advances	18,644 (76.6)	18,217 (74.7)	5.3	-2.3
4. Other Assets	3,497 (14.4)	3,421 (14.0)	-24.6	-2.2
Total Liabilities/Assets	**24,336 (100.0)**	**24,403 (100.0)**	**-1.1**	**0.3**

P: Provisional

Note: Figures in parentheses are percentages to total.

Source: NABARD.

SCARDBs - Financial Performance

5.65 SCARDBs like StCBs have limited sources of non-interest income. In 2007-08, the share of 'other' income was only 7.7 per cent for SCARDBs (Table V.34). Moreover, during 2007-08, there was a steep fall in the growth of 'other' income for SCARDBs resulting in a sharp decline in its share in the total income of these institutions.

SCARDBs - Asset Quality and Recovery Performance

5.66 The NPAs to loans ratio of SCARDBs was placed at a high of 34.5 per cent in 2007-08. Apart from an increase in the NPA ratio, there was a migration of the loan assets from the 'sub-standard' category down to the 'doubtful' and 'loss' assets categories during the year signifying the deterioration of the NPA profile of SCARDBs (Table V.35).

SCARDBs - Regional Profile

5.67 During 2007-08, SCARDBs reported overall loss of Rs.247 crore, which was primarily attributable to the losses made by SCARDBs from western, eastern and central regions (Appendix Table V.6). The most prominent among the loss making SCARDB was the Maharashtra SCARDB from the western region, which reported losses of Rs.203 crore during the year. SCARDBs from Punjab and Haryana from the northern region, and Tamil Nadu and Kerala from the southern region were

Table V.34: Financial Performance of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	**2,293 (100.0)**	**1,790 (100.0)**	**-3.2**	**-21.9**
i. Interest Income	1,809 (78.9)	1,652 (92.3)	-20.3	-8.7
ii. Other Income	484 (21.1)	139 (7.7)	380.4	-71.3
B. Expenditure (i+ii+iii)	**2,204 (100.0)**	**2,037 (100.0)**	**4.6**	**-7.5**
i. Interest Expended	1,280 (58.1)	1,262 (61.9)	-4.1	-1.4
ii. Provisions and Contingencies	667 (30.3)	557 (27.3)	-25.7	-16.5
iii. Operating Expenses	256 (11.6)	218 (10.7)	15.3	-14.8
of which, Wage Bill	185 (8.4)	160 (7.8)	9.7	-13.8
C. Profit				
i. Operating Profit	757	310	40.6	-59.1
ii. Net Profit	89	-247	-261.2	–
Total Assets (end-March)	**24,336**	**24,403**	**-1.1**	**0.3**

P: Provisional

Note: Figures in parentheses are percentages to total.

Source: NABARD.

the major profit making SCARDBs. The NPA ratio was also remarkably low for these institutions. As discussed earlier, the profitability and asset quality of StCBs of Punjab and Haryana was also comparatively more robust than other StCBs in the country.

Primary Cooperative Agriculture and Rural Development Banks

5.68 In 2007-08, there was a sharp contraction of the balance sheets of PCARDBs by 16.4 per cent attributable mainly to a decline in both deposits and borrowings on the liabilities side (Table V.36). Deposits were not a significant source of funds for PCARDBs. These institutions depended heavily on borrowings.

Table V.35: Asset Quality of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	**5,643**	**6,292**	**-2.4**	**11.5**
i) Sub-standard	4,315 (76.5)	3,238 (51.5)	15.0	-25.0
ii) Doubtful	1,310 (23.2)	2,845 (45.2)	-34.8	117.1
iii) Loss	17 (0.3)	209 (3.3)	-5.6	1129.4
B. NPAs to Loans Ratio	**30.3**	**34.5**		
Memo Item:				
i) Recovery to Demand (Per cent)	43.9	49.0		
ii) Provisions Required	1,287	1,410	-18.4	9.6
iii) Provisions Made	1,287	1,433	-18.4	11.4

P : Provisional

Note: Figures in parentheses are percentages to total.

Source: NABARD.

5.69 On the assets side, the contraction in the balance sheet of PCARDBs came about from a perceptible fall in the loans and advances made by these institutions during the year. Unlike StCBs and DCCBs, investments had a relatively small share in the total assets of SCARDBs as well as PCARDBs.

PCARDBs - Financial Performance

5.70 PCARDBs reported an overall loss during 2007-08 (Table V.37). The trend of losses was not limited to 2007-08, it could be observed even during the earlier years in the recent past indicating a significant erosion of financial viability of these institutions. There was a sharp decline in the operating profits of PCARDBs during the year. The fall in operating profits was on account of a slowdown in the net interest income of these institutions.

Table V.36: Liabilities and Assets of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	918 (4.2)	703 (3.9)	-0.4	-23.4
2. Reserves	2,678 (12.3)	2,336 (12.8)	0.5	-12.8
3. Deposits	341 (1.6)	331 (1.8)	-10.7	-2.9
4. Borrowings	12,751 (58.6)	10,206 (56.0)	-2.4	-20.0
5. Other Liabilities	5,085 (23.4)	4,633 (25.4)	17.4	-8.9
Assets				
1. Cash and Bank Balances	223 (1.0)	119 (0.7)	-0.4	-46.7
2. Investments	824 (3.8)	752 (4.1)	5.9	-8.6
3. Loans and Advances	12,114 (55.6)	9,529 (52.3)	-4.9	-21.3
4. Other Assets	8,612 (39.6)	7,809 (42.9)	-13.0	-9.3
Total Liabilities/Assets	**21,774 (100.0)**	**18,209 (100.0)**	**1.9**	**-16.4**

P : Provisional

Note: Figures in parentheses are percentages to total.

Source: NABARD.

Table V.37: Financial Performance of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	**2,446 (100.0)**	**1,425 (100.0)**	**15.3**	**-41.8**
i) Interest Income	1,923 (78.6)	1,276 (89.5)	13.8	-33.7
ii) Other Income	524 (21.4)	149 (10.5)	20.7	-71.5
B. Expenditure (i+ii+iii)	**2,594 (100.0)**	**1,771 (100.0)**	**16.2**	**-31.7**
i) Interest Expended	1,259 (48.5)	947 (53.5)	1.6	-24.8
ii) Provisions and Contingencies	1,014 (39.1)	535 (30.2)	45.3	-47.3
iii) Operating Expenses	321 (12.4)	289 (16.3)	8.8	-9.9
of which, Wage Bill	221 (8.5)	191 (10.8)	7.8	-13.7
C. Profit				
i) Operating Profit	867	189	47.2	-78.2
ii) Net Profit	-147	-346	-34.9	-134.5
Total Assets (end-March)	**21,774**	**18,209**	**1.9**	**-16.4**

P : Provisional

Note: Figures in parentheses are percentages to total.

Source: NABARD.

PCARDBs - Asset Quality and Recovery Performance

5.71 The NPAs of PCARDBs, both in absolute terms and as percentage of loans, increased significantly in 2007-08. Interestingly, there was no major change in the NPA composition of PCARDBs during 2007-08. The percentage of 'sub-standard', 'doubtful' and 'loss' assets of these institutions remained largely unchanged between 2007 and 2008 (Table V.38).

PCARDBs - Regional Profile

5.72 In 2007-08, out of 470 reporting PCARDBs (out of a total of 697), only 42 per cent made profits, while the rest were in losses. PCARDBs booked an overall loss of Rs.346 crore in 2007-08. This reflected the poor incidence and extent of profitability among PCARDBs in the country. The percentage of profit making PCARDBs was the highest in the northern region, particularly in Rajasthan, Haryana and Punjab (Appendix Table V.7). It is noteworthy that the northern region (particularly Haryana and Punjab) was earlier identified as the region having relatively better profitability as well as asset quality not just for PCARDBs and SCARDBs but also for StCBs and DCCBs. The NPA ratio, which was the yardstick of measuring asset quality, was the lowest for PCARDBs in West Bengal at 17 per cent in 2007-08. In contrast, the NPA ratio of PCARDBs was the highest at levels exceeding 80 per cent in Orissa, Maharashtra and Tamil Nadu during 2007-08.

Table V.38: Asset Quality of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ ii + iii)	**4,316**	**5,113**	**-5.9**	**18.5**
i) Sub- standard	2,512 (58.2)	2,980 (58.3)	-5.7	18.6
ii) Doubtful	1,783 (41.3)	2,105 (41.2)	-4.8	18.0
iii) Loss	21 (0.5)	28 (0.5)	-55.1	30.0
B. NPAs to Loans Ratio	**35.4**	**53.7**		
Memo Item:				
C. Recovery to Demand (Per cent)	52.0	44.0		
D. Provisions Required	799	902	-26.1	12.9
E. Provisions Made	799	948	-26.1	18.7

P: Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

5. NABARD and Rural Credit

5.73 Since its inception in 1982, NABARD has played a pivotal role in the area of rural finance as the apex financing institution. NABARD was set up with the mandate of providing refinance to lending institutions operating in rural areas including credit cooperatives and Regional Rural Banks to step up the flow of production and investment credit to agriculture and other rural activities such as, cottage and village industries, handicrafts and other rural crafts. Apart from refinance, it has also strived towards capacity building of the rural lending institutions over the years. As part of its capacity building efforts, NABARD has been concerned with the growth and financial health of rural financial institutions. Further, NABARD has also been involved in supporting innovative initiatives in rural areas, such as the micro-finance initiative. NABARD maintains liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions with regard to the policy formulation relating to rural development.

Resources of NABARD

5.74 Till 2005-06, the Reserve Bank provided two General Lines of Credit (GLC) to NABARD under Section 17(4E) of the RBI Act, 1934 in order to enable NABARD to meet the short-term requirements of SCBs, StCBs and RRBs. NABARD was permitted to operate the GLC limit sanctioned for 2005-06 for drawals as well as for repayments up to December 31, 2006. After this date, however, the Reserve Bank discontinued finance through GLC and instead advised NABARD to tap the market for funds. Following the announcement in the Union Budget 2008-09, a Short Term Cooperative Rural Credit (Refinance) (STCRC) Fund was set up in NABARD with a corpus of Rs.5,000 crore with contributions from SCBs that failed to meet their priority sector lending targets under agriculture. This Fund was aimed at enhancing the refinance to short-term cooperative institutions. The financial resources with NABARD increased during 2008-09 through the issue of corporate bonds, Bhavishya Nirman Bonds, Rural Infrastructure Development Fund (RIDF) deposits, commercial papers and term money borrowings. Further, Rs.400 crore was transferred to the National Rural Credit (NRC) Long Term Operations (LTO) Fund and Rs.10 crore to the NRC (Stabilisation) Fund. On the whole, there was an increase of about 11.4 per cent in the resources of NABARD in 2008-09 (Table V.39).

Credit extended by NABARD

5.75 Being the apex refinancing agency for rural lending institutions, NABARD provides short-term credit facilities to StCBs mainly for financing seasonal agricultural operations. Short-term credit support to StCBs has generally been the most important form of credit extended by NABARD. In 2008-09, short-term

Table V.39: Net Accretion to the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	2007-08	2008-09
1	2	3
1. Capital	–	–
2. Reserves and Surplus	801	932
3. National Rural Credit (NRC) Funds (i+ii)	412	412
i) Long Term Operations (LTO) Fund	401	401
ii) Stabilisation Fund	11	11
4. Deposits (i+ii+iii)	10,462	21,428
i) Ordinary Deposits	24	376
ii) STCRC Fund	–	4,622
iii) RIDF Deposits	10,438	16,430
5. Borrowings (i+ii+iii+iv+v+vi+vii)	1,437	-3,302
i) Bonds and Debentures	-192	-4,996
ii) Certificates of Deposit	1,422	394
iii) Commercial Papers	–	181
iv) Term Money Borrowings	–	244
v) Borrowings from Central Government	-12	-16
vi) Foreign Currency Loans	219	-10
vii) Borrowings from Commercial Banks	–	-2,000
6. Other Liabilities	4,374	2,901
Total	**17,486**	**19,470**

- : Nil/Negligible.
Source: NABARD.

credit to StCBs constituted 80 per cent of the total credit limit sanctioned by NABARD (Table V.40). Apart from short-term credit, NABARD also provides medium-term facilities to StCBs and RRBs, which includes loans under the liquidity support scheme. Credit provided to State Governments constitutes the smallest percentage of credit extended by NABARD. In 2008-09, NABARD did not sanction any credit limits to the State Governments.

5.76 The interest rate structure of NABARD for refinance for term/investment credit is generally designed to provide cheaper refinance to commercial banks operational in the North-eastern region and Sikkim, Andaman and Nicobar Islands and hilly States, and all RRBs, StCBs, UCBs, SCARDBs and North-eastern Development Finance Corporation (NEDFi). The rate of interest is fixed higher for commercial banks operational elsewhere.

5.77 The trends in interest rate during 2008-09 indicate that the rates were revised six times depending on money market conditions and

Table IV.40: NABARD's Credit to StCBs, State Governments and RRBs

(Amount in Rs. crore)

Item	2007-08				2008-09			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. State Cooperative Banks (a+b)	15,415	14,108	9,751	15,784	20,133	17,778	17,858	15,704
a. Short-term	15,199	14,003	8,889	14,496	20,053	17,778	16,636	15,638
b. Medium-term	216	105	862	1,288	80	–	1,222	66
2. State Governments								
a. Long-term	21	18	63	290	–	18 **	56	252
3. Regional Rural Banks (a+b)	3,252	2,924	2,418	3,655	4,829	4,061	3,914	3,803
a. Short-term	3,092	2,763	2,400	2,885	4,829	4,061	3,291	3,656
b. Medium-term	161	161	18	770	–	–	623	147
Grand Total (1+2+3)	**18,689**	**17,049**	**12,232**	**19,730**	**24,962**	**21,858**	**21,828**	**19,759**

** : Drawals against limits sanctioned during the previous year.

Note: 1. Short-term includes Seasonal Agricultural Operations (SAO) and Other than Seasonal Agricultural Operations (OSAO). For 2008-09, short-term also includes liquidity support scheme for Kharif and Rabi.

2. For StCBs and State Governments, the period is from April to March. For RRBs, it is from July to June.

3. Medium-term includes MT Conversion, MT (NS) and MT liquidity support scheme.

Source: NABARD.

cost of borrowings for NABARD (Appendix Table V.8). The rates were raised till August 2008 by NABARD. Following the global crisis and the subsequent measures taken by the Reserve Bank to enhance liquidity in the money market, the rates in all categories were brought down by NABARD.

Rural Infrastructure Development Fund (RIDF)

5.78 The Government instituted the RIDF with NABARD in 1995-96, with an initial corpus of Rs.2,000 crore by way of deposits from commercial banks to the extent of their respective shortfalls in lending to agriculture under priority sector. The Fund was set up to provide finance to State Governments for rural infrastructural development. In 1999-2000, the scope of RIDF was widened to enable utilisation of loans by *panchayati raj* institutions and Self-Help Groups (SHGs), among others.

5.79 Since 1995-96, the Government has announced an annual allocation in each Union Budget to the Fund. The Union Budget 2008-09 announced XIV Tranche to the Fund raising the aggregate allocation to Rs.86,000 crore (Table V.41). The Interim Budget 2009-10 (February 2009) announced the next tranche of RIDF XV, with a corpus of Rs.14,000 crore, and a separate window under RIDF XV for rural roads component of *Bharat Nirman Programme*, with a corpus of Rs.4,000 crore, to be set up with NABARD. Further, in the Union Budget for 2009-10 (July 2009), it was announced that a separate fund would be set up with Small Industries Development Bank of India (SIDBI) to incentivise banks and State Finance Corporations to lend to Micro and Small Enterprises (MSEs). The Union Budget 2009-10 also announced that a Rural Housing Fund would be set up with National Housing

Table IV.41: Loans Sanctioned and Disbursed under RIDF
(As at end-March 2009)

RIDF	Year	No. of Projects	Corpus (Rs. crore)	Loans Sanctioned (Rs. crore)	Loans Disbursed (Rs. crore)	Ratio of loans disbursed to loans sanctioned (Per cent)
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	89.0
VI	2000	43,168	4,500	4,489	4,071	90.7
VII	2001	24,598	5,000	4,582	4,053	88.5
VIII	2002	20,887	5,500	5,950	5,142	86.4
IX	2003	19,548	5,500	5,639	4,870	86.4
X	2004	17,190	8,000	7,717	6,198	80.3
XI	2005	29,875	8,000	8,301	5,728	69.0
XII	2006	42,279	10,000	10,601	5,771	54.4
XIII	2007	36,948	12,000	12,749	5,057	39.7
XIV	2008	85,527	14,000	14,719	3,013	20.5
Total		**3,65,003**	**86,000**	**88,359**	**56,052**	**63.4**
Separate window of Bharat Nirman Programme						
XII	2006		4,000	4,000	4,000	100.0
XIII	2007		4,000	4,000	4,000	100.0
XIV	2008		4,000	4,000	4,000	100.0
Total			**12,000**	**12,000**	**12,000**	**100.0**
Grand Total		**3,65,003**	**98,000**	**1,00,359**	**68,052**	**67.8**

Source: NABARD.

Bank (NHB) to support its refinance operations in rural housing sector. The above Funds have been established with NABARD/SIDBI/NHB during the year 2009-10.

5.80 There has been an increasing trend in the number of projects sanctioned under RIDF since the inception of the Fund. However, loans disbursed as a percentage of loans sanctioned under each tranche have shown a declining trend over this period. Of the total amount sanctioned under RIDF till end-March 2009, 63.4 per cent was disbursed (Table V.41). Further, the State-wise analysis of RIDF loans shows that as at end-March 2009, over 70 per cent of the total sanctions as well as disbursements were to the northern, southern and western regions taken together (Appendix Table V.9).

Kisan Credit Card Scheme

5.81 The Kisan Credit Card (KCC) scheme has been implemented through cooperative banks, RRBs and public sector commercial banks to provide an easy access to adequate, timely and cost effective credit to farmers. In addition to meeting the term credit and working capital requirements of agriculture, KCC also covers consumption credit needs of farmers. The endeavour of NABARD has been to bring all farmers including *inter alia* oral lessees, tenant farmers, and share croppers into the ambit of KCC.

5.82 Of the total number of KCCs (84.6 million) issued till end-March 2009 since the inception of the scheme, the largest percentage has been issued by commercial banks. Moreover, there has been a more or less steady increase in the number of cards issued through commercial banks since the scheme was started. As against this, the number of cards issued by cooperative banks after peaking in 2000-01, has been on steady fall. Consequently, there has been a steep fall in the share of cooperatives banks between 2000-01 and 2008-09 from 64.2 per cent to 42.7 per cent in the total number of KCCs issued (Table V.42).

Table V.42: Number of Kisan Credit Cards Issued
(As at end-March 2009)

(Numbers in million)

Year	Cooperative Banks	RRBs	Commercial Banks	**Total**
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**
2008-09	1.34	1.41	5.83	**8.58**
Total	**36.2**	**11.5**	**37.0**	**84.6**
Percentage share in Total	**42.7**	**13.5**	**43.8**	**100.0**

Source: NABARD.

5.83 Notwithstanding the overall impressive increase in the number of cards issued till now, there has been a wide variation in implementation of the scheme across States. Three States alone, *viz.*, Uttar Pradesh, Andhra Pradesh and Maharashtra accounted for over 45 per cent of the total number of cards issued and 36 per cent of the total loan amount sanctioned under KCC as at end-March 2009. On the other hand, the hilly States, States from the north-eastern region and Sikkim showed relatively poor progress in the spread of KCC (Appendix Table V.10).

Revival of Rural Cooperatives

Revival of the short-term structure

5.84 Following the recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions (Chairman: Prof. A. Vaidyanathan), the Government of India in consultation with the State Governments approved a Package for revival of the short-term rural cooperative credit structure. The Revival Package aimed at reviving the short-term structure to make it a more well-managed and vibrant medium to serve the credit needs of rural India, especially the vulnerable sections. The total estimated outlay of the package was Rs.13,596 crore. The package sought to do the following:

(a) provide financial assistance to bring the system to an acceptable level of health;

(b) introduce legal and institutional reforms necessary for its democratic, self-reliant and efficient functioning; and

(c) take measures to improve the quality of management.

5.85 The States willing to participate were required to enter into MoU with the Central Government and NABARD. As at end-May, 2009, 25 States (Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chattisgarh, 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) have entered into MoUs. This meant the coverage of more than 96 per cent of the short-term cooperative credit structure in the country. Ten states (Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal) made the necessary amendments in their cooperative Societies Acts as at end-May, 2009. An aggregate amount of Rs.6,073 crore was released by NABARD up to end-May 2009 as the Government of India's share under the package to PACS in these ten States.

Revival of the long-term Structure

5.86 Pursuant to the recommendations by the Task Force, it was announced in the Union Budget 2008-09 that the Central Government and State Governments had reached an agreement on the contents of the package for the revival of the long-term cooperative credit structure. The cost of the package was estimated at Rs.3,074 crore, of which the Central Government's share would be Rs.2,642 crore.

5.87 The Government of India has constituted a Task Force (Chairman: G. C. Chaturvedi, Additional Secretary, Ministry of Finance, Government of India) to look into the various aspects of the long-term cooperative credit structure, especially in respect of viability and relevance of a separate package for this structure in the backdrop of the implementation of the revival package for the short-term cooperative credit structure. The Task Force is required to suggest a strategy for dealing with the existing long-term cooperative credit structure, in case a separate package for the structure is not to be undertaken. The Task Force is also required to assess the impact of the implementation of the Agricultural Debt Waiver and Debt Relief scheme on the long-term structure. The Task Force is required to submit its report by January 15, 2010.

Recent Initiatives by NABARD

5.88 A number of developmental initiatives have been taken by NABARD during 2008-09 to step up credit flow to rural areas as well as to strengthen capacities in rural financial institutions (Box V.5).

6. Conclusion

5.89 This chapter provided an analysis of the performance of urban and rural cooperative credit institutions during 2008-09 and 2007-08 respectively, in a comparative perspective with the earlier years in the backdrop of the recent policy initiatives taken by the Reserve Bank as discussed in Chapter III. The UCB sector witnessed further progress towards consolidation consequent to the MoUs and TAFCUBs under the supervision of the Reserve Bank. As part of the consolidation, there has been reduction in the number of weak/sick banks with a concomitant increase in financially stronger banks during the year. However, there has also been a growing concentration of the banking business of the UCB sector in few large banks. This is evident from the increasing shares of loans and deposits with

Box V.5: Salient Developmental Initiatives by NABARD – 2008-09

The developmental initiatives by NABARD can be broadly classified into farm and non-farm sector initiatives.

Farm sector initiatives

- *Farmers Technology Transfer Fund* (FTTF) was operationalised from April 1, 2008 with a corpus of Rs.25 crore with the aim of promoting technology transfer for enhancing production and productivity in agriculture and farm related activities. During 2008-09, 12 proposals involving a grant assistance of Rs.233 lakh in 6 States were sanctioned for activities like value chain in oil-production, turmeric processing, information and commodity trading centre.
- *Watershed Development Fund (WDF)*: During the year, 38 watershed projects were newly sanctioned under the Fund taking the cumulative number of projects to 454 so far. Further, the corpus of the Fund was augmented by Rs.561 crore during the year.
- *Pilot Project for Integrated Development (PPID) of Backward Blocks*: The Project launched in 2003 was aimed at enabling integrated development through credit and convergence of development programmes in these blocks. As at end-March 2009, PPID was being implemented in 40 blocks across 6 States.
- *Tribal Development Fund (TDF):* The Fund was created in 2004 for developing the tribal dominated areas. It also included developing *inter alia* micro-enterprises by the landless, community health and building people's organisations. During 2008-09, assistance was granted for 74 projects covering 61,924 tribal families in 14 States.
- *Farm Innovation and Promotion Fund*: During the year, 14 projects involving assistance of Rs.1.81 lakh in six States was sanctioned under the Fund. Projects financed included commodity exchange, orcharding in guava and protected vegetable cultivation.
- *Farmers' Clubs (FCs):* During the year, NABARD launched 9,989 Farmers' Clubs (FC) taking the total number of clubs to 38,215 covering 87,724 villages in 581 districts. NABARD reviewed its policy for supporting FCs through various agencies and decided to extend uniform support of Rs.10,000 for three years to all commercial banks, RRB, cooperative banks and grass-root organisations.

Non-farm sector initiatives

- *Rural Innovation Fund (RIF)*: The Fund was created in 2005 to provide assistance for innovative projects in farm, non-farm and micro-finance sectors with potential to generate employment opportunities. During the year, 65 innovative projects were sanctioned by NABARD.
- *Cluster Development Programme*: To promote rural industrialisation through the cluster approach, NABARD has launched the programme to develop 55 clusters within a period of 3-5 years. During 2008-09, 37 participatory, 1 intensive and 1 eco-tourism clusters were sanctioned. Further, in view of Government's special emphasis on developing the handloom sector, NABARD has initiated the development of handloom clusters.
- *Rural Entrepreneurship Development Programme* (REDP) and the Skill Development Programme (SDP): NABARD has initiated these Programmes for generating employment opportunities in rural areas. During 2008-09, grant support of Rs.1,304 lakh was provided covering 50,264 rural youth. Further, an amount of Rs.88 lakh was sanctioned to Rural Development and Self Employment Training Institutes (RUDSETI) for capital expenditure.
- *Swarozgar Credit Cards (SCCs):* NABARD issued 1.50 lakh Swarozgar Credit Cards (SCC) involving credit limits of Rs.628 crore during 2008-09.
- *Gender Development Programmes*: NABARD continued to support gender development programmes through its schemes such as Marketing of Non-Farm Products of Rural Women (MAHIMA) and Assistance to Rural Women in Non-Farm Development (ARWIND) programmes. During the year, grant assistance of Rs.6 lakh and Rs.7 lakh were released under MAHIMA and ARWIND, respectively. Further, NABARD initiated the establishment of Women Development Cells (WDCs) and by end-March 2009, 102 WDCs in 56 RRBs, 43 DCCBs and 3 SCARDBs were sanctioned.

few banks in the recent years. Moreover, regionally, UCBs remain concentrated in the western region comprising Maharashtra and Gujarat. During the year, there has been a continued expansion in the business of UCBs in general and scheduled UCBs in particular, as evident from a high growth in loans and advances as well as deposits signaling a growing public confidence in these institutions. Net profits of the UCB sector as a whole grew at a slower pace during the year, but there was a significant growth in the profits of non-scheduled UCBs. There has been an increase in the levels of capital adequacy for the UCB sector as a whole. There are, however, pockets within the sector comprising of banks whose capital levels remain considerably low. The UCBs have continued to play an important role in financial inclusion through their credit delivery to sectors, such as the small enterprises. During the year, belying the expected decline in credit to the small enterprises following global developments, UCB's credit to small enterprises has registered a high growth.

5.90 As against UCBs, all rural cooperatives except StCBs have reported overall losses during the year. The lowest tier of rural cooperatives, namely PACS, have seen a rise in the representation of small farmers in their members and borrowers. There has, however, been a decline in the number of SC/ST members and borrowers for these institutions.

5.91 Further, high levels of NPAs continue to afflict both urban and rural cooperative sectors. Notwithstanding the slow decline in the NPA ratio for UCBs in recent years, the ratio remained high at 13.3 per cent in 2009.

5.92 Under NABARD's initiatives for the cooperative sector and rural development, there has been a significant increase in deposits and credit sanctioned under RIDF (with Bharat Nirman Programme) during the recent years. However, there has been a declining trend in the percentage of loans disbursed under RIDF. The total number of KCCs has risen sharply reflecting its popularity as means of agricultural finance among farmers. However, this increase has come about primarily from commercial banks, while the KCCs issued by cooperative banks have been on a decline.

5.93 To sum up, there is a need to make the cooperative credit system – both rural and urban – more viable and vibrant in order to deepen financial inclusion as well as add to stability of the financial system as a whole.

Chapter VI

Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFIs) play an important role in the Indian financial system given their unique postion of providing complimentarity and competitiveness to banks. On account of intensification of the global financial crisis in September 2008, some impact was experienced in the sector, thereby creating liquidity constraints for NBFIs. In response, the Reserve Bank introduced special fixed term rate Repo under liquidity adjustment facility (LAF) to banks exclusively for the purpose of meeting the funding requirements of Non-Banking Financial Companies (NBFCs). Besides, certain precautionary measures were taken by the Reserve Bank since October 2008 to enhance the availability of liquidity to NBFCs. These steps indirectly helped in dealing with the market pressure which had been building up. All India Financial Institutions (AIFIs) were extended refinance facilities of Rs.16,000 crore. Ceiling on aggregate resource mobilisation and umbrella limit were raised for EXIM Bank and NHB; select AIFIs were allowed to offer market related yield to maturity (YTM). Financial Institutions (FIs) exhibited robust performance in terms of assistance sanctioned and disbursements, balance sheet size and net profit. The weighted average cost of long term resources raised by AIFIs witnessed a mixed trend. Asset quality of FIs improved during the year vis-à-vis the previous year. Regulation of NBFIs in India was being progressively strengthened well before the onset of the global financial crisis. The Reserve Bank undertook regulatory and supervisory policy initiatives in terms of capital to risk weighted asset ratio (CRAR), exposure norms and classification of assets. While the balance sheet size of Primary Dealers (PDs) moderated during the period mainly on account of decline in secured loans and decline in Government securities, their financial indicators like net profit and return on average assets improved during 2008-09 vis-à-vis 2007-08.

1. Introduction

6.1 While the Indian financial system is dominated by banks, NBFIs play an important role by complementing banks in providing a wide range of financial services. Banks have an edge in providing payment and liquidity related services, while NBFIs tend to offer enhanced equity and risk based products. NBFIs are heterogeneous as a group, functionally as well as in terms of size and nature of activities. The major intermediaries that are included in the NBFI group are Development Finance Institutions (DFIs), insurance companies, non-banking financial companies (NBFCs), primary dealers (PDs) and capital market intermediaries such as mutual funds. The NBFIs are providing medium to long-term finance to different sectors of the economy.

6.2 In the wake of the recent global financial crisis and its fall out on the financial institutions (FIs), the Reserve Bank took a number of measures to preserve financial stability and arrest the moderation in the growth momentum. To ensure adequate availability of liquidity in the system and maintain conditions conducive for flow of credit to all productive purposes, particularly to the housing, export and industrial sectors, the Reserve Bank provided special refinance facilities to the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB) and the Export-Import (EXIM) Bank of India in December 2008. The ceiling on aggregate resources mobilised by SIDBI, NHB and EXIM Bank, and the 'umbrella limit' for NHB and EXIM Bank were also raised. The Reserve Bank took policy initiatives for NBFCs also. As a measure aimed at expanding rupee liquidity, the Reserve Bank provided a special repo window under the LAF for NBFCs. In addition, an existing special purpose vehicle (SPV) was used as platform to provide liquidity support to NBFCs. In December 2008, systemically important non-deposit taking NBFCs (NBFCs-ND-SI) were permitted, as a temporary measure, to raise foreign currency short term borrowings under the approval route subject to certain conditions.

6.3 During 2008-09, the combined balance sheets of FIs, *viz.*, National Bank for Agriculture and Rural Development (NABARD), SIDBI, NHB and EXIM Bank, continued to expand. The financial performance of FIs also improved. Net interest income as well as non-interest income of these FIs increased during 2008-09. The asset quality of the FIs improved as net non-performing assets (NPAs) to net loans ratio declined significantly during 2008-09. The NBFIs in the Indian financial system continued to be resilient as the Reserve Bank had taken various measures to minimise the adverse effects of the ongoing financial crisis on the system.

6.4 NBFCs have been competing with and complementing the services of commercial banks for a long time. The NBFCs as a whole account for 9.1 per cent of assets of the total financial system. The Committee on Financial Sector Assessment (CFSA), 2009 observed that NBFCs are largely compliant in areas relating to licensing, permissible activities, capital adequacy, risk management process, credit risk, problem assets, large exposures, supervisory approach, supervisory techniques and supervisory reporting. However, the assessment has revealed that there are certain gaps in areas relating to home-host co-operation, transfer of significant ownership, major acquisitions, exposure to related parties, market, liquidity and operational risks, internal control and interest rate risk in the banking book. The CFSA's recommendations in this regard will be looked into by the Reserve Bank.

6.5 In order to strengthen the market infrastructure of Government securities market and make it vibrant, liquid and broad-based, the PDs system was introduced by the Reserve Bank in 1995. The PDs 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, encouraging voluntary holding of Government securities amongst a wider investor base. The PDs system developed significantly over the years and currently it serves as an effective conduit for conducting open market operations. As of end-September 2009, there were 19 PDs, of which 11 were Bank-PDs and eight stand-alone PDs.

6.6 In this perspective, spread over five sections, this chapter analyses the performance of FIs in section 2. Section 3 explains the trends and developments relating to NBFCs and RNBCs. Activities and performance of PDs have been elaborated in section 4, followed by the conclusion in section 5.

2. Financial Institutions

6.7 Based on the major activity undertaken by FIs, they are classified into three broad categories. First, there exists the term-lending institution - EXIM Bank, whose main activity is direct lending by way of term loans and investments. Second, there are refinance institutions such as NABARD, SIDBI and NHB, which mainly extend refinance to banks as well as NBFIs. In the third category, there are investment institutions such as LIC, which deploy their assets largely in marketable securities. State/

regional level institutions are a distinct group and comprise 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.

6.8 As on March 31, 2009, there were four FIs *viz.*, EXIM Bank, NABARD, NHB and SIDBI which were under full-fledged regulation and supervision of the Reserve Bank. Industrial Investment Bank of India (IIBI), a financial institution with headquarter at Kolkata is in the process of voluntary winding up in view of its very poor financial position.

Regulatory Initiatives for Financial Institutions

6.9 In the wake of the emerging global developments and their fall out on financial institutions, the Reserve Bank received requests from select FIs for liquidity support for on-lending to HFCs/NBFCs/MFIs and exporters, and accordingly, took a number of measures as follows:

Refinance Facility to SIDBI, EXIM Bank and NHB

6.10 As a measure to encourage flow of credit to sectors, which were coming under pressure due to the ongoing global financial crisis, in December 2008, the Reserve Bank provided refinance facilities of Rs.7,000 crore, Rs.5,000 crore and Rs.4,000 crore for SIDBI, EXIM Bank and NHB, respectively, under the relevant provisions of the Reserve Bank of India Act, 1934. The availment of refinance by the above FIs under this facility is restricted to a period of 90 days and the amount could be flexibly drawn and repaid during the period. The facility could be rolled over and would be available up to March 31, 2010. Advances under this facility are charged at the repo rate under the LAF of the Reserve Bank. The funds provided under the refinance facility should be utilised as per the policy approved by the Board of the respective financial institutions, and in adherence to the extant exposure norms for these entities. To facilitate monitoring, the financial institutions are required to submit a weekly report on the utilisation of the refinance facility to the Reserve Bank. The amount outstanding under the special refinance facility remained small up to February 2009 for each institution, but picked up in the subsequent months. The utilisation of refinance facility as at end-June 2009 is indicated in Table VI.1.

Ceiling on Aggregate Resources Mobilised by SIDBI, NHB and EXIM Bank

6.11 The ceiling on aggregate resources mobilised was raised to 12 times of the net owned funds (NOF) for SIDBI and NHB and 13 times of NOF for EXIM Bank with effect from December 8, 2008 for a period of one year from the existing norm of 10 times of NOF as per the last balance sheet, subject to meeting CRAR requirements.

Umbrella Limit for EXIM Bank and NHB

6.12 The 'umbrella limit' for FIs which consists of aggregate borrowings through five specified instruments, *viz.*, term deposits, term money borrowings, certificates of deposits (CDs), commercial papers (CPs) and inter-corporate deposits (ICDs) should not at any time exceed

Table VI.1: Utilisation of Refinance Facilities

(Amount in Rs. crore)

AIFIs	Refinance Sanctioned	Cumulative Amount drawn up to June 26, 2009	Cumulative Amount Disbursed up to June 26, 2009	No. of Beneficiaries
1	2	3	4	5
SIDBI	7,000	5,684	4,971	33 *
		988	1,043	22 **
		7,747	1,841	5,179
EXIM Bank	5,000	3,000	3,478	35
NHB	4,000	3,979	3,979	14 #
Total	**16,000**	**21,398**	**15,312**	**5,283**

* : State Finance Corporations (SFCs) and banks.
** : Non-banking Finance Companies (NBFCs).
# : Housing Finance Companies (HFCs).

100 per cent of their NOF as per its latest audited balance sheet. The umbrella limit was raised to 200 per cent of NOF for one year with effect from December 8, 2008 for EXIM Bank and January 15, 2009 for NHB, subject to review and subject to Asset Liability Management (ALM) guidelines of the Reserve Bank.

Select AIFIs Allowed to Offer Market-related Yield to Maturity

6.13 While issuing bonds/debentures, the select FIs *viz.*, SIDBI, NHB, EXIM Bank and NABARD can offer market related YTM. Accordingly, the current stipulation that the yield to maturity offered at the time of issue of bonds should not exceed 200 basis points above the YTM on the Government of India securities of equal residual maturities would not apply with effect from December 8, 2008 for a period of one year.

Prudential Guidelines on Treatment of Restructuring of Advances of Select AIFIs

6.14 The guidelines regarding treatment of restructuring of advances issued to banks have been *mutatis mutandis* applied to the select FIs. Provisions relating to certain activities generally not undertaken by FIs, such as extending working capital, overdrafts and personal loans would, however, not be applicable to them.

Operations of Financial Institutions

6.15 Financial assistance sanctioned and disbursed by FIs sharply increased during 2008-09 as compared to that in the previous year. A major part of the increase in financial sanctions and disbursements was accounted for mainly by investment institutions (especially LIC) followed by the term lending institutions (Table VI.2 and Appendix Table VI.1).

6.16 During 2008-09, though there was increase in both financial assistance sanctioned and disbursed by FIs, the increase in disbursements (93.3 per cent) was more pronounced than the sanctions (70.2 per cent) (Table VI.2) (Chart VI.1).

Assets and Liabilities of FIs

6.17 The combined balance sheets of select FIs (NABARD, NHB, SIDBI and EXIM Bank) during 2008-09 expanded sharply by 20.8 per cent over the previous year. On the liabilities side, the resources raised by way of bonds and debentures declined by 9.3 per cent during 2008-09. However, deposits and borrowings registered sharp increases of 80.7 per cent and 20.0 per cent, respectively. On the asset side, loans and advances continued to expand by 21.5 per cent and investment portfolio also recorded

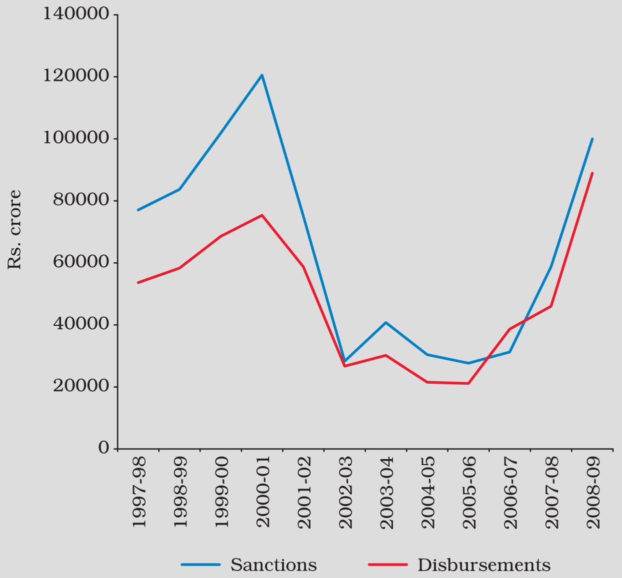
Table VI.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Amount in Rs. crore)

Category	Amount				Percentage Variation	
	2007-08		2008-09		2008-09	
	S	D	S	D	S	D
1	2	3	4	5	6	7
(i) All-India Term-Institutions*	18,696	17,379	33,660	31,604	80.0	81.9
(ii) Specialised Financial Institutions#	366	189	597	283	63.1	49.7
(iii) Investment Institutions@	39,670	28,460	65,731	57,086	65.7	100.6
Total Assistance by FIs (i+ii+iii)	**58,732**	**46,028**	**99,988**	**88,973**	**70.2**	**93.3**

S : Sanctions. D : Disbursements.
* : Relating to IFCI, SIDBI and IIBI.
# : Relating to IVCF, ICICI Venture and TFCI.
@ : Relating to LIC and GIC & erstwhile subsidiaries (NIA,UIIC & OIC).
Note: All data are provisional.
Source: Respective Financial Institutions.

Chart VI.1: Financial Assistance by AIFIs



an increase of 21.8 per cent. Cash and bank balances and other assets registered an increase of 22.7 per cent and 8.8 per cent, respectively. Within liability, the share of deposits increased from 20.2 per cent to 30.2 per cent while other items showed a marginal to moderate decline. Composition of assets remain roughly unchanged during 2008-09 as that of 2007-08 (Table VI.3).

Resources Mobilised by FIs

6.18 Resources raised by the FIs during 2008-09 were considerably higher than those during the previous year. While the short-term resources raised witnessed a sharp rise during 2008-09 as compared with that a year ago, the long-term and foreign currency resources raised declined. NHB mobilised the largest amount of resources, followed by EXIM Bank and SIDBI. Foreign currency resources raised by EXIM Bank moderated while that by SIDBI expanded sharply during 2008-09 (Table VI.4 and Appendix Table VI.2).

6.19 Resources raised by FIs from the money market rose sharply during 2008-09 with the utilisation of umbrella limit reaching 58.0 per cent as compared to 22.9 per cent in the previous year (Table VI.5).

Table VI.3: Liabilities and Assets of Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Item	Amount		Percentage Variation
	2008	2009	2008-09
1	2	3	4
Liabilities			
1. Capital	4,000 (2.2)	4,300 (2.0)	7.5
2. Reserves	17,137 (9.5)	19,069 (8.8)	11.3
3. Bonds and Debentures	57,741 (32.1)	52,390 (24.1)	-9.3
4. Deposits	36,298 (20.2)	65,591 (30.2)	80.7
5. Borrowings	33,716 (18.7)	40,443 (18.6)	20.0
6. Other Liabilities	31,020 (17.2)	35,579 (16.4)	14.7
Total Liabilities/Assets	**1,79,912 (100.0)**	**2,17,372 (100.0)**	**20.8**
Assets			
1. Cash and Bank Balances	15,835 (8.8)	19,430 (8.9)	22.7
2. Investments	6,694 (3.7)	8,155 (3.8)	21.8
3. Loans and Advances	1,47,008 (81.7)	1,78,595 (82.2)	21.5
4. Bills Discounted / Rediscounted	2,044 (1.1)	2,145 (1.0)	5.0
5. Fixed Assets	539 (0.3)	570 (0.3)	5.6
6. Other Assets	7,792 (4.3)	8,477 (3.9)	8.8

Note: 1. Data pertain to four FIs, *viz*., NABARD, NHB, SIDBI and EXIM Bank. IIBI Ltd. was under voluntary winding up as on March 31, 2009.
2. Figures in parentheses are percentages to total liabilities/ assets.

Source: 1. Balance sheets of respective FIs.
2. Unaudited OSMOS Returns of NHB.

Sources and Uses of Funds

6.20 Total sources/deployment of funds of FIs increased sharply by 39 per cent during 2008-09. 65.0 per cent of the funds of FIs were raised internally, which recorded a growth of 91.5 per cent. External sources, which contributed 30.7 per cent of sources of funds during 2008-09 as

Table VI.4: Resources Mobilised by Financial Institutions

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding (As at end-March)	
	Long-term		Short-term		Foreign Currency		Total			
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2008	2009
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	6,825	3,197	2,180	8,905	5,553	3,800	14,558	15,902	31,716	37,202
NABARD	12,198	4,252	1,422	3,494	–	–	13,620	7,746	32,630	26,867
NHB	3,100	3,124	8,016	16,881	–	–	11,116	20,005	17,313	16,503
SIDBI	4,531	5,625	461	8,811	92	1,361	5,084	15,797	14,665	24,487
Total	**26,654**	**16,198**	**12,079**	**38,091**	**5,645**	**5,161**	**44,378**	**59,450**	**96,324**	**1,05,059**

– : Nil/Negligible

Note: Long-term rupee resources comprise borrowings by way of bonds/debentures; and short-term resources comprise CPs, term deposits, ICDs, CDs and borrowing from the term money. Foreign currency resources comprise largely bonds and borrowings in the international market.

Source: Respective FIs.

compared to 51.7 per cent during previous year, recorded a decline of 17.4 per cent due to turmoil in global financial markets. A large part of the funds raised were used for fresh deployments (65.5 per cent), followed by repayment of past borrowings (19.0 per cent) during 2008-09. The fresh deployment registered a growth of 55.1 per cent and other deployment 137.9 per cent during 2008-09 over 2007-08. (Table VI.6 and Appendix Table VI.3)

Cost and Maturity of Borrowings

6.21 The weighted average cost of long-term resources raised by AIFIs recorded a mixed trend during 2008-09 (Table VI.7 and Appendix Table VI.4). The weighted average maturity of long-term resources raised by FIs increased, except for EXIM Bank and NHB during 2008-09.

Table VI.5: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instrument	2006-07	2007-08	2008-09
1	2	3	4
A. Total	**3,293**	**4,458**	**15,247**
i) Term Deposits	89	508	2,222
ii) Term Money	–	250	1,184
iii) Inter-corporate Deposits	–	–	–
iv) Certificate of Deposits	663	2,286	5,633
v) Commercial Paper	2,540	1,414	6,207
Memo:			
B. Umbrella Limit	**19,001**	**19,500**	**26,292**
C. Utilisation of Umbrella limit (A as percentage of B)	**17.3**	**22.9**	**58.0**

- : Nil/Negligible.

Source: Fortnightly Return of Resource mobilised by Financial Institutions.

Table VI.6: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Item	2007-08	2008-09	Percentage Variation 2008-09
1	2	3	4
A) Sources of Funds (i+ii+iii)	**2,13,954 (100.0)**	**2,97,296 (100.0)**	**39.0**
(i) Internal	1,00,944 (47.2)	1,93,294 (65.0)	91.5
(ii) External	1,10,604 (51.7)	91,314 (30.7)	-17.4
(iii) Others@	2,406 (1.1)	12,688 (4.3)	427.3
B) Deployment of Funds (i+ii+iii)	**2,13,954 (100.0)**	**2,97,296 (100.0)**	**39.0**
(i) Fresh Deployment	1,25,522 (58.7)	1,94,711 (65.5)	55.1
(ii) Repayment of past borrowings	69,096 (32.3)	56,592 (19.0)	-18.1
(iii) Other Deployment	19,333 (9.0)	45,993 (15.5)	137.9
of which:			
Interest Payments	6,916 (3.2)	8,809 (3.0)	27.4

* : 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.7: Weighted Average Cost and Maturity of Long-term Resources Raised by Financial Institutions

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5
EXIM Bank	8.2	9.0	3.0	2.5
SIDBI	8.2	6.5	1.0	3.4
NABARD	9.5	9.5	4.0	4.3
NHB	7.7	7.4	2.8	2.8

Note: Data are provisional.
Source: Respective FIs.

Lending Rates

6.22 NHB, SIDBI and EXIM Bank raised their Prime Lending Rates (PLRs) marginally during 2008-09 as compared to the previous year (Table VI.8).

Table VI.8: Long-term PLR Structure of Select Financial Institutions

(Per cent)

Effective	NHB	EXIM Bank	TFCI
1	2	3	4
March 2008	10.50	13.50	12.00
March 2009	10.75	14.00	12.50

Source: Respective FIs.

Financial Performance of Financial Institutions

6.23 Net interest income and non-interest income of FIs increased by 22.5 per cent and 31.1 per cent, respectively. However, in contrast with the decline in the previous year, the wage bill increased by 26.1 per cent during 2008-09. The operating profit increased by 33.5 per cent during the year. The net profit of FIs also increased despite higher provisions for taxation (Table VI.9).

Table VI.9: Financial Performance of Select All-India Financial Institutions

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation 2007-08 Amount	Variation 2007-08 Percentage	Variation 2008-09 Amount	Variation 2008-09 Percentage
1	2	3	4	5	6	7
A) Income (a+b)	**11,541**	**14,274**	**2,467**	**27.2**	**2,733**	**23.7**
a) Interest Income	9,934	12,169	1,796	22.1	2,234	22.5
	(86.1)	(85.3)				
b) Non-Interest Income	1,607	2,106	671	71.8	499	31.1
	(13.9)	(14.8)				
B) Expenditure (a+b)	**8707**	**10,492**	**1,812**	**26.3**	**1,785**	**20.5**
a) Interest Expenditure	7,277	8,977	1,362	22.9	1,699	23.4
	(83.6)	(85.6)				
b) Operating Expenses	1,430	1,516	450	46.6	86	6.0
	(16.4)	(14.4)				
of which : Wage Bill	287	362	-139	-32.7	76	26.4
C) Provisions for Taxation	**936**	**1,190**	**304**	**48.1**	**254**	**27.2**
D) Profit						
Operating Profit (PBT)	2,834	3,782	656	30.1	948	33.5
Net Profit (PAT)	1,898	2,592	352	22.7	694	36.6
E) Financial Ratios@						
Operating Profit	1.6	1.7				
Net Profit	1.1	1.2				
Income	6.4	6.6				
Interest Income	5.5	5.6				
Other Income	0.9	1.0				
Expenditure	4.8	4.8				
Interest Expenditure	4.0	4.1				
Other Operating Expenses	0.8	0.7				
Wage Bill	0.2	0.2				
Provisions	0.5	0.6				
Spread (Net Interest Income)	1.4	1.4				

@ : As percentage of total assets.
Note: Figures in parentheses are percentage shares to the respective total.
Source: Annual Accounts of respective FIs.2) Unaudited OSMOS returns of NHB (As at June-end).

Table VI.10: Select Financial Parameters of Financial Institutions
(As at end-March)

(Per cent)

Institution	Interest Income/ Average Working Funds		Non-interest Income/Average Working Funds		Operating Profits/Average Working Funds		Return on Average Assets		Net Profit per Employee (Rs. crore)	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank	7.6	7.8	1.2	0.8	2.3	2.4	1.0	1.2	1.5	2.1
NABARD	6.1	6.5	0.1	0.1	2.0	1.9	1.4	1.3	0.3	0.3
NHB*	7.5	8.0	0.3	0.3	1.1	1.7	0.6	1.2	..	..
SIDBI	8.5	8.8	0.7	1.1	3.1	5.3	1.6	3.1	0.2	0.3

.. : Not Available.
* : Position as at end-June as per OSMOS returns. In case of NHB, total assets have been taken in lieu of average working funds.
Source: 1. Respective FIs,
2. Unaudited off-site Returns for NHB.

6.24 The interest income and the non-interest income as percentage of working funds (except EXIM Bank) increased for all FIs. Operating profit as percentage of working funds and return on average assets (ROA) improved for all FIs except NABARD. The ROA was the highest for SIDBI followed by NABARD, EXIM Bank and NHB (Table VI.10).

Soundness Indicators: Asset Quality

6.25 It is significant to note that the FIs recorded improvement in their asset quality during 2008-09 notwithstanding the fall out of the ongoing global financial crisis. In terms of net NPA to net loans ratio, the asset quality of SIDBI and EXIM Bank improved during the year. Net NPA ratio of NABARD, however, increased marginally (Table VI.11).

6.26 Improvement in asset quality was also observed in terms of a substantial increase in standard assets of the FIs except NHB in which there is a slight decrease in the standard assets. Furthermore, none of the FIs had any assets in the 'loss' assets category as at end-March 2009 (Table VI.12).

Capital Adequacy

6.27 The capital adequacy ratio of all the FIs continued to be significantly higher than the minimum stipulated norm of 9 per cent. Notwithstanding this, CRARs of NABARD, NHB and SIDBI at end-March 2009 were lower than those in the previous year, while CRAR of EXIM Bank increased at end-March 2009 compared to the previous year (Table VI.13).

3. Non-Banking Financial Companies

6.28 The Reserve Bank of India Act, 1934 was amended in January 1997 to provide a comprehensive legislative framework for regulation of NBFCs. The amended Act, *inter alia*, provided for compulsory registration and minimum NOF for all NBFCs. It also gave the

Table VI.11: Net Non-Performing Assets
(As at end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2008	2009	2008	2009
1	2	3	4	5
EXIM Bank	83	79	0.29	0.23
NABARD	19	30	0.02	0.03
NHB*	–	–	–	–
SIDBI	49	26	0.25	0.08
All FIs	151	135	0.10	0.07

- : Nil/Negligible.
* : Position as at end-June as per OSMOS returns
Source: Respective FIs.

Table VI.12: Asset Classification of Financial Institutions
(At end-March)

(Amount in Rs. crore)

Institution	Standard		Sub-Standard		Doubtful		Loss	
	2008	2009	2008	2009	2008	2009	2008	2009
1	2	3	4	5	6	7	8	9
EXIM Bank	28,694	34,077	41	21	42	58	–	–
NABARD	82,853	98,822	2	7	17	23	–	–
NHB*	17,427	16,851	–	–	–	–	–	–
SIDBI	19,927	30,854	24	23	25	3	–	–
All FIs	1,48,901	1,80,605	67	51	84	85	–	–

- : Nil/Negligible.
* : Position as at end-June.
Source: 1. Respective FIs.
2. Unaudited Off-site returns for NHB.

Reserve Bank powers to determine policies and issue directions to NBFCs regarding income recognition, accounting standards, NPAs, capital adequacy, deployment of funds as well as purposes for which advances would be made, *etc.*

Regulatory and Supervisory Initiatives

6.29 Regulation of non-banking entities is being progressively strengthened and the process had started before the onset of the global financial crisis. Issues relating to the level playing field between bank sponsored NBFCs and non bank associated NBFCs and other issues of regulatory convergence and regulatory arbitrage were examined with respect to systemic implications. Non Deposit taking NBFCs with asset size of Rs.100 crore and above were defined as systemically important and an elaborate prudential framework was put in place.

6.30 Initially, with a view to protect the interests of depositors, regulatory attention was mostly focused on NBFCs accepting public deposits (NBFCs-D). Over the years, however, this regulatory framework has been widened to include issues of systemic significance. The sector is being consolidated and while deposit taking NBFCs have decreased both in size as well as in terms of the quantum of deposits held by them, NBFCs-ND have increased in terms of number and asset size. NBFCs-ND-SI (NBFCs-ND with asset size of Rs.100 crore and above) are subject to CRAR and exposure norms prescribed by the Reserve Bank.

Table VI.13: Capital Adequacy Ratio of Select Financial Institutions
As at end-March

(Per cent)

Institution	2002	2003	2004	2005	2006	2007	2008	2009
1	2	3	4	5	6	7	8	9
EXIM Bank	33.1	26.9	23.5	21.6	18.4	16.4	15.1	16.8
NABARD	36.9	39.1	39.4	38.8	34.4	27.0	26.6	25.9
NHB*	22.1	27.9	30.5	22.5	22.3	21.7	24.7	17.7
SIDBI	45.0	44.0	51.6	50.7	43.2	37.5	41.8	34.2

* : Position as at end-June.
Source: 1. Respective FIs.
2. Unaudited Off-site returns for NHB.

6.31 The changing regulatory policy also recognised that those activities of NBFCs which are creating productive asset must be given special consideration. Accordingly, reclassification of NBFCs was effected in December 2006, in terms of which companies financing real/physical assets for productive/ economic activities would be classified as Asset Finance Companies (AFCs). The other two categories of NBFCs would be Loan Companies (LCs) and Investment Companies (ICs).

Monitoring of Frauds in NBFCs

6.32 In July 2008, the Reserve Bank revised the approach towards monitoring of frauds in NBFCs issued in March 2008. Accordingly, NBFCs were advised to report frauds in their subsidiaries and affiliates/joint ventures.

Guidelines for Securitisation Companies (SCs) and Reconstruction Companies (RCs)

6.33 The Reserve Bank revised the formats of quarterly statements to be submitted by Securitisation Companies/Reconstruction Companies (SCs/RCs) in September 2008. The revised statements would capture, *inter alia*, data on position of owned fund of the SCs/RCs (including FDI component); position of acquisition/realisation of financial assets from banks/FIs by the SCs/RCs in terms of the SARFAESI Act, 2002; and information as regards security receipts (SRs) issued, redeemed and outstanding at the end of particular quarter.

6.34 It was clarified that a SC/RC was neither a 'bank' nor a 'financial institution' under the provisions of the SARFAESI Act. Therefore, the acquisition of financial assets by a SC/RC from another SC/RC would not be in conformity with the provisions of the said Act. There was, however, no bar on SCs/RCs deploying their funds for undertaking restructuring of acquired loan accounts with the sole purpose of realising their dues.

Treatment of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) for Computation of Capital

6.35 As creation of DTA or DTL gives rise to certain issues impacting on the balance sheet of the company, NBFCs were advised on July 31, 2008 that the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose. Further, DTA will be treated as an intangible asset and should be deducted from Tier I capital. In this connection, it was further clarified that DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under 'others' of "Other Liabilities and Provisions" and DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year should be included under item 'others' of "Other Assets."

Prevention of Money Laundering Act, 2002 – Obligation of NBFCs

6.36 In August 2008, NBFCs, as a part of transaction monitoring mechanism, were 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 Principal Officer of the NBFC was required to 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.

Regulation of Excessive Interest charged by NBFCs

6.37 The Reserve Bank issued directions regarding excessive rates of interest in January 2009. Accordingly, now the Board of each NBFC should adopt an interest rate model taking into account the relevant factors such as cost of funds, margin and risk premium, and determine the rate of interest to be charged for loans and advances. The rate of interest should be an annualised rate so that the borrower is aware of the exact rate that would be charged to the account.

Ratings of NBFCs

6.38 In February 2009, all NBFCs (both deposit taking and non-deposit taking) with asset size of Rs.100 crore and above were required to furnish the information about downgrading/upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to the Regional Office of the Reserve Bank under whose jurisdiction their registered office is functioning.

Policy Initiatives for NBFCs-ND-SI

Guideline on Capital Adequacy, Liquidity and Disclosure Norms for NBFC-ND-SI

6.39 The Reserve Bank reviewed the extant guidelines regarding NBFCs-ND-SI and the final guidelines were issued on August 1, 2008. In terms of these guidelines, the minimum 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. In view of the economic downturn and based on several requests received, this requirement was postponed for one year. The NBFCs-ND-SI are required to make additional disclosures relating to CRAR, exposure to real estate sector and maturity pattern of assets and liabilities in their balance sheet from the year ending March 31, 2009.

Enhancement of NBFCs' Capital Raising Option for Capital Adequacy Purposes

6.40 In October 2008, taking into consideration, the need for enhanced funds for increasing business and meeting regulatory requirements, the Reserve Bank decided that NBFCs-ND-SI may augment their capital funds by issue of Perpetual Debt Instruments (PDIs). Such PDIs shall be eligible for inclusion as Tier I Capital to the extent of 15 per cent of total Tier I capital as on March 31 of the previous year.

Raising of Short Term Foreign Currency Borrowings

6.41 In December 2008, systemically important NBFCs-ND-SI were permitted, as a temporary measure, to raise foreign currency short term borrowings under the approval route subject to certain conditions. In this connection, all the NBFCs-ND-SI that have availed short term foreign currency loans were advised to furnish a monthly return as per the prescribed format within ten days from the end of the month to which it pertains.

Acceptance of Deposits by Chit Fund Companies

6.42 In order to regulate the credit system of the country to its advantage, MNBCs were prohibited with effect from August 18, 2009 from accepting deposits from public except from the shareholders, which was subject to the conditions specified in the MNBC (RBI) Directions 1977. Any deposit accepted and held by the MNBCs other than from its shareholders as on date shall be repaid on maturity and shall not be eligible for renewal.

Requirement for obtaining prior approval of RBI in cases of acquisition/transfer of control of NBFCs accepting deposits

6.43 To enable RBI to verify the 'fit and proper' character of the management of NBFCs is continuously maintained, it has been decided that any takeover/acquisition of shares or merger/ amalgamation of a deposit taking NBFC with another entity or any merger/amalgamation of an entity with a deposit taking NBFC that would give the acquirer/another entity control of the deposit taking NBFC, would require prior permission of RBI with effect from September 17, 2009. Applications in this regard are to be submitted to the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the Registered Office of the Company is located.

Introduction of Interest Rate Futures-NBFCs

6.44 To hedge the underlying exposures, directions were issued covering the framework for trading of Interest Rate Futures by NBFCs in exchanges in India recognized by SEBI subject to RBI/SEBI guidelines in the matter.

Profile of NBFCs (including RNBCs)

6.45 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 12,809 at end-June 2008 to 12,740 at end-June 2009 (Table VI.14). The number of NBFCs-D also declined from 364 at end-June 2008 to 336 at end-June 2009, mainly due to the exit of many NBFCs from deposit taking activity. Of the 336 deposit taking NBFCs, 275 NBFCs filed annual returns for the year ended March 2009 by the cut off date of September 30, 2009. The number of RNBCs declined to two at end-March 2009.

Table VI.14: Number of NBFCs Registered with the Reserve Bank

End-June	Number of Registered NBFCs	Number of 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
2009	12,740	336

6.46 Total assets of NBFCs declined to Rs.95,727 crore during 2008-09 from Rs.99,014 crore in previous year. Public deposits also recorded a decline to Rs.21,548 crore at end-March 2009 from Rs.24,400 crore at end-March 2008. Net owned funds (NOF) witnessed a growth of 8.8 percent and stood at Rs.13,458 crore as on end-March 2009. The share of RNBCs in NBFCs in terms of total assets, public deposits and NOF recorded marginal decline during 2008-09 over previous year (Table VI.15).

6.47 The ratio of deposits of reporting NBFCs to the aggregate deposits of scheduled commercial banks dropped to 0.53 per cent at end-March 2009 from 0.73 per cent at end-March 2008 mainly due to the decline in deposits of reporting NBFCs. The share of NBFC deposits in broad liquidity aggregate (L3) also declined over the year (Chart VI.2).

Table VI.15: Profile of NBFCs

(Amount in Rs. crore)

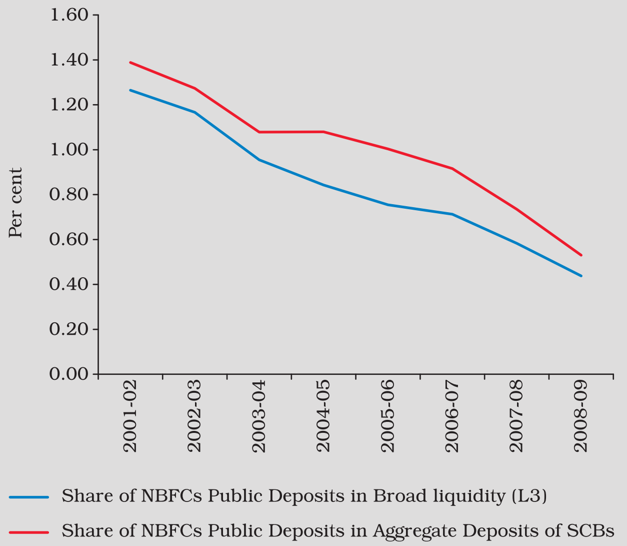
Item	As at end-March			
	2008		2009 P	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5
Total Assets	99,014	24,452 (24.7)	95,727	20,211 (21.1)
Public Deposits	24,400	22,358 (91.6)	21,548	19,607 (91.0)
Net Owned Funds	11,921	1,718 (14.4)	13,458	1,870 (13.9)

P: Provisional.

Note: 1. NBFCs comprise NBFCs-D and RNBCs.
2. Figures in parentheses are percentages to respective total of NBFCs.

Source: Annual Returns.

Chart VI.2: Share of Public Deposits of NBFCs in Broad Liquidity (L3) and Aggregate Deposits of SCBs



Operations of NBFCs (excluding RNBCs)

6.48 Total assets/liabilities of NBFCs (excluding RNBCs) expanded at the rate of 1.3 per cent during 2008-09 as compared with 53.6 per cent during 2007-08 (Table VI.16). Borrowings, which is the major source of funds for NBFCs, increased by 9.3 per cent during the year, while public deposits declined by 4.9 per cent indicating the continuing shift in the pattern of resources raised. On the assets side, hire purchase assets and loans and advances, which are major items of assets witnessed growth of 6.3 per cent and 12.0 per cent, respectively as compared with 27.9 per cent and 70.2 per cent, respectively, during previous year. Growth of total investments of NBFCs decelerated mainly due to deceleration in investment in approved

Table VI.16: Consolidated Balance Sheet of NBFCs-D

(Amount in Rs. crore)

Item	As at End-March		Variation			
			2007-08		2008-09	
	2007-08	2008-09 P	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7
Liabilities						
1. Paid up Capital	3,266 (4.4)	3,508 (4.6)	998	44.0	242	7.4
2. Reserves & Surplus	8,695 (11.7)	9,337 (12.4)	2,834	48.4	642	7.4
3. Public Deposit	2,042 (2.7)	1,941 (2.6)	-35	-1.7	-101	-4.9
4. Borrowings	50,577 (67.8)	55,289 (73.2)	18,125	55.9	4,712	9.3
5. Other Liabilities	9,982 (13.4)	5,441 (7.2)	4,087	69.3	-4,541	-45.5
LIABILITIES/ASSETS	74,562	75,516	26,008	53.6	954	1.3
Assets						
1. Investments	11,210 (15.0)	14,813 (19.6)	3,798	51.2	3,603	32.1
i) Approved Securities @	7,146	9,230	2,859	66.7	2,084	29.2
ii) Other Investments	4,064 (5.5)	5,583 (7.4)	939	30.0	1,519	37.4
2. Loan & Advances	18,823 (25.2)	21,073 (27.9)	7,764	70.2	2,250	12.0
3. Hire Purchase Assets	33,525 (45.0)	35,647 (47.2)	7,303	27.9	2,122	6.3
4. Equipment Leasing Assets	1,048 (1.4)	585 (0.8)	-317	-23.2	-463	-44.2
5. Bill Business	12 (0.0)	23 (0.0)	5	71.4	11	91.7
6. Other Assets	9,944 (13.3)	3,375 (4.5)	7,456	299.7	-6,569	-66.1

P : Provisional
@ : SLR Asset comprises 'Approved Securities' and 'unencumbered term deposits' in Scheduled Commercial Banks
Note: Figures in parentheses are percentage shares in respective total
Source: Annual Returns.

securities. Other investments increased by 37.4 per cent during 2008-09 as compared with 30.0 per cent during 2007-08.

6.49 Among NBFC groups, asset finance companies (AFCs) held the largest share in total assets/liabilities (70.3 per cent), followed by loan companies (28.9 per cent), hire purchase companies (0.6 per cent) and equipment leasing (0.3 per cent) (Table VI.17). 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. 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 (2.6 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 (70.3 per cent), followed distantly by loan companies with a 19.9 per cent share and by hire purchase companies with a share of 9.6 per cent (Table VI.17).

Deposits: Profile of Public Deposits of Different Categories of NBFCs

6.50 Continuing the trend of the previous year, public deposits held by all groups of NBFCs taken together, declined moderately during 2008-09. 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 loan companies and equipment leasing companies due to reclassification of some of these companies as asset finance companies. Deposits of asset finance companies increased by 17.5 per cent during 2008-09 (Table VI.18).

Size-wise Classification of NBFCs Deposits

6.51 Deposits held by NBFCs ranged from less than Rs.0.5 crore to above Rs.50 crore (Table VI.19). The deposits held by NBFCs in all deposit-groups declined during 2008-09, except in the deposit-class 'more than Rs.10 crore and up to Rs.20 crore' and 'more than Rs.20 crore and up to Rs.50 crore'. The share of the deposit class 'Rs.50 crore and above' in total deposits

Table VI.17: Major Components of Liabilities of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification of NBFCs	Liabilities		Deposits		Borrowings	
	2007-08	2008-09 P	2007-08	2008-09 P	2007-08	2008-09 P
1	2	3	4	5	6	7
Asset Finance	50,998 (68.4)	53,068 (70.3)	1,161 (56.9)	1,364 (70.3)	34,093 (67.4)	40,232 (72.8)
Equipment Leasing	162 (0.2)	192 (0.3)	10 (0.5)	3 (0.2)	76 (0.2)	54 (0.1)
Hire Purchase	178 (0.2)	425 (0.6)	169 (8.3)	186 (9.6)	38 (0.1)	43 (0.1)
Investment	402 (0.5)	–	19 (0.9)	–	358 (0.7)	–
Loan	22,819 (30.6)	21,831 (28.9)	682 (33.4)	388 (19.9)	16,012 (31.7)	14,960 (27.1)
MNBC	3 (0.0)	–	1 (0.1)	–	0	–
Total	**74,562**	**75,516**	**2,042**	**1,941**	**50,577**	**55,289**

– : Nil/Negligible.
P : Provisional.
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

Table VI.18: Public Deposits held by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

NBFC Group	As at end-March				Percentage Variation
	Number of NBFCs		Public Deposits		
	2007-08	2008-09 P	2007-08	2008-09 P	2008-09
1	2	3	4	5	6
Asset Finance	185	147	1,161 (56.9)	1,364 (70.3)	17.5
Equipment Leasing	15	11	10 (0.5)	3 (0.2)	-70.6
Hire Purchase	76	74	169 (8.3)	186 (9.6)	10.1
Investment	1	1	19 (0.9)	–	–
Loan	70	42	683 (33.4)	388 (19.9)	-43.3
MNBCs	3		1	–	–
Total	**350**	**275**	**2,042**	**1,941**	**-4.9**

– : Nil/Negligible.
P : Provisional
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

was 80 per cent, while that of other deposit classes combined together was only about 20 per cent of total public deposits of the NBFC sector.

Table VI.19: Public Deposits held by NBFCs-D by Deposit Ranges

(Amount in Rs. crore)

Deposit Range	As at end-March			
	No. of NBFCs		Amount of Deposit	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
Less than Rs. 0.5 crore	213	177	28 (1.4)	22 (1.1)
More than Rs.0.5 crore and up to Rs.2 crore	85	53	82 (4.0)	51 (2.6)
More than Rs.2 crore and up to Rs.10 crore	38	30	186 (9.1)	133 (6.9)
More than Rs.10 crore and up to Rs.20 crore	4	6	61 (3.0)	76 (3.9)
More than Rs.20 crore and up to Rs.50 crore	2	3	56 (2.7)	115 (5.9)
Rs.50 crore and above	8	6	1,629 (79.8)	1,544 (79.5)
Total	350	275	2,042	1,941

P : Provisional.
Note: Figures in parentheses are percentage shares in respective total.
Source: Annual Returns.

Region-wise Composition of Deposits held by NBFCs

6.52 Following the trend of the previous year, deposits held by NBFCs across all the regions declined during 2008-09 except western region (Table VI.20). Western region recorded the growth of 85.7 per cent in the public deposits. As in the previous year, the southern region accounted for the largest share of deposits (around 76 per cent), followed by the northern region (around 15 per cent) and the western region (around 8 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

6.53 The share of public deposits held by NBFCs contracted in the interest rates up to 10 per cent declined from 73.0 per cent in 2007-08 to 30.1 per cent in 2008-09, while those contracted in the bracket 'more than 10 per cent and up to 12 per cent' witnessed a

Table VI.20: Public Deposits held by NBFCs-D - Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2007-08		2008-09 P	
	Number of NBFCs-D	Public Deposits	Number of NBFCs-D	Public Deposits
1	2	3	4	5
Central	54	25 (1.2)	42	20 (1.0)
East	9	18 (0.9)	5	8 (0.4)
North	180	284 (13.9)	139	283 (14.6)
South	84	1,631 (79.9)	66	1,474 (75.9)
West	23	84 (4.1)	23	156 (8.0)
Total	**350**	**2,042**	**275**	**1,941**
Metropolitan cities:				
Kolkata	6	15	3	8
Chennai	46	1,565	33	1,407
Mumbai	10	76	11	148
New Delhi	63	204	47	207
Total	**125**	**1,860**	**94**	**1,770**

P : Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

sharp rise from 25.4 per cent to 65.0 per cent (Table VI.21).

Maturity Pattern of Public Deposits

6.54 Deposits with the maturity period of 'less than 1 year', 'more than 1 year and up to 2 years'

Table VI.21: Public Deposits held by NBFCs-D - Deposit Interest Rate Range-wise

(Amount in Rs. crore)

Deposit Interest Rate Range	As at end-March	
	2007-08	2008-09 P
1	2	3
Upto 10 per cent	1,491 (73.0)	584 (30.1)
More than 10 per cent and up to 12 per cent	518 (25.4)	1,261 (65.0)
12 per cent and above	33 (1.6)	96 (4.9)
Total	**2,042**	**1,941**

P : Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

Table VI:22 Maturity Pattern of Public Deposits held by NBFCs-D

(Amount in Rs. crore)

Maturity Period	As at end-March	
	2007-08	2008-09 P
1	2	3
1. Less than 1 year	611 (29.9)	698 (36.0)
2. More than 1 and up to 2 years	491 (24.0)	506 (26.1)
3. More than 2 and up to 3 years	663 (32.5)	593 (30.6)
4. More than 3 and up to 5 years	211 (10.3)	84 (4.3)
5. 5 years and above	66 (3.2)	60 (3.0)
Total	**2,042**	**1,941**

P : Provisional
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

and '5 years and above' increased during the year. Deposits in the maturity bucket of 'more than 2 years and up to 3 years' and 'more than 3 years and less than 5 years' declined significantly at end-March 2009. As a result, their share in total deposits recorded a decline in total deposits (Table VI.22).

Borrowings by NBFCs

6.55 The outstanding borrowings by NBFCs increased by 9.3 per cent during 2008-09 (Table VI.23). Borrowings by equipment leasing companies and loan companies declined, while those by asset finance companies and hire purchase companies increased during the year. AFCs continued to hold the largest share (72.8 per cent) of borrowings of all NBFCs, followed by loan companies (27.1 per cent).

6.56 Borrowings by NBFCs from banks and financial institutions increased sharply by 29.3 per cent while borrowings by way of bonds and debentures remained at the same level during 2008-09. The borrowings from Government declined by 21.4 per cent during 2008-09. Other deposits (which include, *inter alia*, money borrowed from other companies, unsecured loans from directors/promoters, commercial paper,

Table VI.23: Borrowings by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March				Percentage Variation
	No. of NBFCs		Total Borrowings		
	2007-08	2008-09 P	2007-08	2008-09 P	2008-09
1	2	3	4	5	6
Asset Finance	185	147	34,093 (67.4)	40,232 (72.8)	18.0
Equipment Leasing	15	11	76 (0.2)	54 (0.1)	-28.8
Hire Purchase	76	74	38 (0.1)	43 (0.1)	13.2
Investment	1	1	358 (0.7)	–	–
Loan	70	42	16,012 (31.7)	14,960 (27.1)	-6.6
MNBCs	3		–	–	–
Total	**350**	**275**	**50,577**	**55,289**	9.3

P : Provisional

Note: Figures in parentheses are percentages to respective total.

Source: Annual Returns.

borrowings from mutual funds and any other type of funds which are not treated as public deposits) also registered a decline of 2.6 per cent during 2008-09 (Table VI.24).

Assets of NBFCs

6.57 The total assets of deposit-taking NBFCs registered a marginal growth of 1.3 per cent during 2008-09 mainly on account of decline in assets of loan companies (Table VI.25). Loans and advances (7.3 per cent) as well as investments (32.1 per cent) of NBFCs also increased during the year. At end-March 2009, 73.0 per cent of total assets, 75.4 per cent of total loans and advances and 23.9 per cent of total investments by all NBFCs were held by AFCs.

Table VI.24: Sources of Borrowings by NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March									
	Government		External Sources @		Banks and Financial Institutions		Debentures		Others	
	2008	2009 P	2008	2009 P	2008	2009 P	2008	2009 P	2008	2009 P
1	2	3	4	5	6	7	8	9	10	11
Asset Finance	0	0	828	832 (0.5)	16,330	21,775 (33.3)	10,216	11,620 (13.7)	6,719	6,005 (-10.6)
Equipment Leasing	0	0	0	0	4	7 (83.2)	0	0	72	47 -34.8
Hire Purchase	0	0	0	0	0	13	3	2 (-33.3)	35	28 (-19.7)
Investment	72	0	0	0	82	0	0	0	204	0
Loan	2,247	1,824 (-18.8)	627	631 (0.7)	2,579	2770 7.4	2,835	1,444 -49.1	7,723 434.8	8,291 7.4
MNBC	0	0	0	0	0	0	0	0	0	0
Total	2,319	1,824 (-21.4)	1,455	1,463 (0.6)	18,995	24,565 (29.3)	13,054	13,066 (0.1)	14,753	14,371 (-2.6)

P : Provisional.

@ : Comprises (i) Foreign Government, (ii) Foreign Authority, and (iii) Foreign Citizen or Person

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

Source: Annual Returns.

Table VI.25: Major Components of Assets of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification	As at end-March					
	Assets		Advances		Investment	
	2008	2009 P	2008	2009 P	2008	2009 P
1	2	3	4	5	6	7
Asset Finance	50998	55115	42368	43607	4060	3545
	(68.4)	(73.0)	(79.3)	(75.4)	(36.2)	(23.9)
Equipment Leasing	162	156	92	65	48	41
	(0.2)	(0.2)	(0.2)	(0.1)	(0.4)	(0.3)
Hire Purchase	178	194	136	153	40	6390
	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(43.1)
Investment	402	–	146	–	256	–
	(0.5)	(0.0)	(0.3)		(2.3)	
Loan	22819	20051	10653	13480	6807	4837
	(30.6)	(26.6)	(20.0)	(23.5)	(60.7)	(32.7)
MNBCs	3	–	2	–	0	–
	(0.0)		(0.0)		(0.0)	
Total	74562	75516	53397	57305	11211	14813

P : Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Returns.

Distribution of NBFCs-D According to Asset Size

6.58 The asset size of NBFCs varies significantly between less than Rs.25 lakh to above Rs.500 crore. The asset holding pattern remained skewed in 2008-09, with 12 NBFCs with asset size of 'above Rs.500 crore' holding 95.8 per cent of total assets of all NBFCs, while the remaining 263 NBFCs held about 4.2 per cent of total assets at end-March 2009 (Table VI.26).

Distribution of Assets of NBFCs – Type of Activity

6.59 During the year 2008-09, assets held in the form of investments and loans and inter-corporate deposits witnessed a robust growth. While growth in assets in the form of hire purchase moderated considerably, equipment leasing assests and other assets witnessed sharp decline during 2008-09. The hire purchase activity continued to constitute the largest share (47.2 per cent) in total assets, followed by loans and inter-corporate deposits (27.9 per cent) and investments (19.6 per cent) (Table VI.27).

Financial Performance of NBFCs

6.60 Financial performance of NBFCs in terms of income and net profit improved during 2008-09. Both fund based income (16.9 per cent) and fee based income (46.0 per cent)

Table VI.26: Assets of NBFCs-D by Asset-Size Ranges

(Amount in Rs. crore)

Asset-Size	As at end-March			
	No. of reporting companies		Assets	
	2007-08	2008-09 P	2007-08	2008-09 P
1	2	3	4	5
Less than 0.25 crore	40	2	4 (0.0)	0 (0.0)
More than 0.25 crore and upto 0.50 crore	28	19	11 (0.0)	7 (0.0)
More than 0.50 crore and upto 2 crore	119	107	133 (0.2)	118 (0.2)
More than 2 crore and upto 10 crore	91	85	385 (0.5)	383 (0.5)
More than 10 crore and upto 50 crore	38	36	779 (1.0)	783 (1.0)
More than 50 crore and upto 100 crore	10	10	620 (0.8)	649 (0.9)
More than 100 crore and upto 500 crore	9	4	2,055 (2.8)	1,263 (1.7)
Above 500 crore	15	12	70,575 (94.7)	72,313 (95.8)
Total	**350**	**275**	**74,562**	**75,516**

P : Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

Table VI.27: Assets of NBFCs-D by Activity

(Amount in Rs. crore)

Activity	As at end-March		Percentage Variation	
	2007-08	2008-09 P	2007-08	2008-09
1	2	3	4	5
Loans and Inter-corporate deposits	18,823 (25.2)	21,073 (27.9)	70.2	12.0
Investments	11,210 (15.0)	14,813 (19.6)	51.2	32.1
Hire Purchase	33,525 (45.0)	35,647 (47.2)	27.9	6.3
Equipment and Leasing	1,048 (1.4)	585 (0.8)	-45.6	-44.2
Bills	13 (0.0)	23 (0.0)	85.7	76.9
Other assets	9,944 (13.3)	3,375 (4.5)	219.4	-66.1
Total	**74,563**	**75,516**	53.6	1.3

P : Provisional
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

registered robust growth. While growth in expenditure decelerated over the previous year, it, however, witnessed higher growth than income resulting in decline in operating profit by 2.2 per cent. Net profit registered a moderate growth mainly due to lower provisioning for tax. The cost to income ratio deteriorated from 68.9 per cent 2007-08 to 74.1 per cent in 2008-09 (Table VI.28).

6.61 Non-interest cost at 97.6 percent continued to constitute the dominant share in total cost of the NBFCs during 2008-09. Concomitantly, the interest cost constituted a smaller share of the total cost (Table VI. 29).

6.62 Expenditure (including provisions) as a percentage of assets witnessed a rise during 2008-09. However, income as a percentage of assets increased at a higher pace resulting in a rise in the net profits to asset ratio (Chart VI.3).

Soundness Indicators: Asset Quality of NBFCs-D

6.63 In contrast to the trend during the last few years, Gross NPA ratio increased to 2.7 per cent during 2008-09 from 2.1 per cent in 2007-08. Net NPA remained negative with provisions exceeding NPA at end-March 2009 (Table VI.30).

Table VI.28: Financial Performance of NBFCs-D

(Amount in Rs. crore)

Indicator	As at end-March		Percentage Variation	
	2008	2009 P	2007-08	2008-09
1	2	3	4	5
A. Income (i+ii)	10,038	11,799	75.5	17.5
(i) Fund Based	9,832 (98.0)	11,498 (97.0)	75.9	16.9
(ii) Fee-Based	206 (2.0)	301 (3.0)	57.4	46.0
B. Expenditure (i+ii+iii)	6,913	8,742	43.1	26.5
(i) Financial	4,525 (60.0)	5,641 (66.0)	63.7	24.7
of which Interest Payment	226 (6.0)	211 (2.3)	-55.5	-6.6
(ii) Operating	2,178 (30.5)	2,369 (27.6)	72.7	8.8
(iii) Others	210 (3.4)	732 (4.1)	-73.9	248.6
C. TAX Provisions	1,213	1,002	215.1	-17.4
D. Operating Profit (PBT)	**3,125**	**3,057**	**251.1**	**-2.2**
E. Net Profit (PAT)	**1,912**	**2,055**	**279.4**	**7.5**
F. Total Assets	**74,562**	**75,516**	**53.6**	**1.3**
G. Financial Ratios (as percentage to Total Assets)				
i) Income	13.5	15.6		
ii) Fund Based Income	97.9	15.2		
iii) Fee Based Income	0.3	0.4		
iv) Expenditure	9.3	11.6		
v) Financial Expenditure	6.1	7.5		
vi) Operating Expenditure	2.9	3.1		
vii) Tax Provision	1.6	1.3		
viii) Net Profit	2.6	2.7		
H. Cost to Income Ratio	**68.9**	**74.1**		

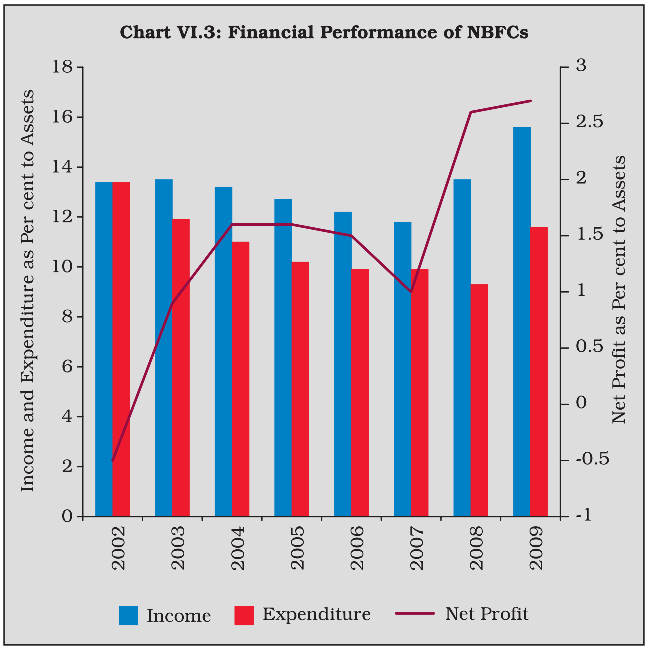
P : Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.

Table VI.29: 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
2007-08	10,038	6,913	226	6,687
2008-09 P	11,799	8,742	211	8,531

P : Provisional.
Note: Figures in parentheses are percentages to respective total.
Source: Annual Returns.



6.64 Gross NPAs (as percentage of gross advances) of asset finance companies, equipment leasing companies and investment companies and hire purchase companies declined during 2008-09. Net NPAs (as percentage of net advances) increased marginally in case of asset finance companies and hire purchase companies, while those of equipment leasing companies and investment companies decreased. NPAs of loan companies remained negative during 2008-09 also (Table VI.31).

Table VI.30 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	2.1	0*
2009 P	2.7	0*

P : Provisional.
* : Provision exceeds NPA
Source: Half-Yearly Returns.

6.65 Asset quality of various types of NBFCs as reflected in various categories of NPAs (substandard, doubtful and loss) shows that there was sharp improvement in the asset quality of equipment leasing companies and deterioration in the asset quality of hire purchase companies during 2008-09 over previous year (Table VI.32).

Capital Adequacy Ratio

6.66 CRAR norms were made applicable to NBFCs in 1998, in terms of which every deposit-taking NBFC is required to maintain a minimum capital, consisting of Tier-I and Tier-II capital, of not less than 12 per cent (15 per cent in the case of unrated deposit-taking loan/investment companies) of its aggregate risk-weighted assets and of risk-adjusted value of off-balance sheet items. Total of Tier-II capital, at any point of time, cannot exceed 100 per cent of Tier-I capital. The number of NBFCs with less than the minimum regulatory CRAR of 12 per cent declined to 9 at end-March 2009 from 47 at end-March 2008 (Table VI.33). At end-March 2009, 198 out of 207 NBFCs had CRAR of 12 per cent or more as against 280 out of 327 NBFCs at end-March 2008. The number of NBFCs with CRAR more than 30 also declined to 168 at end-March 2009 from 239 at end-March 2008. 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.

6.67 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 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

Table VI.31: NPAs of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to Assets		Amount	Per cent to Net Advances	Per cent to Assets
1	2	3	4	5	6	7	8	9
Asset Finance								
2007	11,824	262	2.2	2.2	11,548	-14	-0.1	-0.1
2008	37,233	652	1.8	1.7	36,609	28	0.1	0.1
2009 P	34,240	573	1.7	1.6	34,023	356	1.0	1.0
Equipment Leasing								
2004	3,306	582	17.6	13.3	3,067	344	11.2	7.8
2005	4,187	514	12.3	11.0	4,018	345	8.6	7.4
2006	2,878	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	26	6	24.3	7.2	-10	-29	293.6	-34.2
2009 P	26	2	7.7	2.5	4	-20	-491.2	-24.6
Hire Purchase								
2004	10,437	942	9.0	7.3	9,748	253	2.6	2.0
2005	15,900	610	3.8	3.6	15,544	253	1.6	1.5
2006	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	324	158	48.8	43.8	244	78	32.0	21.6
2009 P	205	138	67.6	61.8	133	67	50.1	29.8
Investment								
2004	63	15	23.8	2.6	55	7	12.7	1.2
2005	58	10	17.2	1.8	58	10	18.0	1.8
2006	59	0	0.4	0.0	59	0	0.4	0.0
2007	31	1	2.8	0.1	31	1	2.8	0.1
2008	732	108	14.8	7.7	732	108	14.8	7.7
2009 P	1,729	87	5.0	3.6	1,729	87	5.0	3.6
Loan								
2004	2,038	142	7.0	4.1	1,833	-63	-3.4	-1.8
2005	1,955	117	6.0	5.1	1,772	-65	-3.7	-2.8
2006	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	16,631	132	0.8	0.6	10,832	-5,667	-52.3	-27.6
2009 P	15,039	547	3.6	3.6	10,148	-4,344	-42.8	-28.3

P : Provisional.
Source: Half-Yearly Returns.

per cent of owned fund). Information on NOF can complement the information on CRAR. The ratio of public deposits to NOF in the case of loan companies and hire purchase declined during the year ended March 2009, while that of other category companies witnessed a marginal increase. The ratio of hire purchase companies continued to be negative because of negative NOF. The ratio of public deposits to NOF for all categories of NBFCs taken together was unchanged at 0.2 per cent at end-March 2009 (Table VI.34).

Table VI.32: Classification of Assets of NBFCs-D by Classification of NBFCs

(Amount in Rs. crore)

Classification/ End-March	Standard Assets	Sub-Standard Assets	Doubtful Assets	Loss Assets	Gross NPAs	Gross Advances
1	2	3	4	5	6	7
Asset Finance						
2007	11,562	242	17	3	262	11,824
	(97.8)	(2.1)	(0.1)	(0.0)	(2.2)	(100.0)
2008	36,581	584	41	27	652	37,233
	(98.2)	(1.6)	(0.1)	(0.1)	(1.8)	(100.0)
2009P	33,667	520	35	18	573	34,240
	(98.3)	(1.5)	(0.1)	(0.1)	(1.7)	(100.0)
Equipment Leasing						
2006	2,809	12	21	36	69	2,878
	(97.6)	(0.4)	(0.7)	(1.2)	(2.4)	(100.0)
2007	1,013	4	2	38	45	1,057
	(95.8)	(0.4)	(0.2)	(3.6)	(4.3)	(100.0)
2008	19	1	1	4	6	26
	(75.7)	(4.7)	(4.5)	(15.0)	(24.3)	(100.0)
2009P	24	0	1	1	2	26
	(92.3)	(1.1)	(2.6)	(3.9)	(7.7)	(100.0)
Hire Purchase						
2006	17,163	184	47	212	444	17,607
	(97.5)	(1.0)	(0.3)	(1.2)	(2.5)	(100.0)
2007	17,817	194	81	188	464	18,280
	(97.5)	(1.1)	(0.4)	(1.0)	(2.5)	(100.0)
2008	166	7	7	144	158	324
	(51.2)	(2.0)	(2.3)	(44.4)	(48.8)	(100.0)
2009P	66	4	3	131	138	205
	(32.4)	(1.8)	(1.6)	(64.2)	(67.6)	(100.0)
Investment						
2006	59	0	0	0	0	59
	(99.6)	(0.0)	(0.2)	(0.2)	(0.4)	(100.0)
2007	31	1	0	0	1	31
	(97.2)	(2.8)	(0.0)	(0.0)	(2.8)	(100.0)
2008	624	100	8	0	108	732
	(85.2)	(13.7)	(1.1)	(0.0)	(14.8)	(100.0)
2009P	1,643	38	49	0	87	1,729
	(95.0)	(2.2)	(2.8)	(0.0)	(5.0)	(100.0)
Loan						
2006	438	19	99	134	252	690
	(63.5)	(2.7)	(14.3)	(19.4)	(36.5)	(100.0)
2007	7,470	9	91	24	124	7,594
	(98.4)	(0.1)	(1.2)	(0.3)	(1.6)	(100.0)
2008	16,499	22	81	29	132	16,631
	(99.2)	(0.1)	(0.5)	(0.2)	(0.8)	(100.0)
2009P	14,492	465	66	16	547	15,039
	(96.4)	(3.1)	(0.4)	(0.1)	(3.6)	(100.0)

P : Provisional.

Note: Figures in parentheses are percentages to credit-exposures

Source: Half-Yearly Returns.

Table VI.33: Capital Adequacy Ratio of NBFCs-D

(Per cent)

CRAR Range	As at end-March									
	2007-08					2008-09 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)	19	4	15	9	47	0	2	4	3	9
a) Less than 9 per cent	4	4	15	9	32	0	2	3	3	8
b) More than 9 and up to 12 per cent	0	0	0	0	0	0	0	0	0	0
2) More than 12 and up to 15 per cent	3	0	0	1	4	3	0	0	0	3
3) More than 15 and up to 20 per cent	5	0	0	3	8	4	0	0	2	6
4) More than 20 and up to 30 per cent	25	0	1	3	29	17	0	2	2	21
5) Above 30 per cent	117	10	66	46	239	99	8	34	26	168
Total	**169**	**14**	**82**	**62**	**327**	**123**	**10**	**40**	**33**	**207**

AFC : Asset Finance Company. EL : Equipment Leasing. HP : Hire Purchase. LC/IC : Loan Companies/ Investment Companies.
P : Provisional
Source: Half-Yearly Returns.

6.68 NOF 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 up to 25 lakh and 'more than Rs.25 lakh and and up to Rs.2 crore' declined, while the ratio of 'more than 10 crore up to 50 crore' and 'more than 100 crore and up to 500 crore' registered a rise. NBFCs in all other ranges of NOF generally remained constant (Table VI.35).

Table VI.34: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs. crore)

Classification	As at end-March			
	Net Owned Funds		Public Deposits	
	2008	2009 P	2008	2009 P
1	2	3	4	5
Asset Finance	6,939	7,632	1,161 (0.2)	1,364 (0.2)
Equipment Leasing	-50	10	10 -(0.2)	3 (0.3)
Hire Purchase	-76	-72	169 -(2.2)	186 -(2.6)
Investment	83	0	19 (0.2)	–
Loan	3,306	4,018	682 (0.2)	388 (0.1)
MNBC	1	–	1	–
Total	10,203	11,588	2,042 (0.2)	1,941 (0.2)

P : Provisional.
Note: Figures in parentheses are ratio of public deposits to net owned fund.
Source: Annual Returns.

Residuary Non-Banking Companies (RNBCs)

6.69 Assets of the RNBCs declined by 17.3 per cent during the year ended March 2009. Their assets in the form of unencumbered approved securities registered a sharp rise, while those in bonds/debentures and fixed deposits/ certificates of deposit of SCBs recorded a decline. NOF of RNBCs increased by 8.9 per cent during 2008-09 on top of the rise of 25.8 per cent witnessed during 2007-08 (Table VI.36).

6.70 The increase in income of RNBCs during 2008-09 was less than the increase in expenditure, as a result of which the operating profit of RNBCs declined during the year. The provision for taxation also registered a fall. As a result, net profit of RNBCs declined by 33.7 per cent during 2008-09 as against the increase of 406.8 per cent during 2007-08.

Regional Pattern of Deposits of RNBCs

6.71 Of the two RNBCs, one is based in the Eastern region (Kolkata) and the other in the

Table VI.35: Range of Net Owned Fund *vis-à-vis* Public Deposits of NBFCs-D

(Amount in Rs. crore)

Ranges of Net Owned Fund	As at end-March					
	2007-08			2008-09 P		
	No. of Companies	Net Owned Funds	Public Deposits	No. of Companies	Net Owned Funds	Public Deposits
1	2	3	4	5	6	7
1. Upto 0.25 crore	18	-552	178 -(0.3)	3	-201	153 -(0.8)
2. More than 0.25 crore and up to 2 crore	231	167	91 (0.5)	172	126	48 (0.4)
3. More than 2 crore and up to 10 crore	63	267	136 (0.5)	66	249	133 (0.5)
4. More than 10 crore and up to 50 crore	21	440	145 (0.3)	20	358	158 (0.4)
5. More than 50 crore and up to 100 crore	3	226	91 (0.4)	2	127	45 (0.4)
6. More than 100 crore and up to 500 crore	7	1,507	636 (0.4)	4	649	389 (0.6)
7. Above 500 crore	7	8,148	764 (0.1)	8	10,280	1,015 (0.1)
Total	**350**	**10,203**	**2,041 (0.2)**	**255**	**11,588**	**1,941 (0.2)**

P : Provisional.
Note: Figures in parentheses are Public Deposit as ratio of respective Net Owned Fund.
Source: Annual Returns.

Central region. The RNBCs are in the process of migrating to other business models as agreed upon and the companies would reduce their deposit liabilities to 'nil' by 2015. Concomitantly, the public deposits held by the two RNBCs registered a decline. Only one RNBC has headquarters in a metropolitan city, *i.e.*, Kolkata (Table VI.37).

Investment Pattern of RNBCs

6.72 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.*, 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.

6.73 ALD declined by 12.3 per cent during 2008-09. While fixed deposits with banks and bonds and debentures declined, unencumbered approved securities and other investments registered a rise (Table VI.38).

Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFCs-ND-SI)

6.74 The turbulence in the international financial markets in 2008 also affected the domestic financial sector including the NBFC Sector, particularly a few NBFCs-ND-SI. These

Table VI.36: Profile of RNBCs

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2007-08	2008-09 P	2007-08	2008-09
1	2	3	4	5
A. Assets (I to V)	**24,452**	**20,211**	**5.5**	**-17.3**
(i) Investment in Unencumbered Approved Securities	3,137	5,247	-5.4	67.3
(ii) Investment in Fixed deposits/Certificates of Deposits of Scheduled Commercial Banks/Public Financial Institutions	6,562	5,999	17.1	-8.6
(iii) Debentures/Bonds/Commercial Papers of Govt. Companies/ Public Sector Banks/Public Financial Institution/Corporation	12,320	6,993	5.3	-43.2
(iv) Other investments	573	299	-50.4	-47.8
(v) Other Assets	1,860	1,743	33.5	-6.3
B. Net Owned Funds	**1,718**	**1,870**	**25.8**	**8.9**
C. Total Income (i+ii)	**2,326**	**2,416**	**22.9**	**3.8**
(i) Fund Income	2,303	2,315	22.1	0.5
(ii) Fee Income	23	101	182.6	346.0
D. Total Expenses (i+ii+iii)	**1,725**	**2,069**	**4.7**	**19.9**
(i) Financial Cost	1,322	1,604	7.5	21.3
(ii) Operating Cost	329	379	15.5	15.4
(iii) Other cost	74	86	-44.8	16.2
E. Taxation	**224**	**149**	**409.6**	**-33.7**
F. Operating Profit (PBT)	**601**	**347**	**144.3**	**-42.3**
G. Net profit (PAT)	**377**	**198**	**87.3**	**-47.4**

P : Provisional. PBT : Profit Before Tax. PAT : Profit After Tax.
Source: Annual Return.

entities have been financing long term assets with short term commercial paper and non-convertible debentures which were subscribed to mainly by MFs. Such NBFCs-ND-SI faced difficulties as MFs were not in a position to roll over these instruments during the crisis period.

Table VI.37: Public Deposit Held by RNBCs - Region-wise

(Amount in Rs. crore)

Region	As at end-March			
	2008		2009 P	
	No. of RNBCs	Amount	No. of RNBCs	Amount
1	2	3	4	5
Central	1	18,056 (80.8)	1	15,672 (79.9)
Eastern	1	4,303 (19.2)	1	3,935 (20.1)
North-Eastern	–	–	–	–
Northern	–	–	–	–
Southern	–	–	–	–
Western	–	–	–	–
Total	**2**	**22,358**	**2**	**19,607**
Metropolitan Cities:				
Chennai	–	–	–	–
Kolkata	1	4,303	1	3,935
Mumbai	–	–	–	–
New Delhi	–	–	–	–
Total	**1**	**4,303**	**1**	**3,935**

– : Nil/ Negligible. P : Provisional.
Note: Figures in parentheses are percentages to respective totals.
Source: Annual Return.

Table VI.38: Investment Pattern of RNBCs

(Amount in Rs. crore)

	End- March	
	2007-08	2008-09 P
1	2	3
Aggregated Liabilities to the Depositors (ALD)	**22,358**	**19,607**
(i) Unencumbered approved securities	3,137 (14.0)	5,247 (26.8)
(ii) Fixed Deposits with banks	6,562 (29.3)	5,999 (30.6)
(iii) Bonds or debentures or commercial papers of a Govt. company/ public sector bank/ public financial institution/ corporations	12,320 (55.1)	6,993 (35.7)
(iv) Other investments	573 (2.6)	299 (1.5)

P : Provisional.
Note: Figures in parentheses are percentages to ALDs.
Source: Annual Return.

There were also reports that banks which have sanctioned credit facilities were not willing to release funds in the wake of financial turbulence.

6.75 The Reserve Bank initiated discussions with a large number of NBFCs-ND-SI in October and November 2008 and studied their balance sheets to examine liquidity issues, if any, faced by them. As long as there was liquidity in the market, rolling over of CPs was smooth but when the market including the CP market became illiquid, rollover became a problem, resulting in redemption pressures as most of the assets were long term and quick unwinding was not possible. Though only a few large NBFCs had such liquidity issues, the general lack of confidence encompassed the whole sector leading to banks' refusal to lend / rollover sanctioned lines of credit. The Reserve Bank's timely and adequate liquidity interventions could address these problems. Details of measures are provided in Box VI.1.

6.76 In terms of extant Reserve Bank of India regulations, all NBFCs with assets size of Rs 100 crore and above, and not accepting / holding public deposits (NBFCs-ND-SI) are required to submit a Monthly Return on Important Financial Parameters to RBI. Once an NBFC reaches an asset size of Rs.100 crore or above, it comes under the regulatory requirement for NBFCs-ND-SI as stated above, despite not having such assets as on the date of last balance sheet. The NBFCs-ND-SI raise funds mainly by way of issuing debentures, borrowing from banks and FIs, commercial papers etc. In the recent past they have witnessed significant growth in terms of number as well as size.

Box VI.1: Measures by the Reserve Bank in view of the Financial Stress faced by NBFCs

The measures undertaken by the Reserve Bank in respect of NBFCs sector following the financial crisis were as follows:

i) NBFCs-ND-SI were permitted as a temporary measure to raise short- term foreign currency borrowings under the approval route subject to fulfillment of certain conditions. While the resources raised were to be used only for refinancing of short-term liabilities and not for creation of fresh assets, it was also advised that the maturity of such borrowing should not exceed three years and the maximum amount should not exceed 50 per cent of the NOF or USD 10 million (or its equivalent), whichever was higher. Eleven companies were granted permission under the facility to borrow funds to the tune of US$ 834.95 million + foreign currency equivalent of Rs 1,566.38 crore (not availed of) out of which seven have borrowed so far to the extent of US$ 645.58 million.

ii) Banks were permitted, on a temporary basis, to avail of liquidity support under the LAF window through relaxation in maintenance of SLR to the extent of up to 1.5 per cent of their NDTL, exclusively for meeting the funding requirements of NBFCs and mutual funds.

iii) The risk weight on banks' exposure to NBFCs-ND-SI was reduced to 100 per cent from 125 per cent irrespective of credit rating, while exposure to AFCs which attracted risk weight of 150 per cent was also reduced to 100 per cent.

iv) NBFCs-ND-SI were permitted to augment their capital funds by issue of Perpetual Debt Instruments. The amount of PDI raised by NBFCs-ND-SI would not be treated as 'public deposit' within the meaning of Reserve Bank directives.

v) Deferred the proposed increase in the CRAR to be maintained by NBFCs-ND-SI to 12 per cent and subsequently to 15 per cent by one year, *i.e.* 12 per cent by March 31, 2010 and 15 per cent by March 31, 2011.

vi) Provided direct lending facility as a Lender of Last Resort (LOLR) where RBI lends to NBFCs-ND-SI against their rated CPs through a SPV by subscribing to its bonds. The facility was operationalised in January 2009 through an SPV called 'IDBI SASF Trust' to provide liquidity support against investment grade paper of NBFCs, subject to their fulfilling certain conditions. It was designed as a LOLR facility to facilitate an orderly downsizing of balance sheet of financially sound NBFCs which faced short term temporary liquidity requirement. The facility has been availed by only one NBFC so far which has drawn Rs.1,040 crore under the scheme and there is no outstanding balance as on date. Government of India had extended the facility to be available for any paper issued till September 30, 2009 and the SPV would cease to make fresh purchases after December 31, 2009 and would recover all dues by March 31, 2010.

Composition of Liabilities

6.77 Liabilities of NBFCs-ND-SI can be classified into (i) Owned Fund, (ii) Borrowings, and (iii) Other Liabilities. Borrowings comprise (i) Debentures, (ii) Loans from banks, (iii) Commercial paper (CPs), (iv) Inter-Corporate Loans (ICLs or ICDs), and (v) Others. The consolidated balance sheet size of NBFCs-ND-SI as at end March 2009 stood at Rs.4,94,673 crore as compared to Rs.4,08,705 crore at end March 2008 recording a growth of 27.3 per cent. Significant increase in balance sheet size of NBFCs-ND-SI during the period ended March 2009 is mainly attributed to sharp increase in owned funds, debentures and other liabilities (Table VI.39).

6.78 Owned funds increased by 27.3 per cent and formed 28.3 per cent of total liabilities during the month ended March 2009. Debentures issued by NBFCs-ND-SI increased by 28.3 per cent during the year ended March 2009 and accounted for 23.0 per cent of total liabilities as compared with 21.7 per cent in the previous year. The share of borrowings from banks and FIs declined marginally to 18.5 per cent at end-March 2009 as compared with 19.8 per cent in the previous year. In contrast, inter-corporate borrowings declined by 36.7 per cent and formed only 2.8 per cent of total liabilities as at end-March 2009. Borrowings by way of commercial paper constituted 4.5 per cent of total liabilities and increased by 11.6 per cent during the year under review. Others, mainly comprising interest accrued and other borrowings, constituted 15.2 per cent of total liabilities and increased by 30.4 per cent during the year ended March 2009. Leverage ratio decreased marginally and stood at 2.5 as at end-March 2009.

6.79 Secured loans increased by 22.5 per cent and constituted 30 per cent of total liabilities during the period ended March 2009 whereas unsecured loans increased by 13.8 per cent and accounted for slightly higher at 34.6 per cent of total liabilities during the same period (Table VI.39).

Table VI.39: Sources of Funds of NBFCs-ND-SI

(Amount Rs. crore)

Item	March 2008	March 2009	Percentage Variation
1	2	3	4
Owned Fund	1,10,118 (26.9)	1,40,210 (28.3)	27.3
Debentures	88,871 (21.7)	1,14,018 (23.0)	28.3
Borrowings from Banks and FIs	80,961 (19.8)	91,527 (18.5)	13.1
Inter-corporate loans	22,019 (5.4)	13,937 (2.8)	-36.7
Commercial paper	20,068 (4.9)	22,392 (4.5)	11.6
Loans from Relatives	1,822 (0.4)	2,370 (0.5)	30.1
Others	57,547 (14.1)	75,064 (15.2)	30.4
Current Liabilities & Provisions	27,299 (6.7)	35,155 (7.1)	28.8
Total Liabilities	**4,08,705**	**4,94,673**	**21.0**
Memo Items:			
1. Secured Loans	1,21,082 (29.6)	1,48,314 (30.0)	22.5
2. Un-secured Loans	1,50,206 (36.8)	1,70,994 (34.6)	13.8
3. Leverage Ratio	2.71	2.53	

Note: Figures in the parentheses are percentages to total liabilities.
Source: Monthly Returns on NBFCs-ND-SI.

6.80 Information based on the returns received from NBFCs-ND-SI for the year ended March 2009 showed an increase of 21.0 per cent in their liabilities/assets over the year ended March 2008. 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.40).

Borrowings

6.81 Total borrowings (secured and unsecured) by NBFCs-ND-SI increased by 17.7 per cent to Rs.3,19,308 crore during the year ended March 2009, constituting 64.5 per cent of their total liabilities. During the quarter ended June 2009, the total borrowings increased further by 3.4 per cent to Rs.3,30,288 crore (Table VI.41).

Table VI.40: Liabilities of NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
No. of Companies	**189**	**234**	**232**
Total Liabilities	**4,08,705**	**4,94,673**	**5,08,026**
Paid-up Capital	24,490 (6.0)	30,173 (6.1)	30,358 (6.0)
Preference Shares	4,573 (1.1)	4,311 (0.9)	3,835 (0.8)
Reserves & Surplus	81,055 (19.8)	1,05,726 (21.4)	1,07,191 (21.1)
Secured Borrowings	1,21,082 (29.6)	1,48,314 (30.0)	1,48,576 (29.2)
Un-Secured Borrowings	1,50,206 (36.8)	1,70,994 (34.6)	1,81,712 (35.8)

Note: Figures in parentheses are percentages to Total Liabilities.
Source: Monthly Return on NBFCs-ND-SI.

Deployment of Funds

6.82 The pattern of deployment of funds by NBFCs-ND-SI during the year ended March 2009 remained broadly in line with the pattern witnessed during the previous year. The secured loans continued to constitute the largest share (45.6 per cent), followed by unsecured loans with a share of 23.2 per cent (Table VI.42).

Financial Performance

6.83 NBFCs-ND-SI earned a profit of Rs.11,850 crore during the year ended March 2009, which was higher by 36.1 per cent as compared with the profit earned during the year ended March 2008 (Rs.8,705 crore) (Table VI.43).

6.84 The gross NPAs to total assets ratio of NBFCs-ND-SI remained unchanged at 2.3 per cent for the year ended March 2009 but recorded a marginal increase for the quarter ended June 2009. The net NPAs to total assets ratio declined from 1.6 per cent as at end March 2008 to 0.7 per cent as at end March 2009, but increased to 0.9 per cent during the quarter ended June 2009 (Table VI.44).

Table VI.41:Borrowings by NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
No. of Companies	**189**	**234**	**232**
A. Secured Borrowings	1,21,082 (44.6)	1,48,314 (46.4)	1,48,576 (45.0)
(i). Debentures	44,439 (16.4)	49,078 (15.4)	49,530 (15.0)
(ii) Loans from Banks	25,774 (9.5)	35,571 (11.1)	38,300 (11.6)
(iii) Loans from FIs	5,988 (2.2)	6,038 (1.9)	6,543 (20.0)
(iv) Interest accrued	2,017 (0.7)	2,800 (0.9)	2,441 (0.7)
(v). Others	42,864 (15.8)	54,827 (17.2)	51,761 (15.7)
B. Un-Secured Borrowings	1,50,206 (55.4)	1,70,994 (53.6)	1,81,712 (55.0)
(i) Loans from Relatives	1,822 (0.7)	2,370 (0.7)	2,210 (0.7)
(ii) Inter-corporate Loans	22,019 (8.1)	13,937 (4.4)	18,347 (5.6)
(iii) Loans from banks	46,243 (17.0)	43,880 (13.7)	43,464 (13.2)
(iv) Loans from FIs	2,956 (1.1)	6,038 (1.9)	6,543 (2.0)
(v) Commercial Papers	20,068 (7.4)	22,392 (7.0)	26,530 (8.0)
(vi) Debentures	44,432 (16.4)	64,940 (20.3)	67,971 (20.6)
(vii) Interest Accrued	1,819 (0.7)	3,167 (1.0)	3,692 (1.1)
(viii) Others	10,847 (4.0)	14,270 (4.5)	12,955 (3.9)
Memo Items:			
Total Borrowings	2,71,288	3,19,308	3,30,288
Total Liabilities	4,08,705	4,94,673	5,08,026

Note: Figures in parentheses are percentages to Total Borrowings.
Source: Monthly Return on NBFCs-ND-SI.

4. Primary Dealers

6.85 As at end-September 2009, there were 19 Primary Dealers, of which 11 were banks carrying on Primary Dealership business departmentally (Bank-PDs) and the remaining eight stand-alone Primary Dealers registered as NBFCs under section 45IA of the RBI Act, 1934

Table VI.42: Select Indicators on Application of Funds by NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Secured Loans	1,60,017 (44.7)	1,90,818 (45.6)	2,08,097 (47.8)
Un-Secured Loans	88,783 (24.8)	97,287 (23.2)	90,556 (20.8)
Hire Purchase Assets	29,832 (8.3)	36,051 (8.6)	37,017 (8.5)
Long-term Investments	53,856 (15.0)	64,316 (15.4)	65,879 (15.1)
Current Investments	25,758 (7.2)	30,360 (7.2)	33,670 (7.7)
Total	**3,58,246**	**4,18,832**	**4,35,219**
Memo Items:			
Capital Market Exposure	1,11,630	86,881	90,750
of which:			
Equity Shares	35,957	39,437	39,301

Note: Figures in parentheses are percentages to Total.
Source: Monthly Return on NBFCs-ND-SI.

and engaged predominantly in the Government Securities business. Morgan Stanley India Primary Dealer Pvt. Ltd and Nomura Fixed Income Securities Pvt. Ltd. were given authorization to undertake Primary Dealership with effect from July 20, 2009 and September 7, 2009 respectively.

Table VI.43: Financial Performance of NBFCs-ND-SI

(Rs. crore)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Total Assets	4,08,705	4,94,673	5,08,026
Total Income@	39,537 (9.7)	61,921 (12.5)	14,502 (2.9)
Total Expenses@	27,291 (6.7)	44,271 (8.9)	10,948 (2.2)
Net Profit@	8,705 (2.1)	11,850 (2.4)	2,373 (0.5)

@ : Cumulative
Note: Figures in parentheses are percentages to Total Assets.
Source: Monthly Return on NBFCs-ND-SI.

Table VI.44: Gross and Net NPAs of NBFCs-ND-SI

(Per cent)

Item	As at end		
	March 2008	March 2009	June 2009
1	2	3	4
Gross NPA to Total Credit Exposure	3.1	3.0	3.3
Net NPA to Total Credit Exposure	2.0	1.0	1.1
Gross NPA to Total Assets	2.3	2.3	2.5
Net NPA to Total Assets	1.6	0.7	0.9

Source: Monthly Return on NBFCs-ND-SI.

6.86 During the year 2008-09, many policy initiatives were taken to strengthen the PD system. First, in order to enable the PDs to raise more capital from the market through issue of subordinated debts, the extant ceiling of 200 basis points on the interest rate spreads at the time of issue of the subordinated instruments for the purpose of Tier II and Tier III capital requirements, was removed. Primary Dealers are now allowed to issue subordinated Tier II and Tier III bonds at coupon rates as decided by their Boards of Directors. Second, stand-alone PDs were allowed to hold up to 100 per cent of their paid up capital in Held- to- Maturity (HTM) category to insulate their financials from the price fluctuations caused during extreme stress times. Third, in the context of the Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009, stand-alone Primary Dealers (PDs) were allowed to deal in Interest Rate Futures (IRFs) for both hedging and trading on own account and not on client's account, subject to adherence to the prescribed prudential norms. Fourth, the limit on borrowing by the PDs from the call / notice money market, on an average in a reporting fortnight, was increased from the existing ceiling of 200 per cent of their NOF to 225 per cent of NOF, as at the end March of the preceding financial year. Fifth, to ensure stability of Primary Dealers in times of volatile interest rates, the minimum capital requirement increased from Rs.50 crore to Rs.150 crore. PDs which intend to diversify into other permissible activities need to have net owned funds of Rs.250 crore as against Rs.100 crore earlier.

6.87 The recommendations of the Internal Working Group on Auction Process of Government of India Securities (Chairman: Shri H.R. Khan), such as reduction of the time gap between the bid submission and the declaration of auction results, withdrawal of the facility of bidding in physical form and submission of competitive bids only through the NDS; and submission of a single consolidated bid on behalf of all its constituents by the bank/PD in respect of non-competitive bids have been implemented. In response to the Government borrowing programme in 2008-09 and 2009-10 so far, the underwriting income of PDs has registered a steady growth (Box VI.2).

Operations and Performance of PDs

6.88 The actual bids of dated securities during 2008-09 tendered by the PDs (Rs.3,49,393 crore) in the primary market were 1.3 times the notified amount (Rs.2,61,000 crore) as compared with 1.6 times the notified amount in the previous year.

6.89 The cumulative bidding commitments of the PDs in case of Treasury Bills were 111 per cent of the notified amount in each auction. The actual bids submitted by PDs collectively (including bank-PDs) were Rs.5,09,794 crore against their bidding commitment of Rs.2,84,985 crore translating into a bid-cover ratio of 1.8. The amount of bids accepted was for Rs.1,72,474 crore, at a success ratio of 59.1 per cent. All the PDs have achieved the minimum prescribed success ratio of 40 per cent in both the halves of the year. The PDs' share in the primary auctions of Treasury Bills issued increased to 60.5 per cent during 2008-09 from 51.7 per cent during 2007-08.

6.90 During the fiscal year 2008-09, dated securities were issued for Rs.2,61,000 crore by the Government of India under the market borrowing programme. PDs, including bank-PDs, offered to underwrite Government dated securities amounting to Rs.4,24,723 crore and the Bank had accepted Rs.2,53,786 crore covering around 97.2 per cent of the notified amount.

6.91 During the fiscal year 2008-09, out of total 56 primary auctions of dated Government securities for Rs.2,61,000 crore, the PDs tendered bids for Rs.3,49,393 crore, *i.e.*, 1.3 times of the notified amount. PDs were allotted securities for Rs.1,11,094 crore and the success ratio decreased to 42.6 per cent during 2008-09 from 46.2 per cent during 2007-08. During the year 2008-09, total devolvement on PDs was Rs.10,773 crore as compared to Rs.957 crore during the previous year. The share of the PDs in the primary market issuance of dated securities decreased to 42.6 per cent in 2008-09 from 46.2 per cent in 2007-08. (Table VI.45).

6.92 During 2008-09, PDs' turnover (both outright and repo) in the secondary market amounted Rs.26,17,283 crore. The share of PDs' total turnover to the total market turnover declined from 16.1 per cent in 2007-08 to 12.8 per cent in 2008-09 (Table VI.46).

Sources and Application of Funds

6.93 The consolidated balance sheet size of the seven stand-alone PDs declined marginally by 5.3 per cent during the year ended March 2009. Though the number of PDs has declined from nine at end-March 2008 to seven at end-March 2009, the reserves and surplus of stand-alone PDs increased by 13.8 per cent as compared to the previous year, mostly on

Box VI.2: Underwriting of Central Government Dated Securities

Concomitant with the objectives of Primary Dealer (PD) system, PDs are required to support auctions for issue of Government dated securities, through underwriting the dated securities and meeting the underwriting/bidding commitments. In terms of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank of India's participation in the primary issues of Government securities stood withdrawn with effect from April 1, 2006, except under exceptional circumstances. To address the emerging needs, an Internal Technical Group on Central Government Securities Market was constituted, which recommended the restructuring of the institutional process of bidding commitment by introducing a revised methodology for Primary Dealers' obligations. Under the new scheme, Primary Dealers are required to meet 100 per cent underwriting commitment in each auction, replacing the earlier requirement of bidding commitment and voluntary underwriting. The scheme of underwriting was put in place from April 1, 2006. The Scheme was further reviewed in November, 2007 and it was decided that the minimum bidding requirement for each PD in the ACU auction would be equal to the amount of MUC.

Under the scheme, the underwriting commitment on dated securities of Central Government is divided equally into two parts - Minimum Underwriting Commitment (MUC) and Additional Competitive Underwriting (ACU). The MUC of each PD is computed to ensure that at least 50 percent of the notified amount of each issue is mandatorily underwritten equally by all PDs. The share under MUC will be uniform for all PDs, irrespective of their capital or balance sheet size. The remaining portion of the notified amount is underwritten through an Additional Competitive Underwriting (ACU) auction. The commission payable on the amount accepted in the ACU is discriminatory (multiple-price) whereas the commission payable on the MUC amount is made differential in order to make the ACU bidding competitive. The PDs which are successful in the ACU auction for 4per cent or more of the notified amount are eligible to receive the commission on the MUC at the weighted average rate of all the accepted bids in the ACU auction whereas the PD which are successful by less than 4per cent or not successful in the ACU auction, get the commission on the MUC at the weighted average rate of lowest three bids in the ACU.

The amount so allotted in the underwriting auction becomes the minimum bidding obligation for the PD in the main auction. Devolvement of securities, if any, on PDs takes place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the main auction. During the fiscal year 2008-09, total devolvement on PDs was to the tune of Rs.10,773 crore as against Rs.957 crore in the previous year. In current fiscal year, total devolvement of securities till end of September, 2009 stood at Rs.6050 crore.

The comparison of underwriting fee quoted by the Primary Dealers during the period 2006-07, 2007-08 and 2008-09 (till end-September 2009) is given in the table below:

Table: Comparison of underwriting cut-off fees accepted

	Range of U/W cut - off price accepted Paise/Rs 100		
Quarter	2007-08	2008-09	2009-10
1	2	3	4
April-June	1.72-5.00	0.97-16.00	1.07 – 39.00
July-Sept	0.39-1.99	0.37-49.00	0.37 – 15.60
Oct-Dec	0.39-1.45	0.46-15.98	–
Jan-March	0.28-0.54	1.24-99.00	–

The underwriting scheme promoted active participation by the PDs and ensured that the Government securities are fully subscribed. The share of PDs (ratio of bids accepted from PDs to the total notified amount) in primary auctions of Central Government dated securities has been very significant since the year 2006 when RBI stopped participating in primary auctions and has provided depth and volume to the domestic debt market.

Table: Performance of PDs in primary auctions of Government securities

(In Rs. crore)

Details	2006-07	2007-08	2008-09	2009-10*
1	2	3	4	5
Notified Amount	1,46,000	1,56,000	2,61,000	2,95,000
Bids Submitted by PDs	2,02,462	2,54,253	3,49,393	3,61,325
Bids accepted of PDs	64,727	72,122	1,11,094	1,17,023
Bid-to-cover ratio	1.39	1.63	1.34	1.22
Success Ratio (per cent)	31.97	28.37	31.80	32.39
Share of PDs (per cent)	44.33	46.23	42.56	39.67

* - till end-September 2009.

In view of the reform measures taken over the years, the Indian Government securities market has become increasingly broad-based, characterized by an efficient auction process, an active secondary market, a liquid yield curve up to 30 years and supported by an active Primary Dealer (PD) system.

Performance of the PDs in primary issuances of G.Secs

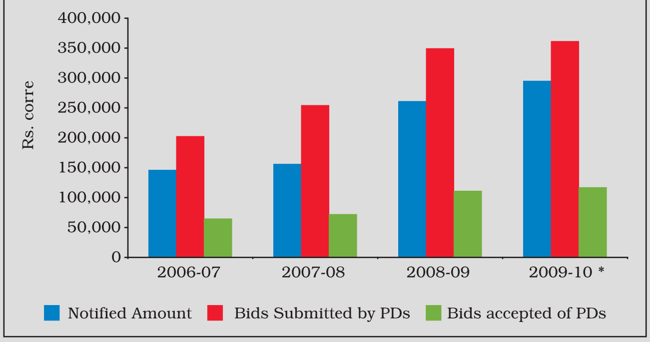


Table VI.45: Performance of the PDs in the Primary Market (At end-March)

(Amount in Rs. crore)

Item	2008	2009
1	2	3
Treasury Bills		
Bidding Commitment	1,04,385	2,84,985
Actual Bids Submitted	3,18,201	5,09,794
Bid to Cover Ratio	3.0	1.8
Bid Accepted	1,04,819	1,72,474
Success Ratio (in per cent)	100.4	59.1
Central Govt. Securities		
Notified Amount	1,56,000	2,61,000
Actual Bids submitted	2,54,253	3,49,393
Bid to Cover Ratio	1.6	1.3
Bid Accepted	72,122	1,11094
Success Ratio (in per cent)	46.2	42.6

account of plough back of profit made in December quarter. During the year, the operations of ABN AMRO Securities India Private Limited were taken over by its parent bank, ABN AMRO Bank, with effect from December 16, 2008 and Lehman Brothers was barred from participating in the primary market. This resulted in reduction of capital funds of stand-alone PDs by 25.7 per cent as on March 31, 2009. On the sources side, secured loans decreased sharply by 35.7 per cent, while unsecured loans increased significantly by 41.3 per cent. On the deployment side, investments in Government securities decreased by 3.7 per cent, while investments in commercial papers increased marginally by 2.3 per cent over previous year. Investment in corporate bonds decreased by 19.8 per cent from Rs.621 crore to Rs.498 crore in contrast to increase of 4.3 per cent witnessed during 2007-08 (Table VI.47).

6.94 The share of Government securities and Treasury Bills in total assets of PDs increased from 70 per cent at end-March 2008 to 70.9 per cent at end-March 2009. Investment in equity and Mutual Funds registered sharp decline of 85.3 per cent at end-March 2009 as compared with the position at end-March 2008.

Financial Performance of PDs

6.95 The income earned by the PDs increased by around 40 per cent during the year 2008-09 as compared with 2007-08 due to higher trading profits posted by the PDs by making use of the lower yields prevailed in the third quarter of the year (Table VI.48).

6.96 In view of increase in trading profits and reduction in interest expenditure, profits of the

Table VI.46: Performance of the PDs in the Secondary Market

(Amount in Rs. crore)

Item	Apr-Jun 2008	Jul-Sep 2008	Oct-Dec 2008	Jan-Mar 2009	2008-09	2007-08
1	2	3	4	5	6	7
Outright						
PDs Turnover	1,38,895	1,65,252	2,78,915	2,13,125	7,96,187	6,37,768
Market Turnover	7,03,669	7,60,791	14,25,305	13,65,587	42,55,352	32,68,551
Share of PDs (per cent)	19.7	21.7	19.6	15.6	18.7	19.5
Repo						
PDs Turnover	3,39,292	3,41,826	5,16,341	6,23,637	18,21,096	24,00,106
Market Turnover	38,76,794	29,18,136	39,22,851	55,16,951	1,62,34,732	1,55,75,515
Share of PDs (per cent)	8.8	11.7	13.2	11.3	11.2	15.4
Total						
PDs Turnover	4,78,187	5,07,079	7,95,254	8,36,763	26,17,283	30,37,873
Market Turnover	45,80,463	36,78,927	53,48,156	68,82,538	2,04,90,084	1,88,44,065
Share of PDs (per cent)	10.4	13.8	14.9	12.2	12.8	16.1

Table VI.47: Sources and Applications of Funds of Primary Dealers

(Amount in Rs. crore)

Item	End-March 2008	End-March 2009	Percentage Variation 2008	Percentage Variation 2009
1	2	3	4	5
Sources of Funds	10,882	10,307	-19.7	-5.3
1. Capital	1,508	1,121	-27.8	-25.7
2. Reserves and Surplus	1,944	2,213	-37.3	13.8
3. Loans (a+b)	7,430	6,973	-11.2	-6.2
a) Secured	4,580	2,945	17.1	-35.7
b) Unsecured	2,850	4,028	-36.1	41.3
Application of Funds	10,882	10,307	-19.7	-5.3
1. Fixed Assets	14	13	-80.5	-7.1
2. Investments (a to c)	8,291	7,891	-10.3	-4.8
a) Government Securities	7,584	7,305	2.3	-3.7
b) Commercial Papers	86	88	-93.1	2.3
c) Corporate Bonds	621	498	4.3	-19.8
3. Loans and Advances	429	959	-62.2	123.5
4. Non-current Assets	0	0		
Equity, Mutual Funds *etc.*	150	22	-83.9	-85.3
Others*	1,998	1,422	-1.2	-28.8

* : Others include cash+ bank balances + accrued interest + DTA – current liabilities and provisions.
Source: Annual Reports of respective PDs.

PDs increased sharply during the year. Overall, ROA rose sharply during the year as net profit of PDs almost doubled and average assets decreased by 24.5 per cent from Rs.15,039 crore in 2007-08 to Rs.11,348 crore in 2008-09 (Table VI.49).

Table VI.48: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Item	2007-08	2008-09	Percentage Variation Amount	Percentage Variation Percentage
1	2	3	4	5
A. Income (i to iii)	1,307	1,825	518	39.6
i) Interest and discount	914	878	-36	-3.9
ii) Trading Profit	255	843	588	230.6
iii) Other income	138	104	-34	-24.6
B. Expenses (i+ii)	775	692	-83	-10.7
i) Interest	595	546	-49	-8.2
ii) Administrative Costs	180	146	-34	-18.9
Profit Before Tax	532	1,133	601	113.0
Profit After Tax	373	749	376	100.8
No. of PDs $	9	7		

$: Stand-alone PDs only.
Source: Primary Dealers' Return (PDR).

6.97 Stand-alone PDs continued to be adequately capitalized. The CRAR of individual stand-alone PDs remained above the prescribed minimum CRAR of 15 per cent as at end-March 2009. The CRAR of the stand-alone PDs as a

Table VI.49: Financial Indicators of Primary Dealers

(Amount in Rs. crore)

Indicator	2007-08	2008-09
1	2	3
i) Net profit	373	749
ii) Average Assets	15,039	11,348
iii) Return on average assets (in per cent)	2.5	6.6
iv) Capital Funds	3,611	3,464
v) No. of PDs	9	7

Source: Primary Dealers' Return (PDR).

group was at 34.8 per cent as at end-March 2009 (Table VI.50).

Table VI.50: Select Indicators of Primary Dealers
(At end-March)

(Amount in Rs. crore)

Item	2008	2009
1	2	3
Total Assets	10,882	10,307
of which: Government securities	7,584	7,305
Government securities as percentage of total assets	70.0	70.9
Total Capital Funds	3,611	3,464
CRAR (in per cent)	38.0	34.8
Liquidity Support Limit	3,000	3,000
No. of PDs	9	7

Source: Primary Dealers' Returns (PDRs).

5. Conclusion

6.98 The recent financial crisis has posed the problem to NBFIs in terms of accessing low cost funds leading them to recourse to unsecured loans for funding their asset base. CFSA 2009 has advised that given the limited access to low cost funding of NBFCs, there is a need to develop alternative funding source like an active corporate bond market. Alternative funding source will facilitate in their asset base growth as well as in asset diversification. In the present scenario, NBFCs-ND is a growth driver of NBFCs, however, there is a need for an appropriate structure for regulation and supervision to bridge up the gap in areas relating to transfer of significant ownership, major acquisition, risk management, internal control and home host relationship for systematically important NBFCs-ND.

Chapter VII

Financial Stability

Following the global financial crisis, financial stability has emerged as an important objective of central banks across countries in the world - both developed and emerging market economies (EMEs). Unlike monetary policy frameworks, it is difficult to define financial stability framework. There are conceptual and measurement issues. A number of countries, however, have initiated financial stability analysis in terms of undertaking financial stability reports to assess the risks and outlook for financial stability. Along with a discussion of these issues, this chapter recounts the Indian experience with financial stability alongside price stability. While the traverse so far has been successful, way ahead, as is the case globally, there are significant challenges in attaining the objectives of financial stability as India gets further globalised.

1. Introduction

7.1 Following the global financial crisis, financial stability has emerged as an important objective of central banks across countries in the world – both developed and EMEs, notwithstanding the long period of macro-economic stability in terms of growth and inflation. The crisis occurred on a massive scale leading to the collapse of the financial markets and institutions bringing the financial stability issues to the forefront of policy discussions.

7.2 On the 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. 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, namely Lehman Brothers, Merrill Lynch, Fannie Mae and Freddie Mac.

7.3 It was the abrupt breakdown of trust following the collapse of Lehman Brothers in mid-September 2008 that caused financial markets in advanced economies to go into seizure. Suddenly, there was a great deal of uncertainty not only about the extent of losses and the ability of banks to withstand those losses, but also about the extent of risk in the system, where it lay and how it might explode. This uncertainty triggered unprecedented panic and almost totally paralysed the entire chain of financial intermediation. Banks hoarded liquidity. Credit, bond and equity markets nearly froze. Signaling a massive flight to safety, yields on Government securities plunged while spreads over risk free Government securities shot up across market segments. Several financial institutions came to the brink of collapse. Massive deleveraging drove down asset prices setting off a vicious cycle. Trust totally dried up.

7.4 Although the epicentre of the crisis lay in the advanced economies, it soon spread in two directions. In the advanced economies, it spread from the financial sector to the real sector severely hurting consumption, investment, export and import. It spread geographically from the advanced economies to the EMEs and soon engulfed almost the entire world through trade, finance and confidence channels.

7.5 Among the several lessons of the crisis, prominent ones with respect to financial stability are: first, financial stability that had grown to be taken for granted cannot be taken for granted; second, financial stability can be jeopardised even if there is price stability and macroeconomic stability; third, financial stability anywhere in the world is potentially a threat to financial stability everywhere; and finally, financial stability has to shift from being an implicit variable to an explicit variable of economic policy[1].

7.6 Central bankers around the world are clearly in the forefront battling the crisis. While they are clearly a part of the solution, questions are being asked about whether they were, in fact, part of the problem. Over the past two decades, revisions to the monetary policy framework appear to have been successful in the combat of inflation in a number of countries. Over the same period, financial stability frameworks have not kept pace.

7.7 Financial stability failed to receive central bank attention it warranted. The risks to financial stability were brewing silently as manifested in growing threats from macro economic imbalances, asset price build up, credit expansion and depressed risk premia. But central banks largely refrained from strong corrective action for a variety of reasons such as the perceived inefficiency of monetary policy to redress asset price bubbles, separation of monetary and regulatory policies, and misplaced faith in the self-correcting forces of financial markets.

7.8 In contrast to the global scenario, India has by-and-large been spared of the global financial contagion. Even in the midst of the crisis, India's financial sector remained safe and sound and financial markets continued to function normally. There can be a variety of reasons. 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; there are restrictions on investments by residents in such products issued abroad; and regulatory guidelines on securitisation do not permit immediate profit recognition. 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. As a result, while there are orderly conditions in financial markets, the financial institutions, especially banks, reflect strength and resilience. While supervision is exercised by a quasi-independent Board carved out of the Reserve Bank's Board, the interface between regulation and supervision is close in respect of banks and financial institutions and on market regulation, a close coordination with other regulators exists.

7.9 In this perspective, spread over eight sections, this chapter addresses the primary question of conceptual aspects of financial stability and its measurement in Section 2; an account of financial stability analysis by the central banks through the 'Financial Stability Reports' in Section 3; Global Initiatives towards Financial Stability in Section 4; an assessment of the India's financial system in Section 5; domestic financial markets are discussed in Section 6; Section 7 discusses India's approach to financial stability explaining how India achieved this in the last two years. Key sources of vulnerability of Indian financial system are also addressed in this Section. Section 8 concludes the chapter with an overall assessment and challenges to financial stability on the way forward.

[1] Subbarao, D (2009), 'Financial Stability – Issues and Challenges', Valedictory Address at the FICCI-IBA Annual Conference in Mumbai on 'Global Banking: Paradigm Shift' on September 10.

2. Financial Stability: Concept and Measurement

7.10 The challenge of monetary policy is to strike an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations, and sustaining the growth momentum[2]. The relative emphasis between these objectives has varied from time to time, depending on the underlying macroeconomic conditions. The global financial crisis has underlined the importance of preserving financial stability and this has made the task for the conduct of monetary policy even more complex and challenging than before.

What is Financial Stability?

7.11 Financial stability, as a concept, is widely known. However, there is no unanimous agreement on a working definition of this concept. Some define financial stability in terms of what it is not, *i.e.*, the absence of financial instability. Others take a macro-prudential view and specify financial stability in terms of limitation of risks of significant real output losses in the presence of episodes of system-wide financial distress. Financial stability is a situation in which the financial system is capable of satisfactorily performing its three key functions simultaneously. First, the financial system is efficiently and smoothly facilitating the inter-temporal allocation of resources from savers to investors and the allocation of economic resources in general. Second, forward-looking financial risks are assessed and priced reasonably accurately and are relatively well- managed. Third, the financial system is in such a condition that it can comfortably, if not smoothly, absorb financial and real economic surprises and shocks. If any one or more of these key functions are not being satisfactorily performed. It is likely that the financial system is moving in the direction of becoming less stable, and at some point might exhibit instability. For example, inefficiencies in the allocation of capital or shortcomings in the pricing of risk can, by laying the foundations for imbalances and vulnerabilities, compromise future financial system stability.

Why Study Financial Stability?

7.12 Since the early 1990s, safeguarding financial stability has become an increasingly dominant objective in economic policy making. Financial stability has been stated as a public good[3]. The greater emphasis on financial stability is related to several major trends in the financial system, reflecting the expansion of liberalisation and subsequent globalisation of financial system, all of which have increased the possibility of larger adverse consequences of financial instability on economic performance. First, financial systems have expanded at a significantly higher pace than the real economy. Second, this process of financial deepening has been accompanied by changes in the composition of the financial system, with a declining share of monetary assets and increasing share of non-monetary assets, and by implication, greater leverage of the monetary base. Third, as a result of increasing cross-industry and cross-border integration, financial systems have become more integrated, both nationally and internationally. Fourth, the financial system has become more complex in terms of the intricacy of financial instruments, the diversity of activities and the concomitant mobility of risks. In general, the greater complexity, especially the increase in risk transfers, has made it more difficult for market participants, supervisors, and policy makers alike to track the development of risks within the system and over time. Notwithstanding the

[2] Governor, Dr. D. Subbarao's Press Statement on Stance of Monetary Policy for the Remaining Period of 2008-09, October 24, 2008.

[3] Selinasi, Garry J. (2006), 'Safeguarding Financial Stability: Theory and Practice', IMF, Washington.

contribution of the above trends to economic efficiency, they have had implications for the nature of risks and vulnerabilities in the financial system and its potential impact on real economy, as well as for the importance of financial stability in policy making.

7.13 Unlike monetary stability, which is measured by inflation and monetary indicators, financial stability is not easy to define or measure given the inter-dependence and the complex interactions of different elements of the financial system among themselves and with the real economy. This is further complicated by the time and cross-border dimensions of such interactions. Financial stability, thus, is not well defined and cannot be easily measured.

3. Central Banks and the Financial Stability Reports

7.14 Conceptual and measurement issues with regard to financial stability notwithstanding, over the past two decades, researchers from central banks and elsewhere have attempted to capture conditions of financial stability through various indicators of financial system vulnerabilities. Indeed, many central banks through their Financial Stability Reports (FSRs) attempt to assess the risks to financial stability by focusing on a small number of key indicators. Both types of central banks, those focussed on single objective such as price stability and those focused on multiple objectives, such as economic progress, price stability and sound and strong external sector, publish FSRs (Box VII.1 and Annex VII.1).

7.15 Moreover, there are ongoing efforts to develop a single aggregate measure that could indicate the degree of financial fragility or stress. Composite quantitative measures of financial system stability that could signal these conditions are intuitively attractive as they could enable policy makers and financial system participants to: (a) better monitor the degree of financial stability of the system, (b) anticipate the sources and causes of financial stress to the system and (c) communicate more effectively the impact of such conditions.

7.16 Composite indicators of financial stability are better suited for the definition of threshold or benchmark values to indicate the state of financial system stability than individual variables. Moreover, they are useful measures of stress (*e.g.*, they can be used to gauge the build-up of imbalances) in the system even in the absence of extreme events. However, the construction of a single aggregate measure of financial stability is a difficult task given the complex nature of the financial system and the existence of its complex links between various sectors. In the absence of an overarching aggregate, partial composite measures, such as a banking stability index or a market liquidity index are used in several FSRs. Regardless of whether a single aggregate measure of financial stability is constructed or not, FSRs would need to analyse key variables in the real, banking and financial sectors as well as variables in the external sector.

7.17 There is some diversity in construction and use of the key indicators. For broader cross-country comparisons, it would be useful to have an appropriate template and methodology for such indicators, although individual circumstances of countries make such an exercise difficult (due, notably, to the varying relative importance of individual financial system components and to differing degrees of openness of the economies concerned). If one tries to compute a single aggregate measure of financial stability, the weightings of the different variables that constitute such an aggregate measure have to reflect these differences accordingly.

7.18 Although some central banks have experimented with computing single aggregate measures of financial stability, no such measures can be used without knowledge and use of other quantitative or qualitative instruments. Moreover, single aggregate measures reflect the

Box VII.1: Financial Stability Reports of Central Banks: Comparative Assessment

A review of the FSRs brought out by various central banks shows that as many as 67 central banks across the developed and the emerging market economies are periodically publishing a separate report on the subject of financial stability (Annex to the Chapter). The first standalone FSR was published in 1996 in the UK, which was followed by several Nordic countries. Since then, the number of central banks publishing FSRs grew to 25 in 2004 and further to 67 in 2008. Out of these, a majority of the central banks publishing FSRs belong to Europe. Some of the Asian countries that publish FSRs include Japan, Korea, Hong Kong SAR, Singapore, China, Philippines, Indonesia and lately, Malaysia. Recently, a few African (Ghana, Kenya and South Africa) and Middle East (Israel and Qatar) countries have also begun publishing FSRs. In the south Asian region, India's neighbouring countries like Pakistan, Sri Lanka and Bangladesh are also publishing such reports.

While many multilateral institutions/central banks such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Basel Committee on Banking Supervision, the Group of Twenty, the International Association of Insurance Supervisors and the European Central Bank (ECB) deal with financial stability related issues, standalone FSRs are brought out regularly by only two such institutions, namely, the IMF and the ECB.

Central banks publish financial stability reports for various reasons. Based on a survey, Oosterloo and Haan (2004), state that there are three main reasons for publishing the assessment of financial stability in the form of a FSR: (i) to contribute to the overall stability of the financial system; (ii) to strengthen cooperation on financial stability issues between the various relevant authorities; and (iii) to increase the transparency and accountability of the financial stability function.

It seems that for most central banks the ultimate objective of FSRs is their contribution to financial stability. According to the Bank of England, the Financial Stability Review aims: (i) to promote the latest thinking on risk, regulation and financial markets; (ii) to facilitate discussion of issues that might affect risks to the UK financial system; and (iii) provide a forum for debate among practitioners, policy makers and academics. Articles published in the Financial Stability Review, whether written by the Bank or Securities and Investment Board (SIB) staff or by outside contributors, are intended to contribute to the debate, and are not necessarily statements of the Bank or SIB policy. According to Banque de France, in a globalised and increasingly complex financial environment, assessing and fostering financial stability requires strengthened co-operation between the various relevant authorities *viz.*, Governments, central banks, market regulators and supervisors. They also presuppose that a close dialogue to be maintained with all financial sector professionals. It is in this spirit that the Banque de France, like several other central banks, has decided to publish a periodic Financial Stability Review. According to the ECB, in publishing this Financial Stability Review, the ECB is joining a growing number of central banks around the world that are addressing their financial stability mandates in part through the periodic issuing of a public report. The purpose of publishing this review is to promote awareness in the financial industry and among the public at large of issues that are relevant for safeguarding the stability of the euro area financial system. By providing an overview of sources of risk and vulnerability to financial stability, the review also seeks to help prevent financial tensions. A similar view is echoed by central banks in some emerging economies. According to the central bank of Brazil, the practice of central banks publishing analyses of financial system performance is highly recommended from the point of view of monetary authority's transparency and the expectations of economic agents. According to the Singapore Monetary Authority, the Financial Stability Review analyses the risks and vulnerabilities arising from domestic and global developments and assesses their implications for the soundness and stability of the domestic financial system. The FSR aims to contribute to a greater understanding and exchange of views among market participants, analysts and the public on issues affecting the country's financial system.

Some FSRs explicitly recognise reduction of financial instability as their ultimate objective. According to the Bank of Canada, FSRs one avenue through which it seeks to contribute to the longer-term robustness of the domestic financial system. It can do so by: (i) improving the understanding of (and contributing to dialogue on) risks to financial intermediaries in the economic environment; (ii) alerting financial institutions and market participants to the possible collective impact of their individual actions; and (iii) building a consensus for financial stability and the improvement of the financial infrastructure. An FSR can add value to work undertaken by private agents in the financial sector itself, because a central bank can draw on its macroeconomic expertise and its role in payments and settlements. Also, private agents do not have as strong an incentive to assess the systemic risks in the economic environment, as they are less interested in spillovers of their actions on to other agents. Finally, there is a need to educate the public about the costs of infrequent but catastrophic episodes of instability (analogous to the need of the monetary policy side to build a constituency for low inflation).

Reference:

1. Financial Stability Reports of various Central Banks.
2. Osterloo, S. and J. de Hann (2003), 'A Survey of institutional frameworks for financial stability', De Nederlandsche Bank Occasional Studies, Vol.1, No. 4.

financial system conditions well post facto, it is not yet clear how well they would perform in signaling the onset of financial stress.

7.19 Generally, central banks derive financial stability responsibility from four principal areas: (i) regulation and supervision of banking sector; (ii) oversight of the payment system; (iii) the lender of last resort function; and (iv) an integral and major element of the coordinated framework encompassing multiple regulators for the achievement of overall stability of the financial system. First, directly as regulator and supervisor of deposit taking commercial banks and also deposit taking non-banking institutions, several central banks are entrusted with the responsibility for a sound, safe and stable financial system. Moreover, the deposit taking banks and non-bank entities constitute the major pillar of financial system due to their dominant role in intermediation of savings and deployment of resources for investment, and the stability of key institutions and markets assume critical importance for the stability of whole financial system. Second, central banks have a key role in promoting a safe and efficient payment and settlement system. According to the Riksbank of Sweden, the payment system is important for all economic activities and is a central component of the financial system. For that reason, the Riksbank regularly analyses the risks and threats to the stability of the Swedish payment system. Third, central banks, due to their lender of last resort function, assume critical importance in providing liquidity support for mitigating the financial crisis. According to the Peoples' Bank of China (PBC), the central bank of a country has a 'natural role' in maintaining financial stability, as it is the lender of last resort and plays an important role in maintaining liquidity in the financial system. Fourth, in some countries where the banking regulation and supervision is vested in a separate authority and the stability of the financial system entrusted to a super regulator or umbrella organisation which coordinates with various types of financial regulators, central banks are accorded a dominant position in this framework. From operational angle, some central banks serve as chairman of the coordinated system for financial system stability. Illustratively, in Australia, the Council of Financial Regulators which brings together the Treasury – the fiscal authority, the central bank – the monetary authority, Australian Prudential Regulation Authority – the banking regulator and the Australian Securities and Investments Commission (ASIC) – the capital market regulator, is chaired by the Governor of the Reserve Bank of Australia (RBA). Thus, the RBA is entrusted with the ultimate responsibility to contribute to the efficiency and effectiveness of regulation and the stability of the financial system.

7.20 Globally, financial stability has assumed significance because of the tendency of financial turbulence to spill across borders. This is amply illustrated by the ongoing crisis which has brought the issue of financial stability to the forefront. What started as a sub-prime crisis in the US housing mortgage sector has turned successively into a global banking crisis, global financial crisis and now a global economic crisis. Apart from the current one, in recent years, crises in Mexico (1994), Asia (1997), Turkey (1999) and Argentina (2001) entailed significant costs to the countries concerned and also exerted serious corollary damage on neighbouring countries, which induced Governments and multilateral institutions to be more proactive in preventing and resolving financial crises. Even as countries across the globe are trying to come to terms with what is purportedly the biggest downturn in economic activity since the Great Depression, the world over there is renewed emphasis on maintaining financial stability. Some of the factors that can lead to financial instability include unsustainable macroeconomic policies, fragile financial systems, regulatory gaps, institutional weaknesses and flaws in the structure of the international financial architecture. It is recognised that there is no fail-safe method for ensuring financial stability as volatility is an intrinsic feature of financial markets. It is, however, desirable to take preventive measures so as to reduce the incidence of disruptive and costly financial crises. Thus, countries need to be vigilant about and take initiatives to address each of the five causes of financial instability enumerated above. This would include limiting macroeconomic sources of financial vulnerability, strengthening the financial infrastructure and undertaking swift remedial measures for early and quick resolution of financial crises, if and when they occur.

7.21 There are various issues relating to central banks' financial stability goal, mandate in publishing FSR, the title of the report, commencement, periodicity and size of the publication, dissemination policy, chapterisation scheme, coverage and the methodology used in the various reports. There are also issues about whether the central bank that brings out FSR is a bank regulator or not and whether financial stability is a mandated function of the central bank through any legislative framework (Annex VII.1).

7.22 Policymakers and academic researchers have focused on a number of quantitative measures in order to assess financial stability. The set of Financial Soundness Indicators developed by the IMF (2006) are examples of such indicators apart from monitoring variables which focus on market pressures, external vulnerability and banking system vulnerability. Annex VII.2 summarises the measures commonly used in the literature, their frequency, what they measure, as well as their signaling properties. As can be seen, the focus is on six main sectors (Box VII.2 and Annex VII.2).

7.23 Typically financial stability analysis would use several sectoral variables either individually or in combinations. The use of such measures including the financial soundness indicators as key indicators of financial stability depends on the benchmarks and thresholds which would characterise their behaviour in

Box VII.2: Key Financial Stability Segments and Variables

Firstly, the *real sector* is described by GDP growth, the fiscal position of the Government and inflation. GDP growth reflects the ability of the economy to create wealth and its risk of overheating. The fiscal position of the Government mirrors its ability to find financing for its expenses above its revenue (and the associated vulnerability of the country to the unavailability of financing). Inflation may indicate structural problems in the economy, and public dissatisfaction which may in turn lead to political instability.

Secondly, the *corporate sector's* riskiness can be assessed by its leverage and expense ratios, its net foreign exchange exposure to equity and the number of applications for protection against creditors.

Thirdly, the *household sector*'s health can be gauged through its net assets (assets minus liabilities) and net disposable income (earnings minus consumption minus debt service and principal payments). Net assets and net disposable earnings can measure households' ability to weather (unexpected) downturns.

Fourthly, the conditions in the *external sector* are reflected by real exchange rates, foreign exchange reserves, the current account, capital flows and maturity/currency mismatches. These variables can be reflective of sudden changes in the direction of capital inflows, of loss of export competitiveness, and of the sustainability of the foreign financing of domestic debt.

Fifthly, the *financial sector* is characterised by monetary aggregates, real interest rates, risk measures for the banking sector, banks' capital and liquidity ratios, the quality of their loan book, standalone credit ratings and the concentration/systemic focus of their lending activities. All these proxies can be reflective of problems in the banking or financial sector and, if a crisis occurs, they can gauge the cost of such a crisis to the real economy.

Lastly, variables relevant to describe conditions of *financial markets* are equity indices, corporate spreads, liquidity premia and volatility. High levels of risk spreads can indicate a loss of investors' risk appetite and possibly financing problems for the rest of the economy. Liquidity disruptions may be a materialisation of the market's ability to efficiently allocate surplus funds to investment opportunities within the economy.

Reference:

Blaise Gadanecz and Kaushik Jayaram (2009), 'Measures of Financial Stability' – A Review, BIS.

normal times and during periods of stress. In the absence of benchmarks, the analysis of these measures would depend on identifying changes in trend, major disturbances and other outliers.

7.24 Since risk assessment is a continuous process and stress tests need to be conducted taking into account the macroeconomic linkages as also the second round effects and contagion risks, consequent to the announcement in the Annual Policy Statement for 2009-10, an interdisciplinary Financial Stability Unit (FSU) have been set up in Reserve Bank of India to monitor and address systemic vulnerabilities. FSU is entrusted with the responsibility of bringing out Financial Stability Report in the future.

4. Global Initiatives towards Financial Stability

7.25 The crisis has triggered a vigorous debate on how financial stability should be safeguarded. Several lessons are clear. First, the received wisdom is that prevention is better than cure and that central banks should take countercyclical policy actions to prevent build up of imbalances. Second, a consensus is emerging around the view that central bank purview should explicitly include financial stability. Third, there is a growing acknowledgement that financial stability needs to be understood and addressed both from the micro and macro perspectives. At the micro level, there is a need to ensure that individual institutions are healthy, safe and sound; in addition, there is a need to safeguard financial stability at the macro level.

International Cooperation - Recent Initiatives

7.26 Several international initiatives have been taken in the recent period for formulating proposals for strengthening the financial system. The major initiatives in this regard include the following:

- Several reports have been released recently such as the Financial Stability Forum's (now Financial Stability Board) Report on 'Enhancing Market and Institutional Resilience', the Geneva Report on 'The Fundamental Principles of Financial Regulation', Larosiere Report on 'The High Level Group on Financial Supervision in the EU' and the Turner Review on 'Regulatory Response to the Global Banking Crisis'.

- The G-20 countries have also taken several initiatives. In the summit held in Washington in November 2008, the G-20 countries laid down an action plan and constituted four Working Groups, *viz.*, (i) Enhancing Sound Regulation and Strengthening Transparency; (ii) Reinforcing International Co-operation and Promoting Integrity in Financial Markets; (iii) Reform of the IMF; and (iv) The World Bank and other Multilateral Development Banks (MDBs).

- The leaders of the G-20 again met in London on April 2, 2009 and laid down the 'Global Plan for Recovery and Reform'. Drawing mainly from the recommendations of the group on Enhancing Sound Regulation and Strengthening Transparency, the G-20 also made a declaration for strengthening the financial system. The declaration agreed to make far reaching reforms in the areas of expanding the membership of international bodies, international cooperation, prudential regulations, scope of regulations, compensation, tax havens and non-cooperative jurisdictions, accounting standards and credit rating agencies.

- G-20 Finance Ministers and Central Bank Governors met in London during September 4-5, 2009 to review a comprehensive set of measures to strengthen the regulation and supervision and agreed to continue to assess the progress in delivering the 'Global Plan for Recovery and Reform'.

- With a view to increasing international co-operation, the Financial Stability Forum

(FSF), rechristened as Financial Stability Board (FSB), has been expanded to include more emerging market economies including India and its mandate has been broadened. Alongside the current mandate of the FSF – to assess vulnerabilities affecting the financial system and identify and oversee action needed to address them – the FSB will advise on market developments and monitor best practices in meeting regulatory standards, among others.

- The Basel Committee on Banking Supervision (BCBS) has also been expanded and India has been invited to nominate a member to the Committee. Accordingly, Smt. Usha Thorat, Deputy Governor, Reserve Bank of India has been nominated as a member of the BCBS.
- A Group of 30 (G-30) released the report on 'Financial Reform – A Framework for Financial Stability' on January 15, 2009 to strengthen prudential regulations and supervision.

Regulatory and Supervisory Initiatives

7.27 Group of Twenty (G-20) has pioneered the regulatory and supervisory reforms. The Group has made several recommendations / plan of actions in this regard and has placed the responsibility for monitoring the implementation plan to the recommendations, with the Finance Ministries, national financial regulators and oversight authorities, central banks, International Monetary Fund (IMF), Financial Stability Board (FSB), and Basel Committee on Banking Supervision (BCBS), International Accounting Standard Board (IASB) and other similar organisations.

Group of Twenty (G-20)

7.28 Report of G-20 (Working Group 1) on 'Enhancing Sound Regulation and Strengthening Transparency' (March 2009) has made recommendations, *inter alia,* to strengthen the international regulatory standards. Some of the major recommendations are (i) system-wide approach to financial regulation, *i.e.,* macro-prudential supervision to supplement the micro-prudential supervision, (ii) expansion of the scope of regulation and oversight to include all systemically important institutions, markets and instruments including private pools of capital (iii) enhancements of international standards for capital and liquidity buffers, (iv) addressing pro-cyclicality aspects of accounting frameworks and capital regulation (v) management of liquidity especially for large and complex cross-border banks (vi) Infrastructure for OTC derivatives especially for the credit default swaps to contain systemic risks.

7.29 G-20 (Working Group 2) on 'Reinforcing International Cooperation and Promoting Integrity in Financial Markets' (March 2009), *inter alia,* made recommendations on steps needed for strengthening the international regulatory and supervisory cooperation, cross-border crisis management and conduct of regular joint Early Warning Exercises (EWEs) by IMF and FSB. The Group has recommended establishment of supervisory colleges for all major cross-border financial institutions and called on FSB and various home supervisors of major cross-border financial institutions to review and monitor the establishment of supervisory colleges for the purpose of enhanced cross-border supervisory co-operation, improvement in the information sharing arrangements between supervisors and the need for strengthening cross-border crisis management arrangements, especially during periods of financial distress. The Group has observed that bilateral Memoranda of Understanding are an important means for information sharing between banking supervisors. Therefore, taking into account the best practices in the area of bi-lateral information exchange, the Group has advised the Basel Committee on Banking Supervision (BCBS) to consider updating its template 'Essential Elements of a Statement of Cooperation between Banking Supervisors'.

Basel Committee on Banking Supervision and Financial Stability Board (FSB)

7.30 The BCBS has taken initiatives which are proposed to address the key lessons of the crisis to strengthen the regulation, supervision and risk management of the banking sector in order to alleviate the stresses caused by the banking sector globally. The initiatives will ensure that banks move to a higher capital standard that promotes long term stability and sustainable growth without aggravating near term stress.

Strengthening Minimum Regulatory Capital Framework

7.31 The Basel Committee, in July 2009, has proposed new standards to strengthen the existing regulatory capital framework, especially for strengthening quality of bank capital, for promoting building-up of capital buffers that can be drawn down in periods of stress and introduce a leverage ratio as a backstop to Basel II. The Committee is also taking measures to mitigate any excess cyclicality of the minimum capital requirement and to promote a more forward-looking approach to provisioning.

7.32 The Committee has issued guidelines on '*Revisions to the Basel II market risk framework*' and '*Guidelines for computing capital for incremental risk in the trading book*', which is expected to take effect at the end of 2010 and introduced higher capital requirements to capture the credit risk of complex trading activities. The Committee has initiated steps to strengthen the regulatory treatment for certain securitisations in Pillar 1. It has proposed to introduce higher risk weights for resecuritisation exposures (so-called CDOs of ABS) to better reflect the risk inherent in these products.

Principles for Sound Stress Testing

7.33 Stress testing is a tool that supplements other risk management approaches and measures. The financial crisis has highlighted weaknesses in stress testing practices employed prior to the start of the crisis in four broad areas: (i) use of stress testing and integration in risk governance; (ii) stress testing methodologies; (iii) scenario selection; and (iv) stress testing of specific risks and products. Basel Committee in May 2009 has suggested principles for sound stress testing practices and supervision (Box VII.3).

Enhancement in Supervisory Review Process

7.34 The Committee has issued supplemental guidance under Pillar 2 (the supervisory review process) of Basel II to address the flaws in risk management practices revealed by the crisis. It raises the standards for firm-wide governance and risk management, capturing the risk of off-balance sheet exposures and securitisation activities, managing risk concentrations and providing incentives for banks to better manage risk and returns over the long term. The guidance incorporates '*Principles for Sound Compensation Practices*' issued by the Financial Stability Board in April 2009.

Market Discipline

7.35 Inadequate transparency of structured products was observed to be a hindrance to effective market discipline during the crisis. There was a lack of transparency related to risk profiles and capital adequacy of the banks holding those assets. In response, the Committee has proposed enhancements to the Pillar 3 (market discipline) to strengthen disclosure requirements for securitisations, off-balance sheet exposures and trading activities. These additional disclosure requirements will help reduce market uncertainties about the strength of banks' balance sheets related to capital market activities.

Box VII.3: Principles for Sound Stress Testing Practices and Supervision

Principles for Banks

Use of stress testing and integration in risk governance

1. Stress testing should form an integral part of the overall governance and risk management culture of the bank. Stress testing should be actionable, with the results from stress testing analyses impacting decision making at the appropriate management level, including strategic business decisions of the board and senior management. Board and senior management involvement in the stress testing programme is essential for its effective operation.
2. A bank should operate a stress testing programme that promotes risk identification and control; provides a complementary risk perspective to other risk management tools; improves capital and liquidity management; and enhances internal and external communication.
3. Stress testing programmes should take account of views from across the organisation and should cover a range of perspectives and techniques.
4. A bank should have written policies and procedures governing the stress testing programme. The operation of the programme should be appropriately documented.
5. A bank should have a suitably robust infrastructure in place, which is sufficiently flexible to accommodate different and possibly changing stress tests at an appropriate level of granularity.
6. A bank should regularly maintain and update its stress testing framework. The effectiveness of the stress testing programme, as well as the robustness of major individual components, should be assessed regularly and independently.

Stress Testing Methodology and Scenario Selection

7. Stress tests should cover a range of risks and business areas, including at the firm-wide level. A bank should be able to integrate effectively, in a meaningful fashion, across the range of its stress testing activities to deliver a complete picture of firm-wide risk.
8. Stress testing programmes should cover a range of scenarios, including forward-looking scenarios, and aim to take into account system-wide interactions and feedback effects.
9. Stress tests should feature a range of severities, including events capable of generating the most damage whether through size of loss or through loss of reputation. A stress testing programme should also determine what scenarios could challenge the viability of the bank (reverse stress tests) and thereby uncover hidden risks and interactions among risks.
10. As part of an overall stress testing programme, a bank should aim to take account of simultaneous pressures in funding and asset markets, and the impact of a reduction in market liquidity on exposure valuation.

Specific areas of focus

The following recommendations to banks focus on the specific areas of risk mitigation and risk transfer that have been highlighted by the financial crisis.

11. The effectiveness of risk mitigation techniques should be systematically challenged.
12. The stress testing programme should explicitly cover complex and bespoke products such as securitised exposures. Stress tests for securitised assets should consider the underlying assets, their exposure to systematic market factors, relevant contractual arrangements and embedded triggers, and the impact of leverage, particularly as it relates to the subordination level in the issue structure.
13. The stress testing programme should cover pipeline and warehousing risks. A bank should include such exposures in its stress tests regardless of their probability of being securitised.
14. A bank should enhance its stress testing methodologies to capture the effect of reputational risk. The bank should integrate risks arising from off-balance sheet vehicles and other related entities in its stress testing programme.
15. A bank should enhance its stress testing approaches for highly leveraged counterparties in considering its vulnerability to specific asset categories or market movements and in assessing potential wrong-way risk related to risk mitigating techniques.

Principles for Supervisors

16. Supervisors should make regular and comprehensive assessments of a bank's stress testing programme.
17. Supervisors should require management to take corrective action if material deficiencies in the stress testing programme are identified or if the results of stress tests are not adequately taken into consideration in the decision-making process.
18. Supervisors should assess and if necessary challenge the scope and severity of firm-wide scenarios. Supervisors may ask banks to perform sensitivity analysis with respect to specific portfolios or parameters, use specific scenarios or to evaluate scenarios under which their viability is threatened (reverse stress testing scenarios).
19. Under Pillar 2 (supervisory review process) of the Basel II framework, supervisors should examine a bank's stress testing results as part of a supervisory review of both the bank's internal capital assessment and its liquidity risk management. In particular, supervisors should consider the results of forward-looking stress testing for assessing the adequacy of capital and liquidity.
20. Supervisors should consider implementing stress test exercises based on common scenarios.

Reference:

Bank for International Settlement (2009), 'Principles for Sound Stress Testing Practices and Supervision', May.

Strengthening Funding Liquidity Frameworks at the Bank and System-Wide Level

7.36 In response to liquidity risk management shortcomings and other lessons learnt from the financial crisis, the Basel Committee issued '*Principles of Sound Liquidity Risk Management and Supervision*' in September 2008. The issuance of the principles was a significant step towards setting a new global standard for what constitutes robust liquidity risk measurement, management and supervision. Under this standard, banks must maintain a sufficient buffer of highly liquid assets to withstand a range of stress events, including the loss of both secured and unsecured funding. The sound principles translate this global standard into a consistent set of supervisory expectations about the key elements of a robust framework for liquidity risk management at banking organisations. The Committee expects to finalise its proposed framework by year-end and to conduct a quantitative impact study and public consultation in 2010.

Strengthening Macroprudential Regulation and Supervision/Addressing Procyclicality

7.37 BCBS has proposed to introduce macroprudential overlay that will reduce the procyclical dynamics in the banking system and address the systemic risk arising from the size and inter-connectedness of global banking institutions. Efforts are made to build buffers in good times that can be drawn in bad economic and financial conditions, thereby reducing the amplification of fluctuations in the economic cycle. The buffer capital will act countercyclical. Besides, banks should be required to raise provisions in good times. The BCBS has issued principles to assist accounting standard setters in their efforts to revise IAS 39 with an aim to promote stronger provisions based on expected losses.

7.38 FSB has come out with a Report (April 2009) on *'Addressing procyclicality in the financial system'*. FSB has observed that addressing procyclicality is an essential component of strengthening the macroprudential orientation of regulatory and supervisory frameworks. It has identified three areas as priorities for policy action, *viz*., the capital regime, bank provisioning practices and the interaction between valuation and leverage and it is monitoring the implementation of the recommendations.

Reducing Risks from OTC Derivatives

7.39 A large number of initiatives are underway at the international level to strengthen the infrastructure for OTC derivatives, an amplifier of stress in the crisis. National supervisors and international committees have undertaken steps to mitigate the risks, focusing on efforts to move OTC derivative exposures to central counterparties and exchanges. Top priorities have been given to the implementation of Central Counterparty (CCP) clearing for Credit Default Swaps (CDS). Such CCPs have already been launched in the European Union and in the United States. The Basel Committee is reviewing the treatment of counterparty credit risk under the Basel II framework.

7.40 The Committee expects that banks and supervisors begin implementing the Pillar 2 guidance immediately. The new Pillar 1 capital requirements and Pillar 3 disclosures may be implemented not later than December 31, 2010. Taken together, these measures and enhancements to the Basel II framework will help ensure that all the following material exposures are covered in the capital adequacy framework, that they are backed by appropriate capital, that risk management and control is significantly strengthened and appropriately linked to compensation and bonuses, and that there is better disclosure of the relationship of risk and capital.

Cross-border Crisis Management and Bank Resolution

7.41 The crisis has emphasised the need for supervisory attention towards cross-border contingency planning and crisis management. Accordingly, FSB has set principles for cross-border cooperation on crisis management (April 2009). Besides, the Cross-Border Bank Resolution Group (CBRG) of Basel Committee is analysing the existing bank resolution policies and legal frameworks of relevant countries in order to assess the potential impediments and possible improvements to cooperation in crisis management and the resolution of cross-border banks. The recent crisis has shown that the existing legal and regulatory frameworks / arrangements are not customised to tackle the stresses/problems in a financial group operating through multiple, separate legal entities and this may be true in case of both the cross-border and domestic financial groups. Best practices have appeared to be local in nature (ring-fencing). The Group is in the process of developing its recommendations for cross-border bank resolution regimes in order to achieve continuity in the cross-border crisis management and resolution. The International Monetary Fund (IMF) has also issued proposals to deal with bank insolvencies.

Supervisory Structure

7.42 Following the crisis talks are on to discard supervisory framework which is build around the legal character of institutions (*e.g.* banks, insurance companies) - a silo approach to regulation and supervision, and to adopt regulatory and supervisory framework which is primarily based on the roles performed by various players in the stability of the system (liquidity provision, deposit-taking, and market making).

7.43 In Europe, a European Systemic Risk Board (ESRB) has been created based on the recommendation of *de Larosière* report (February 2009). In the United States, it has been proposed that the Federal Reserve will become the future systemic supervisor. In France, the Government has decided a reform where insurance and banking supervision will be merged under the umbrella of a “systemic” college under the auspices of the Banque de France.

Financial Regulation and Supervision: Initiatives under Progress

7.44 Beyond initiatives already taken, work is under progress on several initiatives to strengthen stability on several fronts as highlighted below:

- Developing a global liquidity standard: Recognising that illiquidity of banks can threaten its solvency as much as inadequate capital and also adversely impact the stability of the financial system, work is under way to develop an international framework for liquidity risk regulation and supervision.
- Strengthening the supervision of cross-border entities: Given the growing number of cross-border financial conglomerates and their role in transmitting risk, arrangements are being put in place for cross-border cooperation among regulators and for establishing supervisory colleges.
- Reviewing international accounting standards: There is a view that some of the current accounting standards have contributed to market volatility. The Financial Stability Board and the accounting standard bodies are consulting on revising standards, in particular those relating to financial instruments and their valuation.
- Extending the perimeter of regulation: Work is under way to develop a global framework governing the registration, regulatory

disclosure and reporting requirements to be imposed on non-banks. The principle being put forward is that if an institution looks and behaves like a bank, then it should be regulated like a bank, regardless of its legal form.

- Strengthening the oversight of credit rating agencies: The crisis has questioned the integrity, conduct and business model of credit rating agencies. Corrective initiatives under way include stronger regulation of credit rating agencies, measures to address conflicts of interest, differentiation between ratings of structured and other products, and strengthening the integrity of the rating process.
- Rationalising compensation structures: It is agreed that compensation structures in large financial institutions have given rise to perverse incentives for staff to maximise profits at the cost of long-term sustainability. A key objective of the proposed changes is to promote compensation schemes that reflect the underlying risks taken that include back loading payoffs and claw back clauses that retrospectively adjust bonuses on the basis of future position losses.

5. An Assessment of the Indian Financial System

7.45 The Indian financial sector is still dominated by bank intermediation. Though the size of the capital market has expanded significantly with financial liberalisation in the early 1990s, bank intermediation remains the dominant feature. Important components of the financial sector in India are seven categories namely; commercial banks, Urban Co-operative Banks (UCBs), rural financial institutions, Non-banking Financial Companies (NBFCs), Housing Finance Companies (HFCs), Development Financial Institutions (DFIs) and the insurance sector. Commercial banks are the dominant institutions in the Indian financial landscape accounting for around 60 per cent of its total assets. Together with co-operative banks, the banking sector accounts for nearly 70 per cent of the total assets of Indian financial institutions.

7.46 Over the past decade, financial institutions in India have benefited from a stable macroeconomic environment, with sustained growth especially from 2003 onwards when India recorded one of the highest GDP growth rates, accompanied generally by an acceptable level of inflation except for the temporary spike in inflation in 2008. Financial sector reform, which has been gradual and calibrated, has helped financial institutions to weather various global financial turmoils during the past ten years. This resilience is also currently evident, as the Indian financial sector has so far not been severely affected by the financial turbulence in advanced economies.

7.47 The public sector banks continue to be a dominant part of the banking system. As on March 31, 2009, the PSBs accounted for 71.9 per cent of the aggregate assets and 75.3 per cent of the aggregate advances of the scheduled commercial banking system. A unique feature of the reform of the public sector banks was the process of their financial restructuring. The banks were recapitalised by the Government to meet prudential norms through recapitalisation bonds. All the public sector banks, which issued shares to private shareholders, have been listed on the exchanges and are subject to the same disclosure and market discipline standards as other listed entities. To address the problem of distressed assets, a mechanism has been developed to allow sale of these assets to Asset Reconstruction Companies which operate as independent commercial entities.

7.48 Financial institutions have transited since the mid-1990s from an environment of an administered regime to a system dominated by market determined interest and exchange rates, and migration of the central bank from direct and quantitative to price-based instruments of monetary policy and operations. However, increased globalisation has resulted in further expansion and sophistication of the financial sector, which has posed new challenges to regulation and supervision, particularly of the banking system. In this context, the capabilities of the existing regulatory and supervisory structures also need to be assessed by benchmarking them against the best international practices.

7.49 The financial sector reforms in the country were initiated in the beginning of the 1990s. The financial sector reforms were undertaken early in the reform cycle, which have brought about a sea change in the profile of the banking sector. Notably, the reforms process was not driven by any banking crisis, nor was it the outcome of any external support package. Besides, the design of the reforms was crafted through domestic expertise, taking on board the international experiences in this respect. The reforms were carefully sequenced with respect to the instruments to be used and the objectives to be achieved. Thus, prudential norms and supervisory strengthening were introduced early in the reform cycle, followed by interest-rate deregulation and a gradual lowering of statutory pre-emptions. The more complex aspects of legal and accounting measures were ushered in subsequently when the basic tenets of the reforms were already in place.

7.50 As regards the prudential regulatory framework for the banking system, a long way has been traversed from the administered interest rate regime to deregulated interest rates, from the system of Health Codes for an eight-fold judgmental loan classification to the prudential asset classification based on objective criteria, from the concept of simple statutory minimum capital and capital-deposit ratio to the risk-sensitive capital adequacy norms – initially under Basel I framework and now under the Basel II regime. There is much greater focus now on improving the corporate governance set up through 'fit and proper' criteria, on encouraging integrated risk management systems in the banks and on promoting market discipline through more transparent disclosure standards. The policy endeavour has all along been to benchmark India's regulatory norms with the international best practices, of course, keeping in view the domestic imperatives and the country context. The consultative approach of the RBI in formulating the prudential regulations has been the hallmark of the current regulatory regime which enables taking account of a wide diversity of views on the issues at hand. The implementation of reforms has had an all round salutary impact on the financial health of the banking system, as evidenced by the significant improvements in a number of prudential parameters, like capital adequacy ratio, asset quality profitability, Return on Assets (RoA) and productivity of banks.

Commercial Banks

7.51 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 (Table VII.1 and Table II.7 for data for more years; and analysis in para. 2.38).

7.52 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 (1.02 per cent at end-March 2009), which is line with the international standards. The RoA in several advanced countries and some emerging market economies were less than one per cent.

Table VII.1: Benchmarking of Indian Banking Sector

(Per cent)

Country	Return on Assets	Gross NPL to Gross Advances	CRAR	Provisions to NPL	Capital to Assets
1	2	3	4	5	6
India	**1.0 ***	**2.3 ***	**13.0 ***	**52.6 ***	**6.4 ****
Emerging and Developing Economies					
Brazil	1.1	4.3	18.5	157.3	9.2
Mexico	1.2	3.8	15.2	143.7	9.1
Russia	0.5 *	7.6	18.5	90.8	13.6 *
China	1 *	1.8	12.0 *	134.3	5.4
United Arab Emirates	2.2 *	2.5 *	16.2	101.5 *	10.6 *
South Africa	1.0	5.1	13.5	–	7.9 *
Advanced Economies					
USA	0.2	3.8	13.5	66.5	10.1
UK	-0.5 *	1.6 *	12.9 *	54.6 ^	4.4 *
Japan	0.2	1.7 *	13.4	25.5	3.6 *
France	0.4 **	2.8 **	10.2 **	51.3 **	4.2 *
Germany	0.3 **	2.7 **	12.9 **	56.7 *	4.5 *
Italy	0.3 *	5.5	10.8 *	46.1 *	6.6 *
Canada	1.3	0.9	10.3	29.8	5.8
Korea	0.5 *	1.5	12.9	125.3	9.5

* : Data pertains to 2008. ** : Data pertains to 2007. ^ : Data pertains to 2006.

Note: Data pertains to 2009.

Source: Global Financial Stability Report, October 2009, IMF.

7.53 Quality of assets of banks as reflected in the ratio of non-performing loans (NPLs) to total advances is an important banking soundness indicator from the financial 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. The NPL ratio has remained unchanged at 2.3 per cent between 2008 and 2009. 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 52.6 per cent at the end-March 2008. It was fairly comparable with the ratio of provisioning across most advanced countries.

7.54 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 13.2 per cent as at end-March 2009, was well above the Basel norm of 8 per cent and the stipulated norm of 9 per cent for banks in India. As at end-March 2009, the CRAR of 78 banks was over 10 per cent, while that of only one bank 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' (Tier I) capital to assets ratio at 6.3 per cent suggested a lower degree of leverage and higher stability.

Non-Bank Financial Institutions

7.55 Although banks dominate the Indian financial spectrum, NBFCs play an important role in financial markets. With their unique strengths, the stronger NBFCs could complement banks as innovators and partners. The core strength of NBFCs lies in their strong customer relationships, good understanding of regional dynamics, service orientation and ability to reach out to customers who would otherwise be ignored by the banks, which makes such entities effective conduits of financial inclusion.

7.56 The recent global financial turmoil has highlighted the impact on systemic stability through OFIs which, in India, operate as NBFCs. In India, there are two broad categories of NBFCs, *viz.*, NBFCs-D and NBFCs-ND. The recent growth in the NBFC sector is due primarily to NBFCs–ND. The financial indicators of the NBFCs-D segment, do not throw up any major concern and is characterised by high CRAR, low NPAs and comfortable RoA. Systemically important NBFCs-ND (NBFCs-ND-SI) are growing at a rapid pace. The sector has been witnessing a significant improvement in financial health and is characterised by low and reducing NPAs and high RoA.

7.57 The Reserve Bank, on a review of the experience with the regulatory framework for non-banking financial companies in place since April 2007, enhanced the capital adequacy requirement for NBFCs-ND-SI and put in place guidelines for liquidity management and reporting, with specified norms for disclosures in October 2008. The implementation of capital to risk weighted asset ratio (CRAR) of 12 per cent by March 31, 2009 and 15 per cent by March 31, 2010 for these NBFCs was, however, deferred by one year, respectively, in view of the difficulty in raising equity capital in a market, which was depressed in the second half of the year in line with the sharp downward correction in asset prices globally. Taking into consideration the need for adequate access to funds for meeting business and regulatory requirements, NBFCs-ND-SI were permitted to issue perpetual debt instruments. To address problems of liquidity and ALM mismatch in the current economic scenario, the Reserve Bank permitted NBFCs-ND-SI to raise short term foreign currency borrowings under the approval route as a temporary measure, subject to certain conditions and also provided liquidity support to eligible NBFCs-ND-SI through a special purpose vehicle (SPV).

7.58 The sector's recourse to short term funds for funding their asset base is, however, a cause for concern. Borrowings accounts for about two-thirds of their funding requirements. The CFSA, 2009 has stated that given the funding requirements of NBFCs and their lack of access to low-cost deposits, there is a need to develop an active corporate bond market which could act as an alternate funding source.

Board for Financial Supervision (BFS): Initiatives

7.59 The Board for Financial Supervision (BFS), constituted in November 1994, has been mandated to ensure integrated oversight over the financial institutions that are under the purview of the Reserve Bank and remains the principal guiding force behind the Reserve Bank's supervisory and regulatory initiatives.

7.60 The BFS reviews the inspection findings in respect of commercial banks/UCBs as also periodic reports on critical areas of functioning of banks such as reconciliation of accounts, fraud monitoring, overseas operations and banks under monthly monitoring. In addition, the BFS also reviews the micro and macro prudential indicators, banking outlook and interest rate sensitivity analysis. It also issues a number of directions with a view to strengthening the overall functioning of individual banks and the banking system. The BFS held eight meetings during the period July 2008 to June 2009. In these meetings, it considered, *inter alia*, the performance and the financial position of banks and financial institutions during 2008-09. It reviewed 70 inspection reports (27 of public sector banks, 16 of private sector banks, 20 of foreign banks, 4 of local area banks and 3 of financial institutions). Some of the important issues deliberated upon by the BFS during 2008-09 are highlighted below:

- In the wake of the global financial crisis, the BFS was apprised of the minimal exposure of Indian banks to tainted assets and also the safeguards available within the Indian banking system on account of the regulatory measures initiated to strengthen the risk management and liquidity management systems of banks. The BFS was informed that an in-depth examination of investment portfolio of banks was being done as part of the Annual Financial Inspection (AFI). The BFS also enhanced its focus on monitoring the mark-to-market (MTM) losses in credit derivatives and other investment portfolios of overseas operations of banks in India on a monthly basis.
- In response to concerns in some quarters regarding risks associated with foreign exchange derivatives, detailed information was called for in structured formats by the Reserve Bank from certain select banks which were operating at the top-end of the system-level exposures. Based on a dialogue process with these banks regarding, *inter alia*, the 'suitability and appropriateness' principles and risk management policies, a comprehensive report was placed before the BFS.
- During the period under reference, the BFS issued several directions for enhancing the quality of regulation and supervision of financial institutions and some of the important directions were as follows: (i) need for evaluation by the Reserve Bank, for robustness and efficacy, of the statistical scoring and loss forecasting models deployed by banks for managing retail credit portfolios; (ii) fine-tuning and making more dynamic the process for selection of branches for the AFIs, by including additional parameters for branch-selection; (iii) prohibiting subsidiaries of banks from undertaking activities which the bank itself was not permitted to undertake as per the provisions of the Banking Regulation Act, 1949; (iv) submission of confirmation report and compliance certificate with regard to adherence to the Reserve Bank's guidelines on outsourcing arrangements entered into by banks; (v) sensitising the banks that the principles for sale/purchase of NPAs, issued in October 2007, were laid down as a broad criteria only to be adopted while entering into compromise settlements and not meant to be rigid or restrictive (hence, banks could enter into these settlements based on the circumstances/facts of each case and their

commercial judgement and should be able to justify the decision taken); and (vi) recording of intent of holding the investments, for a temporary period or otherwise, at the time of investment in a subsidiary, associate and joint venture, for the purpose of consolidation.

- The BFS also accorded its approval to certain important proposals aimed at enhancing the regulatory provisions/intent and supervisory focus. Some of them were as follows: (i) prescribing the extent of admissible liability towards Tier I and Tier II instruments in the scheme of merger/ amalgamation of banks as and when such cases arose; (ii) a one-time measure designed to help banks to clear their large number of small value outstanding nostro entries originated up to March 31, 2002 while concurrently directing the banks to concentrate on follow-up effort on the high value entries that were still outstanding and to leverage technology to avoid building up of unreconciled balances.

Committee on Financial Sector Assessment, 2009

7.61 The work on a comprehensive self-assessment of India's financial sector, particularly focussing on stability assessment, stress testing and compliance with all financial standards and codes started in September 2006 by the Committee on Financial Sector Assessment (CFSA). In March 2009, the Government and the Reserve Bank jointly released the Report of the CFSA. The CFSA followed a forward-looking and holistic approach to self-assessment, based on three mutually reinforcing pillars – financial stability assessment and stress testing; legal, infrastructural and market development issues and an assessment of the status of implementation of international financial standards and codes.

7.62 On the whole, the CFSA found that the Indian financial system was essentially sound and resilient and that systemic stability was by and large robust. India was broadly compliant with most of the standards and codes, though gaps were noted in the timely implementation of bankruptcy proceedings. The CFSA also carried out single-factor stress tests for credit and market risks, liquidity ratio and scenario analyses. These tests showed that there were no significant vulnerabilities in the banking system. Though NPAs could rise during the current economic slowdown, given the strength of the banks' balance sheets, the rise was not likely to pose any systemic risk.

7.63 The assessment made by the CFSA, 2009 in respect of banking sector in India is as follows:

(i) Commercial banks have shown a healthy growth rate and an improvement in performance as is evident from capital adequacy, asset quality, earnings and efficiency indicators. In spite of some reversals during the financial year 2008-09 (up to September 2008), the key financial indicators of the banking system do not throw up any major concern or vulnerability and the system remains resilient.

(ii) The Herfindahl-Hirschman Index for India (which was at 536 in 2008) indicates that the Indian banking sector is 'loosely concentrated'. A cross country comparison of the concentration index shows that India's position is comparable with those of the advanced economies, but shows a lower concentration than other emerging market economies.

(iii) The implementation of reforms has had an all round salutary impact on the financial health of the banking system, as evidenced by the significant improvements in a number of prudential parameters, like capital adequacy ratio, asset quality profitability, return on assets (RoA) and productivity of banks. Further, the Z-score (a higher Z-score implies a lower probability of insolvency risk and in this model, risk is summarised as the number of standard deviations an institution's earnings must drop below its expected value before equity capital is depleted) of commercial banks increased from 10.2 for period 1997-2006 to 13.2 for period 1999-2008 – an indication of increasing solvency. The level of capital ratio in the Indian banking system compares quite well with the banking system in many other countries – though the capital adequacy of some of the banks in the developed countries has remained under considerable strain in the recent past in the aftermath of the sub-prime crisis.

(iv) One area of concern has been that off-balance sheet (OBS) exposure has increased significantly in recent years, particularly in the case of foreign banks and new private sector banks. The notional principal amount of OBS exposure increased from Rs.8,42,000 crore at end-March 2002 to Rs.1,49,69,000 crore at end-March 2008[4]. The ratio of OBS exposure to total assets increased from 57 per cent at end-March 2002 to 204 per cent at end-March 2009. The spurt in OBS exposure is mainly on account of derivatives whose share averaged around 80 per cent. The derivatives portfolio has also undergone change with single currency IRS comprising 57 per cent of total portfolio at end- March 2008 from less than 15 per cent at end-March 2002. The exposure in the case of PSBs has shown an increase subsequent to the amendment in the SC(R) Act in 2003 allowing Over-The-Counter (OTC) transactions in interest rate derivatives. The stress testing carried out by CFSA is provided in Box VII.4.

7.64 Way forward, there is a need to undertake multi-factor stress testing as a tool for supplementing other risk management approaches. In addition, the sound principles of stress testing as recommended by BIS would need to be implemented (Box VII.3).

7.65 Among two areas of concern first is that there has been an increase in the dependence on bulk deposits to fund credit growth. This could have liquidity and profitability implications. An increase in growth in housing loans, real estate exposure as also infrastructure has resulted in elongation of the maturity profile of bank assets. Secondly, mark to market (MTM) losses for the banking system arising out of falling asset prices in the international markets exerted severe stress on the balance sheets of many international banks, on account of their significant exposure to such assets. Large off-balance sheet exposures magnified their stress levels further. In this context, it was felt necessary by the Reserve Bank to keep track of the quality of exposures of overseas operations of Indian banks for timely action and supervisory intervention, if required. Consequently, the Reserve Bank held discussions with select major banks with overseas operations to assess the quality of their overseas exposures. The assessment revealed that the banks did not have any direct exposure to the US sub-prime market. Some banks, however, had 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. Some of the banks, with exposures to credit derivatives, had to book MTM losses on account of widening of credit default swap (CDS) spreads. The assessment, however, showed that such exposures were not very significant, and banks had made adequate provisions to meet the MTM

[4] As per latest data, the OBS exposure of SCBs declined to Rs.1,06,71,961 crore at end-March 2009 from Rs. 1,44,98,587 crore on end-March 2008, partly reflecting implementation of appropriate prudential regulations by the Reserve Bank.

Box VII.4: Stress Testing by CFSA, 2009

As is well-known, the resilience of the financial system can be tested by subjecting the system to stress scenarios. Such tests are generally carried out with reference to a sudden shock and its instantaneous impact; in practice, when such shocks take place, banks get time to adapt and mitigate the impact. The CFSA, 2009 carried out single-factor stress tests for the commercial banking sector covering credit risk, market/interest rate risk and liquidity risk. They have revealed that the banking system can withstand significant shocks arising from large potential changes in credit quality, interest rate and liquidity conditions. These stress tests for credit, market and liquidity risk show that Indian banks are generally resilient.

- Credit risk: Stress testing for credit risk was carried out by increasing both the NPA levels and provisioning requirements for standard, substandard and doubtful assets. The analysis was carried out both at the aggregate level and individual bank level for end-March 2008 under three scenarios. Given the recent global financial developments and their likely impact on the Indian economy, the stress tests were further conducted for the end of September 2008. It may be noted that even under the worst case scenario, CRAR remained comfortably above the regulatory minimum (Table 1). Although credit risk was assessed as low, continuous monitoring is required to avoid any unforeseen and significant asset quality deterioration over the medium term.
- To test the banking system's resilience to market risk, interest rate risk stress tests were undertaken using both earnings at risk (EaR), as also the economic value perspective. In the EaR perspective, the focus of analysis is the impact of changes in interest rates on accrual or reported earnings. Applying the EaR approach, it was observed in March 2008 that for an increase in interest rates the net interest income (NII) increases for 45 banks, comprising 64 per cent of the banking assets. This is because, typically, the banks' balance sheets are asset sensitive, and an increase in interest rate raises the interest income relative to interest expenses.
- The banks have been actively managing their interest rate risk by reducing the duration of their portfolios. The duration of equity reduced from 14 years in March 2006 to around 8 years in March 2008 – a pointer to better interest rate risk management. Taking the impact based on the yield volatility estimated at 244 basis points (bps) for a one-year holding period showed, *ceteris paribus*, erosion of 19.5 per cent of capital and reserves. The CRAR would reduce from 13.0 per cent to 10.9 per cent for a 244 bps shock. The CRAR of 29 banks that account for 36 per cent of total assets would fall below the regulatory CRAR of 9 per cent. These results remained broadly robust for different plausible stress scenarios and assumptions. Carrying out similar tests using the September data also had not shown any added vulnerability to the banking system.
- Liquidity Risk: The importance of managing liquidity risk came to the fore during the recent turmoil, when inter-bank money markets became illiquid. Liquidity risk originates from the potential inability of a bank to generate liquidity to cope with demands entailing a decline in liabilities or an increase in assets. The management of liquidity risk is critical for banks to sustain depositors' confidence.
- Typically, banks can meet their liquidity needs by two methods: stored liquidity and purchased liquidity. Stored liquidity uses on-balance sheet liquid assets and a well-crafted deposit structure to provide all funding needs. Purchased liquidity uses non-core liabilities and borrowings to meet funding needs. While dependence on stored liquidity is considered to be safer from the liquidity risk perspective, it has cost implications. A balanced approach to liquidity strategy in terms of dependence on stored and purchased liquidity is the most cost-effective and optimal risk strategy.
- To assess the banking sector's funding strategy and the consequent liquidity risk, a set of liquidity ratios were developed and analysed in detail. The analysis of this set of liquidity ratios revealed that there is growing dependence on purchased liquidity and also an increase in the illiquid component in banks' balance sheets with greater reliance on volatile liabilities, like bulk deposits to fund asset growth. Simultaneously, there has been a shortening of residual maturities, leading to a higher asset-liability mismatch.
- The CSFA Report emphasised the need to strengthen liquidity management in this context as also to shore up the core deposit base and to keep an adequate cushion of liquid assets to meet unforeseen contingencies. It may also be worth considering a specific regulatory capital charge if the bank's dependence on purchased liquidity exceeded a defined threshold. There is also a need for the banks and the Reserve Bank to carry out periodic stress and scenario testing to assess the resilience to liquidity shocks in the case of some big banks, which have systemic linkages. This could then be extended to other banks.

Table 1: Stress Tests of Credit Risk - Scenarios and Results with Reference to September 30, 2008

	Without stress	Scenario I - Increase in NPAs								Scenario II		Scenario III	
		25 per cent		50 per cent		100 per cent		150 per cent					
1	2	3	4	5	6	6	7	8	9	10	11	12	13
All Banks	12.5	11.8	4	11.6	4	11.1	8	10.6	12	11.2	12	12.0	2
Nationalised	12.0	11.2	2	11.0	2	10.5	4	9.9	6	10.2	5	11.5	1
SBI Group	12.1	11.1	0	10.8	0	10.3	0	9.7	2	10.6	2	11.4	0
New Private	139	13.5	0	13.3	0	12.8	1	12.4	1	13.4	1	13.7	0
Old Private	14.1	13.3	1	13.0	1	12.4	2	11.8	2	12.4	2	13.6	1
Foreign	12.2	12.0	1	11.9	1	11.8	1	11.6	1	11.5	2	12.1	0

* : Number of banks whose CRAR would fall below 9 per cent due to the stock.
Source: CFSA, 2009.

losses on such exposures. Besides, the banks also maintained high levels of capital adequacy ratio. The Reserve Bank's assessment suggested that, the risks to the banking sector associated with MTM losses, appeared to be limited and manageable. Accordingly, a monthly reporting system was introduced in September 2007 capturing Indian banks' overseas exposure to credit derivatives and investments such as Asset Backed Commercial Papers (ABCP) and Mortgage Backed Securities (MBS). An analysis of the information so collected reveals that the exposures of Indian banks through their overseas branches in credit derivatives and other investments are gradually coming down from the June 2008 level. Their MTM losses, however, gradually increased up to March 2009, reflecting the impact of the sustained fall in the value of the assets in their portfolios.

7.66 Apart from the above direct impact of the global financial crisis through MTM losses which was assessed to be insignificant for Indian banks, another area of focus was the possible asset quality concerns arising from weakening growth prospects as certain sectors in the economy clearly came under the influence of falling external demand due to the global recession and subsequent deceleration in domestic private demand. The asset quality of banks' exposures to the sectors perceived to be under stress became a matter of supervisory concern. A credit risk stress test of banks' exposure to seven such sectors (chemicals/dyes/paints, leather and leather products, gems and jewellery, construction, automobiles, iron and steel and textiles), accounting for 15.4 per cent of gross advances and 12.2 per cent of gross NPAs, was carried out to assess the impact on banks' capital adequacy due to an assumed rise in NPAs. The stress tests were run under two scenarios, *viz.*, 300 per cent and 400 per cent increases in NPAs in the seven sectors simultaneously. The additional provisioning requirements, assuming the rise in NPAs were adjusted from existing regulatory capital and risk-weighted assets, were estimated to arrive at the adjusted capital adequacy. The results of the stress tests revealed the inherent strength of the banks to withstand sizeable deterioration in asset quality in the identified sectors. The capital adequacy ratio of only two banks accounting for around 3 per cent of total assets of the banking system was assessed to drop below the prescribed minimum level under both the stress scenarios.

7.67 The assessment of MTM losses and stress test results, thus, further validated the resilience of the Indian banking system to the shocks and concerns emanating from the global economic crisis.

7.68 To sum up, the resilience of the Indian financial sector in the face of the unprecedented global financial crisis to a large extent reflected the soundness of the Reserve Bank's regulatory and supervisory policies and the country's approach to financial reforms to support economic growth and development. The Reserve Bank's regulatory and supervisory initiatives during 2008-09 included changes in prudential regulations and measures to improve customer services, promote financial inclusion and strengthen anti-money laundering in the banking sector. Prudential regulations, which were earlier stepped up during the economic boom phase through counter-cyclical use of risk weights and provisioning on standard assets were brought down to the normal levels to create enabling conditions for preventing sharp moderation in credit growth during the economic slowdown. Initiatives were also taken for meeting country-specific requirements in convergence with international best practices; strengthening the supervisory framework in terms of cross-border supervision; risk-based supervision and bank-led conglomerates; and strengthening the off-site monitoring system further for surveillance over bank's credit portfolios.

6. Domestic Financial Markets

7.69 As much as deep and efficient financial markets are essential for realising the growth potential of an economy, disorderly financial markets could be a source of risk to both financial institutions and the real economy. The contagion from the global crisis operating through the trade, capital flows and confidence channels created pressures and enhanced volatility in the financial markets of India, in particular the foreign exchange market, the capital market and the money market. The main impact of the unfolding global financial crisis on the Indian financial markets was in the form of reduction in net capital inflows and significant correction in the domestic stock markets on the back of sell-off in the equity market by the foreign institutional investors (FIIs).

7.70 The Reserve Bank responded to the effects of the contagion in several ways. The additional liquidity that was made available amounted to Rs.5,61,700 crore since mid-September 2008 (also see Chapter III). Reflecting the impact of the measures taken by the Reserve Bank, the call rate in the money market settled back into the informal LAF corridor starting November 2008, having breached the upper bound on many days in the preceding two months. In the foreign exchange market, the Indian rupee generally depreciated against major currencies up to the end of the financial year, before appreciating in the first quarter of 2009-10. In the credit market, the lending rates of scheduled commercial banks (SCBs) began to soften at a gradual pace from November 2008. The 10-year benchmark Government securities yield also softened from the October 2008 levels by the end of the year, reflecting the easing liquidity conditions. The Government securities market was, however, bearish for most of the fourth quarter of 2008-09. Yields, particularly in the medium to long-term maturity, strengthened on account of the worsening of market sentiment following the upsurge in Government's market borrowing 2008-09 as well as the large market borrowing requirement of the Government for 2009-10. Indian equity markets, picking up global cues, staged some recovery in the last week of March 2009, which continued in Q1 of 2009-10 and thereafter.

Money Market

7.71 Reflecting the tight liquidity conditions, the call money rate moved above the repo rate during the second half of September 2008. The pressure on money markets continued to prevail in the beginning of the third quarter of 2008-09, partly on account of the foreign exchange operations of the Reserve Bank undertaken to contain excess volatility. Consequently, the call rate continued to remain above the informal corridor in the first half of October 2008 and reached an intra-year peak of 19.7 per cent on October 10, 2008. Reflective of the impact of the measures taken by the Reserve Bank, the call rate in the money market which had breached the upper bound in September-October 2008 settled back into the informal LAF corridor starting November 2008. The call money rate declined further from the beginning of the first quarter of 2009-10 mainly due to significant easing of liquidity conditions on account of Government expenditure, MSS unwinding and open market operations as well as reduction in the LAF policy rates by 25 basis points. The average daily call rate was at 3.22 per cent in the first quarter of 2009-10 as compared with 4.17 per cent during the last quarter of 2008-09. The call rate continued to hover around the lower bound of the LAF corridor in the current financial year so far (Chart VII.1).

7.72 At present, the collateralised market is the predominant segment of the money market, accounting for more than 75 per cent of the total volume during 2008-09. 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. In both the CBLO and market repo segments, mutual funds remained the major

Chart VII.1: Interest Rates in Money Market

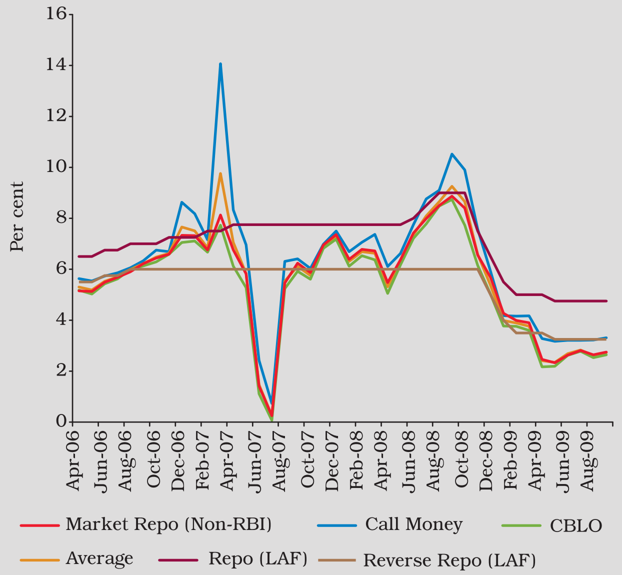
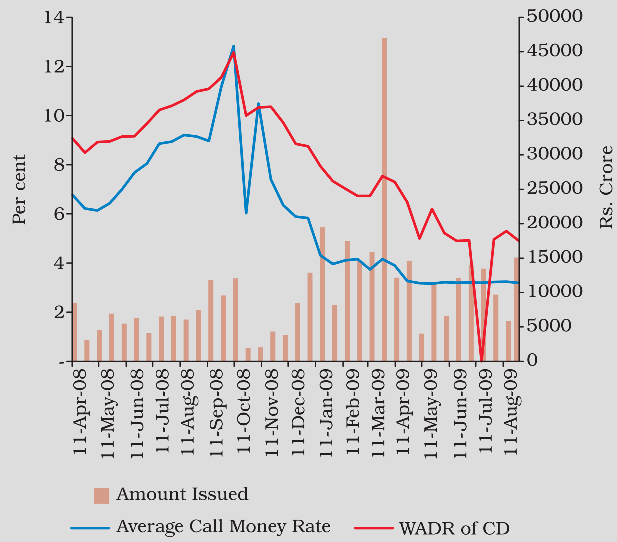


Chart VII.2: Movement of WADR of CDs and Average Call Money Rate



lenders, while commercial banks and primary dealers were the major borrowers.

7.73 The CDs issuances slowed down after mid-October 2008 following the knock-on effect of the global financial crisis on the Indian financial sector, but picked up again from mid–December 2008 following the easing of liquidity conditions. The Weighted Average Discount Rate (WADR) of CDs has generally moved in tandem with the call money rate. In 2008-09, the WADR increased continuously and reached the peak of 12.6 per cent on October 10, 2008 in the midst of turmoil in the international financial markets. It declined subsequently with the improvement in liquidity conditions following the initiation of various monetary measures by the Reserve Bank, and was placed at 7.53 per cent at end-March 2009.

7.74 The average fortnightly issuance of CDs during the current fiscal year so far was placed at around Rs.10,800 crore as compared with Rs.5,900 crore in the corresponding period of the previous year. The WADR has declined during the current financial year so far, and was placed at 4.9 per cent at end-August 2009 as compared with 10.98 per cent in the corresponding period of the previous year (Chart VII.2).

7.75 After September 2008, the incremental issuance of CP slowed down till mid-December 2008 mainly reflecting the redemption pressure faced by MFs during the financial turmoil .The issuance of CP picked up during second half of December 2008 and January 2009, as liquidity conditions eased. The WADR of CPs had increased steadily up to 14.17 per cent on October 31,2008, and subsequently moved downwards to 9.78 per cent in mid-March 2009, with the easing of liquidity conditions. The average fortnightly issuance of CPs during 2009-10 so far is placed at Rs.7,500 crore as compared with Rs.5,400 crore in the corresponding period of the previous year. The WADR has also declined in the current financial year so far to 5.0 per cent as at end-August 2009 as compared with 11.5 per cent in the corresponding period of the previous year.

Volatility in the Uncollateralized Inter-bank Money Market

7.76 As evident from the previous paragraphs, the knock-on effects of the global financial crisis adversely and abruptly impacted the volumes and rates in the domestic money market. The impact was, however, short-lived not only because Indian banks and financial institutions did not have any direct exposure to the failing financial institutions and troubled assets but also because swift policy initiatives by the Indian authorities, through both conventional and unconventional routes, were effective in restraining undue volatility in the rates and quickly restoring normalcy in the domestic money market. The Indian experience assumes significance as sudden upsurges in the volatility of financial market prices (as opposed to a sustained high level of volatility) are generally perceived to jeopardize financial system stability *i.e.* result in severe market/institutional disruptions that can potentially reduce real activity, as was evident in many advanced economies.

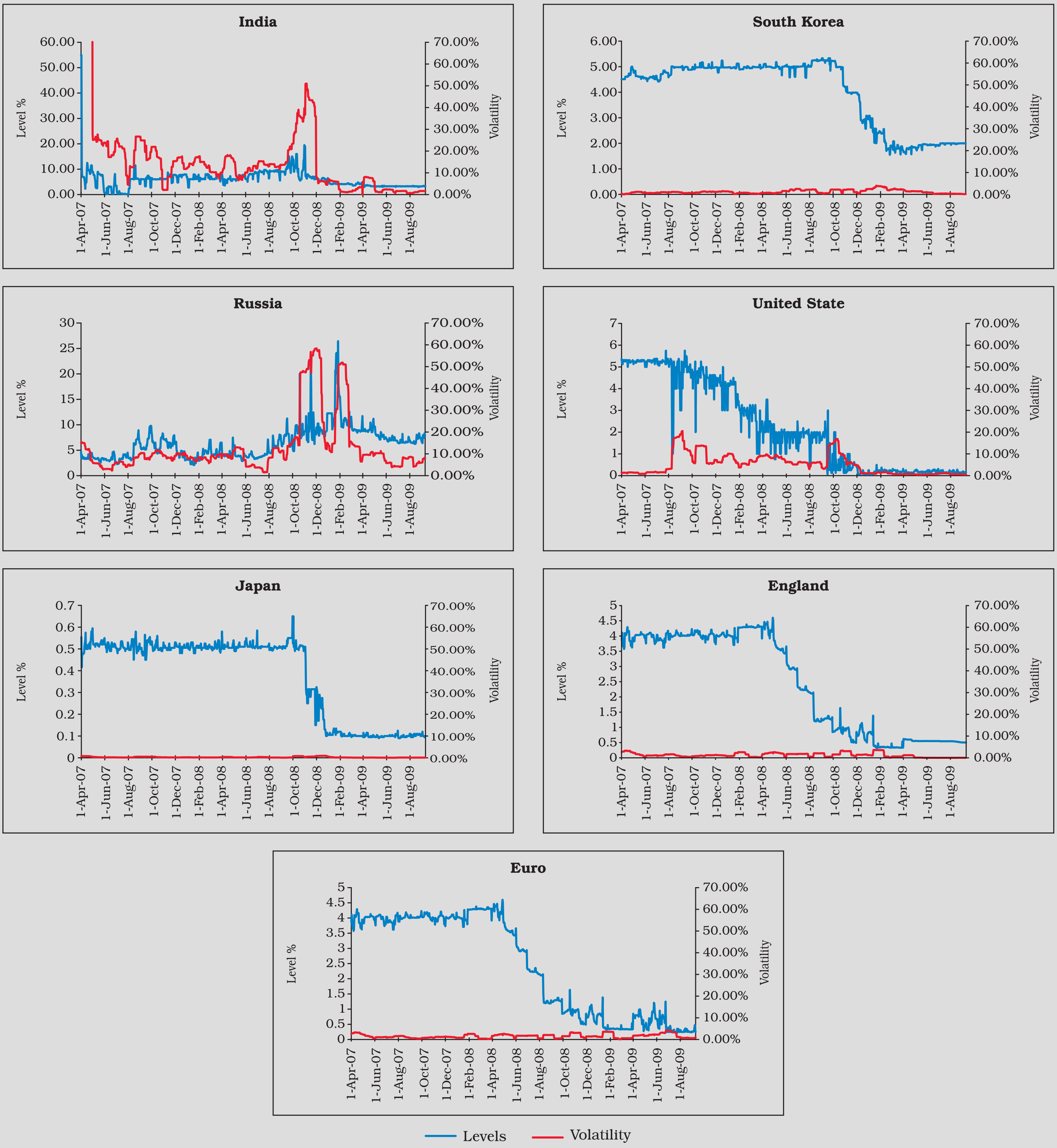
7.77 Against this backdrop, the trend in the volatility of the uncollateralized inter-bank money market rate in India is juxtaposed against those in select advanced and emerging market countries *viz.*; United States of America (USD), Euro zone (Euro), England (GBP), Japan (JPY), Russia (RUB), and South Korea (KWN). The period under consideration is April 1, 2007 to March 31, 2009 which would help in gauging the trends in the volatility prior to the outbreak of the recent global financial crisis, as well as the changes in the volatility during and some months after the crisis. A similar analysis would be undertaken in respect of the volatilities in (a) the spot currency rates in the foreign exchange market and (b) the yields in Government securities market in the subsequent sections of this Chapter. Volatility in this analysis refers to the annualised standard deviation of daily returns. The standard deviation of daily returns is, in turn, calculated from a moving window of a 30-data holding period *viz.*, the closing levels of each of the previous 30 calendar days. While the absolute change in daily returns is taken into consideration to calculate the volatility of interest rates (*i.e.* uncollateralised inter-bank money market and yields in the Government securities market), *lognormal* daily returns are used to obtain the volatility of exchange rates, in line with standard practices. The interest rates and exchange rates used in the analysis reflect the impact of policy interventions.

7.78 It is evident from Chart VII.3 that the volatility in the inter-bank uncollateralised money market in India has generally remained higher than that in other countries, both before as well as after the outbreak of the recent global financial crisis. Nevertheless, the spurt in volatility in the Indian inter-bank uncollateralised rate was only for a brief period (in September-October 2008) and it declined within a short time span to levels even below those in the pre-crisis phase, reflecting the impact of deft liquidity management and other policy actions. A spike in volatility in interbank rates is also noticeable in the US; in fact, a regime-shift in volatility is evident following the sharp cuts in the Fed Funds Target Rate. The volatility in the inter-bank uncollateralised money market in the UK and South Korea also increased in the context of the global financial crisis, but to levels much lower than those in India and the US. On the other hand, Japan and Russia showed only a marginal and short-lived increase in volatility.

Interest Rate Futures

7.79 With a view to developing a robust interest rate futures (IRF) market, the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Market (TAC) of the Reserve Bank had, in August 2007, constituted a Working Group on Interest Rate Futures (Chairman: Shri V.K. Sharma) following an announcement in the Annual Policy for the year 2007-08. The TAC report on Interest Rate Futures was released in August 2008. The Working Group had recommended, *inter alia,* the introduction of a physically settled contract based on a 10-year notional coupon bearing government bond along with regulatory changes such as extension of the tenor of short selling so as to be co-terminous with the IRF contracts,

Chart VII.3: Trend and Volatility of Overnight interbank market



synchronous review of the dispensation to hold entire SLR securities in the HTM portfolio, allowing banks to take trading positions, symmetrical accounting standards for IRFs and underlying GoI securities as well as interest rate swaps, etc. The RBI-SEBI Standing Technical Committee was entrusted with the work relating to the operationalisation of the recommendations of the TAC Report. The Committee submitted its report in May 2009, which recommended introduction of a physically settled IRF contract on a notional coupon bearing 10-year government bond and dealt with issues relating to product specification and risk management measures at the exchange level. Meanwhile, in October, 2008, RBI had allowed the banks to take trading position in IRF. IRF contract on a 7 per cent (notional) coupon bearing 10-year government bond, initially for December 2009 and March 2010 delivery was launched on August 31, 2009 in the currency futures segment of the National Stock Exchange. The contract, upon maturity, shall be settled by physical delivery of one of the deliverable government bonds at the option of the seller of the contract. As on October 9, 2009, the total open interest was Rs 109.80 crore. On that day, the implied repo rate of the cheapest to deliver (CTD) security (7.94% GS 2021) was 1.54 per cent and for the 10-year benchmark security (6.90% GS 2019) was (-) 14.39 per cent. The corresponding figures for arbitrage free yield for these two securities were 8.01 per cent and 7.48 per cent, respectively.

Interest Rate Swaps

7.80 While the swap market, especially the overnight index swaps (OIS) market, has been very active in India and used by banks as well as other entities to manage their interest rate risk more than any other instrument, the absence of a term money market and therefore 3-or 6 months benchmark rates has led to entire market concentration on the overnight benchmark. The notional principal outstanding for commercial banks in respect of Interest rate swaps had increased from Rs. 10,81,867 crore as on March 31, 2005 to Rs. 80,18,647 crore as on March 31, 2008.

7.81 Inadequate transparency in this over-the-counter market had prompted the Reserve Bank to introduce a reporting mechanism from August 2007 to capture the inter-bank trades. With a view to further strengthening the reporting mechanism, the Reserve Bank has advised all SCBs and PDs to report client level transactions as well at weekly intervals effective from week ending October 16, 2009.

Foreign Exchange Market

7.82 For dealing with the excess demand conditions in the foreign exchange market, a number of measures were initiated to ease the supply situation by partly assuring greater access to the Reserve Bank's foreign reserves and partly by improving the inflows in response to specific measures. Besides the actual intervention sales in the foreign exchange market, the Reserve Bank also opened the forex swap facility for the banks. To ease the demand pressure from oil importing companies during the high and rising phase of international prices, the Reserve Bank had operated special market operations in the secondary market through commercial banks involving direct supply of forex liquidity against the oil bonds of the public sector oil marketing companies. The policy measures that aimed at improving the supply of forex liquidity included permitting banks to borrow from their overseas branches within prudential limits, relaxing further the ECB policy, including allowing NBFCs and housing finance companies to borrow in foreign currency, and raising the interest rates on NRI deposits. Notwithstanding the demand pressure in the forex market, in view of depressed international asset prices, the corporates were permitted to prematurely buy back their FCCBs at prevailing discounted rates (Also see Chapter III).

7.83 The Indian rupee exhibited greater two-way movements during 2008-09, moving between Rs. 39.9 and Rs. 52.1 per US dollar. The rupee generally depreciated during the first half of 2008-09, reflecting FIIs outflows, bearish stock market conditions, high inflation and higher crude oil prices indicating higher demand for dollars. With the intensifying external shocks, it depreciated sharply thereafter breaching the level of Rs.50 per dollar on October 27, 2008. The rupee closed the year at 50.9 per US dollar.

7.84 The rupee generally appreciated against the US dollar during 2009-10 so far on the back of significant turnaround in FII inflows, continued inflows under FDI and NRI deposits, better than expected macroeconomic performance in Q4 of 2008-09 and weakening of the US dollar in the international markets. Additionally, the outcome of the general elections, which generated expectations of political stability, buoyed the market sentiment and contributed towards the strengthening of the rupee, especially in the second half of May 2009. As a result, during 2009-10 so far (up to October 1, 2009), the rupee appreciated by 6.4 per cent against the US dollar (Chart VII.4).

Chart VII.4: Exchange Rate – Rupee *vis-a-vis* US Dollar

Volatility in Foreign Exchange Market

7.85 Similar to the analysis on volatility in the uncollateralised inter-bank money market rates, the volatility in the spot exchange rates of different currencies *vis-à-vis* USD has been worked out and juxtaposed along with the level of the exchange rates (Chart VII.5). It is evident that the flight to safety into US dollar and Japanese yen, triggered by the financial crisis led to the strengthening of these two currencies. This period also witnessed an increase in volatilities. It is significant to note that in despite weakening trend of the Indian Rupee against US dollar, the volatility in the USD/INR exchange rate was relatively lower than that in other currency pairs.

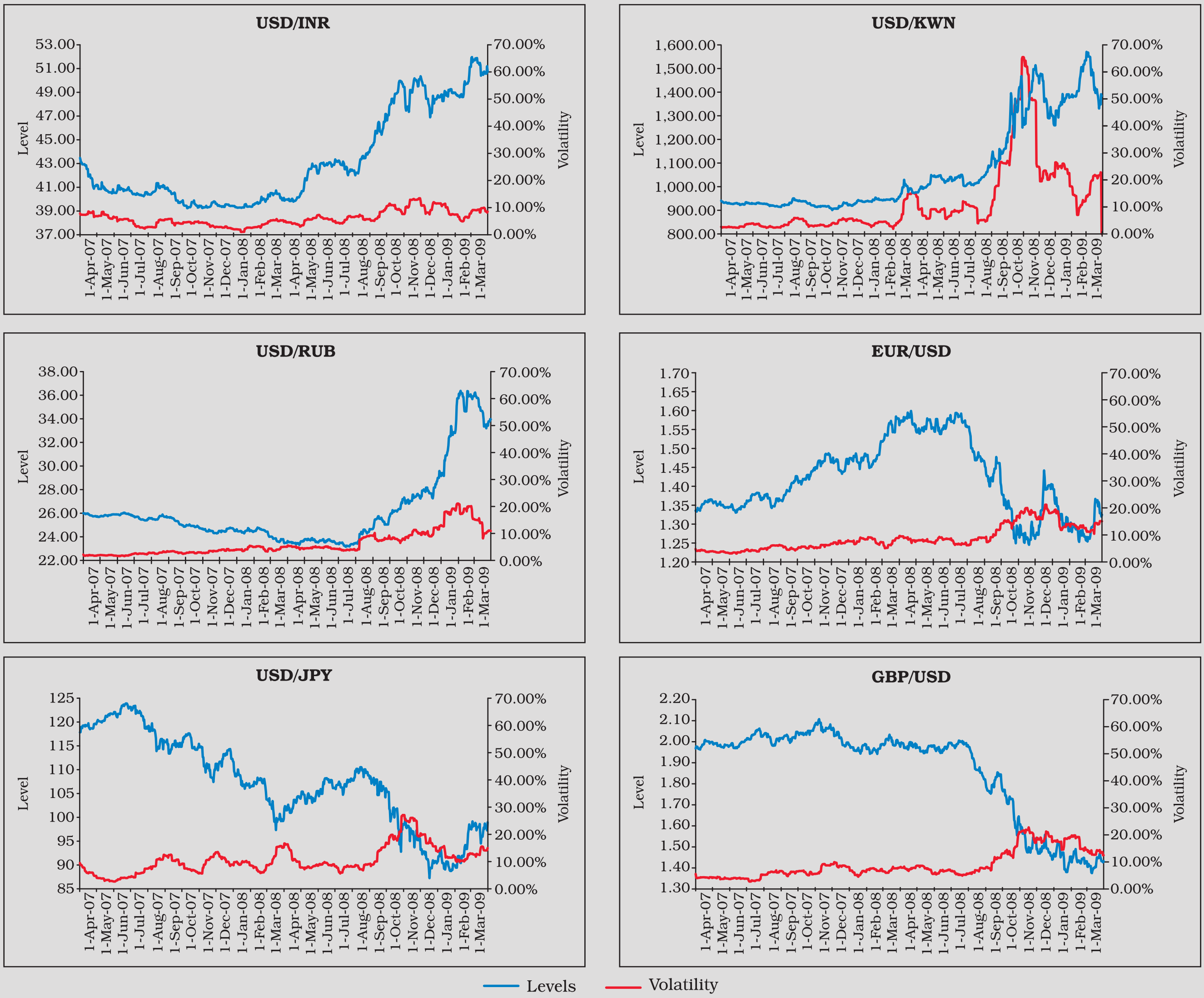
Government Securities Market

7.86 The movement in the 10-year Government security yield since April 2008 can be categorised into three broad phases. During the first phase, *i.e.*, April to around mid-July 2008, the 10-year yield hardened on heightened inflationary expectations emanating from the sharp increase in global commodity prices and concomitant increases in domestic policy rates[5], and reached a high of 9.51 per cent on July 15, 2009. During the second phase (mid-July to end-December 2008), the 10-year yield generally eased following the reduction in inflationary pressures tracking softening crude oil prices, easing of domestic liquidity conditions and decline in domestic policy rates in response to the indirect impact of the global financial turmoil (from mid-September 2008) and monetary policy easing in the US[6]. The 10-year yield stood at 5.31 per cent as at end-December 2008 as compared with 8.63 per cent as at end-

[5] The cash reserve ratio was increased by 25 bps on August 30, 2008 to 7.25 per cent and LAF repo rate was increased by 50 bps to 7.5 per cent on July 29, 2008.

[6] The cash reserve ratio was decreased by 150 bps on October 11, 2008 to 5.5 per cent. The US Fed funds target rate, was reduced to 1.50% by 50 bps on October 8, 2008 and 50 bps on October 29, 2008 and further by 75 bps to a range between 0 to 0.25% on December 16, 2008.

Chart VII.5: Trend and Volatility of Currencies



September 2008 and 7.93 per cent as at end-March 2008. During the third phase (January to July 2009), the 10-year yield generally hardened (barring some brief interludes in February and April), notwithstanding the continued prevalence of easy liquidity conditions and further reduction in the domestic policy rates[7] in January 2009 and March 2009. This was largely on account of the worsening of market sentiment following the upsurge in the Government's market borrowing programme for 2008-09 as well as the large market borrowing requirement of the Government for 2009-10. The initiation of a series of auction-based purchases of Government dated securities by the Reserve Bank in February 2009 in addition to its purchases through the NDS-OM, however,

[7] The Cash reserve ratio was decreased by 50 bps on January 17, 2009 to 5 per cent. The LAF repo rate and reverse repo were reduced by 100 bps each to 6.5 percent and 4 per cent respectively on January 2, 2009.

helped to restrain the increase in the G-Sec yields. The 10-year yield was placed at 7.15 per cent as on end-July 2009 as compared with that of 7.01 as on end-March 2009 (Table VII.2).

Volatility in Government Securities Markets

7.87 The 10-year local currency generic Government bond rate has been used to calculate the volatility in the Government securities market (Chart VII.6). In the case of the Euro zone, the 10- year generic yield is based on the yields of the underlying country- specific security predominantly being Germany and France. It is evident that Government yields declined sharply some time after the outbreak of the global financial crisis, exhibiting the impact of the measures to enhance systemic liquidity, but then increased somewhat, reflecting the increase supply of securities induced by the imperative of financing fiscal stimulus measures. The volatility in the Government securities market increased sharply in all countries, except in the case of Japan. Furthermore, the volatility in the Government securities market in India was higher than that of other countries except Russia.

Credit Market

7.88 As indicated in Chapter IV, bank deposit and lending rates, which hardened up to October 2008, started easing somewhat from November 2008, reflecting measures taken by the Reserve Bank with a view to containing the spillovers of the global financial crisis on the domestic credit markets. Interest rates offered by PSBs on deposits of all maturities eased moderately between March 2008 and March 2009, while those of private sector banks on deposits of one year to three years firmed up. The actual lending rates, other than export credit on demand and term loans for the SCBs,

Table VII.2: Structure of Interest Rates*

(Per cent)

Instrument	As at End of			
	March 2007	March 2008	March 2009	July 2009
1	2	3	4	5
I. Debt market				
1. Government Securities Market				
5 –Year	7.97	7.70	6.75	6.72
10 –Year	7.97	7.93	7.01	7.15
II. Money Markets				
2. Call Borrowing (Average)	14.07	7.37	4.17	3.21
3. Commercial papers				
WADR 61 - 90 days	11.65	10.79	9.87	3.67 @
WADR 91-180 days	11.81	10.01	9.47	4.06 @
Range	10.25-13.00	9.50-14.25	6.40-12.50	3.04-8.85 @
4. Certificates of deposit				
Range	10.23-11.90	9.00-10.75	6.00-11.50	
WADR Overall	10.75	10.00	7.53	4.98 *
3 Months	11.35	10.73	7.04	4.82 *
12 Months	10.59	9.97	7.82	5.36 *
5. Treasury Bills				
91 days	7.98	7.36	4.92$	3.23 $
364 days	7.98	7.35	5.50$	3.80 $

WADR : Weighted Average Discount Rate.
* : Data pertaining to the fortnight ended July 17, 2009
@ : As on fortnight ended July 15, 2009.
$: Data pertain to last auctions of the respective months.

Chart VII.6: Trend and Volatility of 10-yr yield point on the Government Bond Yield Curve

increased between March 2008 and December 2008. This complicated the transmission mechanism in the face of falling policy rates and declining inflation. Although the policy rates have been substantially eased since early October 2008, significant rigidity has been witnessed in banks' deposit and lending rates, which continue to be high despite some moderation in the past few months. This rigidity could be attributed to a number of factors. First, the interest rate on small savings continues to be administered and a reduction in interest rates on bank deposits could make bank deposits relatively unattractive, which could lead to some deceleration of growth in bank deposits, as was witnessed in the past. Second, while interest rates on incremental time deposits are coming down, the average cost of deposits still remains high as the bulk of banks' time deposits raised in the past continue to be at higher interest rates. This, in turn, constrains an immediate substantial reduction in lending rates. Third, with increase in risk aversion, lending rates tend to be high even during periods of falling credit demand. In 2009-10 so far, the reduction in the deposit and lending rates was somewhat more pronounced as the liquidity conditions remained easy and risks seemed to have abated and the impact of policy easing appeared to have worked through. There has been a reduction in the term deposit rates and the BPLRs across bank groups. The weighted average lending rate increased from 11.9 per cent in 2006-07 to 12.3 per cent in 2007-08, but is estimated to have declined to 11.1 per cent by March 2009. The effective lending rate is expected to have declined further in 2009-10 so far.

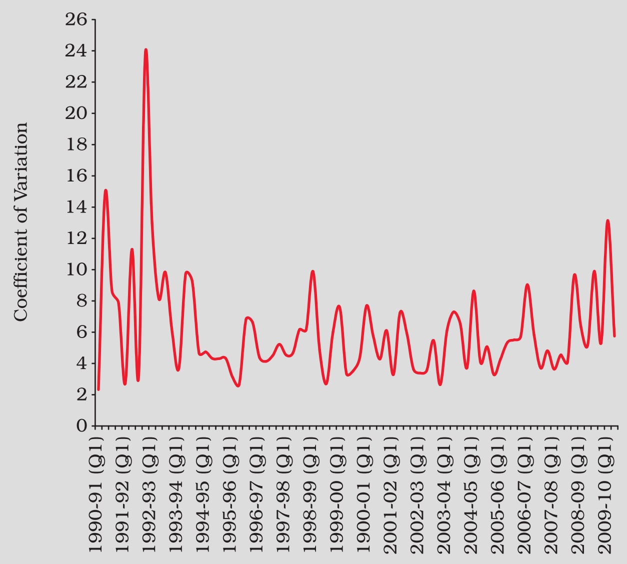
Capital Markets

7.89 With the growing integration of the Indian stock market due to higher trade and investment linkages with the international equity markets and the dynamic linkages of equity markets with money markets, credit markets and forex markets, the initial spillovers of the global financial turmoil on the Indian economy were felt on the BSE Sensex and S&P CNX Nifty. The integration appears to be higher with emerging markets than developed markets as reflected in higher correlations of the BSE Sensex with MSCI (Emerging) at 0.63 during 2008-09 as compared to 0.13 and 0.37 with Dow Jones and FTSE, respectively during the same period.

7.90 The global stock market crash was widespread as the stock prices in almost all countries around the world witnessed substantial correction, notwithstanding the differences across countries in terms of fundamentals and the extent of impact of the financial crisis on the real economies. Many EMEs became part of the global asset price bubble, as the turmoil in the advanced countries became widespread. The Indian equity markets largely remained weak and volatile during 2008-09 in line with the decline in international equity markets due to concerns over continued uncertainty in the global financial markets.

7.91 The BSE Sensex fell to new low at 8,106 on March 9, 2009, a decline of 60.9 per cent over the peak (as on January 8, 2008). During 2008-09, the BSE Sensex and S&P CNX Nifty decreased by 37.9 per cent and 36.2 per cent, respectively. The market capitalisation fell further to Rs. 30,86,076 crore in March 2009, a decrease of 39.9 per cent over the previous year. PE ratio stood at 13.7 as on end-March 2009, a decline of 31.8 per cent over the end March 2008. The volatility of the BSE Sensex (coefficient of variation) increased during 2008-09 to 24.2 from 13.7 in 2007-08 (Chart VII.7).

Chart VII.7: Quarterly Co-efficient of Variation of BSE Sensex



7.92 The losses suffered in the domestic stock market during 2008-09 were spread across stocks in all sectors. Metal consumer durables, capital goods and banking sector indices suffered higher losses than the average BSE Sensex during 2008-09, while information technology, auto, oil and gas, public sector units, healthcare and fast moving consumer goods sectoral indices posted relatively lower losses. The higher losses encountered by the former group of sectors of BSE Sensex perhaps revealed the greater sensitivity of these sectors to economic slowdown and the impact of the global financial crisis. The BSE mid-cap and BSE small-cap recorded higher losses during 2008-09, which could be partly because of the greater impact of credit squeeze on these categories of companies and also the greater impact of export slowdown on small and medium sized companies.

7.93 As a part of the global deleveraging process and general increase in risk aversion towards EMEs, the FIIs withdrew large amount of their investments from the Indian market. According to the data released by the SEBI, FIIs made swift reversals from large net purchases in the Indian equity market during 2007-08 to large net sales during 2008-09. Investments by mutual funds in equities also declined during 2008-09, whereas their investments in debt increased, reflecting the lesser risk involved in Government debt.

7.94 During the first quarter of 2009-10, the domestic stock markets witnessed a recovery commensurate with international stock markets and the rate of recovery turned sharper since the announcement of the general election results. The upward trend could be attributed to a number of positive developments such as reduction in policy rates in April 2009, positive results for Q4 of 2008-09 by some Indian banks and corporates, greater political stability in the post-election period and expectations of a larger stimulus in the Union Budget for 2009-10 and resumption of FIIs' interest in the domestic equity market. The BSE Sensex and the S&P CNX Nifty as on October 06, 2009, showed gains of 74.7 per cent and 66.4 per cent, respectively, over end-March 2009. Activity in the Wholesale Debt Market segment of the NSE improved in 2008-09 with the turnover increasing by 19.0 per cent.

7.95 The capital flight that ensued in the wake of the crisis deprived Indian equity markets of FII investments to the tune of around Rs.48,249 crore (US$ 10,439 million) during 2008-09. During the month of September to November 2008, FIIs withdrew around Rs.25,548 crore (US$ 5,344 million). FII outflow raised serious concerns about the quality of such inflows, thereby further downplaying the market sentiment. The integration of the Indian stock markets with the global stock markets was higher (correlation of the BSE Sensex with MSCI world index at 0.78) than the integration of BSE Bankex with MSCI world bank index (0.62). This demonstrates the soundness of the Indian banking scrips which to some extent are insulated from the volatility of the international banking equity prices (Box VII.5).

Mutual Funds

7.96 As a consequence of the global liquidity squeeze, corporates withdrew their investments from domestic money market mutual funds, putting redemption pressure on the mutual funds. A substantial proportion of collections of mutual funds reflected bulk funds from the corporate sector under the money market schemes, partly reflecting tax and other regulatory arbitrage. While the mutual funds promised immediate redemption, their assets were relatively illiquid. Maturity mismatches between assets and liabilities of mutual funds further aggravated the problems.

7.97 During 2008-09, net resource mobilisation by mutual funds turned negative; there was a net outflow of Rs.28,297 crore during the year as compared to a net inflow of

Box VII.5: Inter-linkages between the Capital Market and the Banking Scrips

The beginning of the current financial crisis may be traced to gradual unravelling of the US sub-prime mortgage crisis around middle of 2007. The international equity market (as reflected in MSCI world index) started to decline from August 2007. The international banking stock index (measured through MSCI world bank index) was under-performing the overall stock index up to July 2007(Chart 1). The spread between the world index and the world bank index started widening since August 2008 as international banks suffered from tighter credit markets and as further write-downs related to subprime mortgage losses continued to weigh on the financial services sector. The collapse of some major international banks added to investors concerns about the stability of the banking sector in developed countries. Perceptions of banks riskiness clearly increased over the course of the financial crisis as demonstrated by the continuous slide in international banking stock index as well as the widening of the credit default swap premia. A marked decline in the stock market performance of banks and finance companies relative to the overall stock market index continued till mid-March 2009 reflecting apprehension that banks might incur substantial losses in the crisis aftermath. The international equity market staged a recovery, thereafter due to the large scale bail-out packages and accommodative measures taken by policy authorities. International banking equity prices has mirrored the rebound in international equity index during 2009-10, so far. The world bank index continued to under-perform the world index throughout the period till end-August 2008. The BSE index has, on the other hand, over-performed the BSE Sensex except during the period from end-May 2008 to end-August 2008 and from mid-February 2009 to end-April 2009. The close integration between global equity index and international banking index is reflected in the strong correlation between MSCI world index and MSCI world bank index (0.98), which is a shade higher than the correlation observed between BSE Sensex and BSE Bankex (0.96)(chart 2).

The integration of the Indian stock markets with the global stock markets was higher (correlation of the BSE Sensex with MSCI world index at 0.78) than the integration of BSE Bankex with MSCI world bank index (0.62). This demonstrates the soundness of the Indian banking scrips which to some extent are insulated from the volatility of the international banking equity prices.

Chart 1: Movements in MSCI World and Banking
(normalised to April 2007)

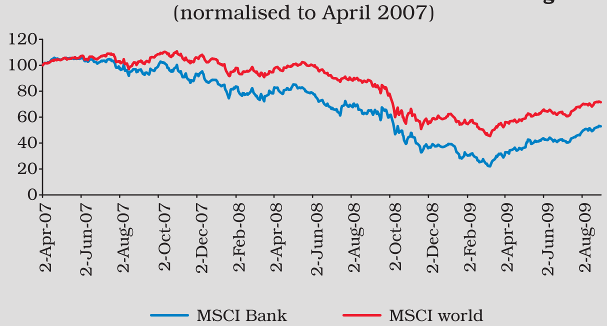
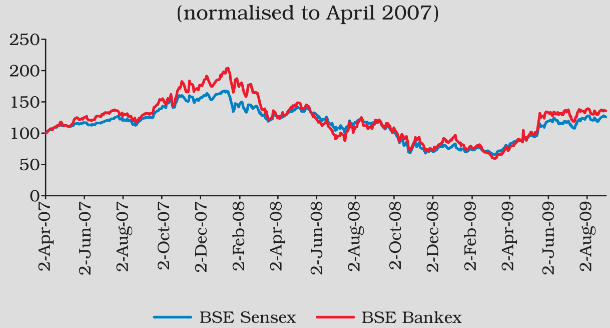


Chart 2: Movements in BSE Sensex and Bankex
(normalised to April 2007)



Rs.1,53,801 crore during 2007-08. Net assets managed by mutual funds also declined by 17.4 per cent to Rs. 4,17,299 crore during 2008-09 (Table VII.3). There were substantial outflows during the months of June 2008 (Rs.39,233 crore), September 2008 (Rs.45,651 crore) and October 2008 (Rs.45,796 crore) due to the uncertain conditions in the stock markets and redemption pressures from banks and corporates on account of tight liquidity conditions prevailing at that time. The Reserve Bank then announced immediate measures to provide liquidity support to mutual funds through banks. With the easing of overall liquidity conditions, investment in mutual funds again became attractive. During November 2008 to February 2009, net resource mobilisation by mutual funds turned positive followed by a considerable outflow of Rs.98,697 crore during March 2009. Both the number of schemes and net resource mobilisation by mutual funds declined significantly during 2008-09 as compared to the previous year. Scheme-wise, during 2008-09, income/debt oriented schemes witnessed a net outflow of Rs.32,161 crore, while growth/equity oriented schemes registered a net inflow of Rs.4,024 crore. During April-August 2009, reflecting the revival in the secondary market, resource mobilisation by mutual funds increased considerably to a net

Table VII.3: Resource Mobilisation by Mutual Funds

(Rs. crore)

Mutual Funds	2007-08			2008-09		
	Gross Mobilisation	Net Mobilisation@	Net Assets*	Gross Mobilisation	Net Mobilisation@	Net Assets*
1	2	3	4	5	6	7
Private Sector	37,80,753	1,33,304	4,15,621	42,92,750	-34,018	3,35,527
Public Sector	3,37,498	9,820	41,123	7,10,472	9,380	43,971
UTI	3,46,126	10,677	48,408	4,23,131	-3,659	37,801
Total	**44,64,377**	**1,53,801**	**5,05,152**	**54,26,353**	**-28,297**	**4,17,299**

@ : Net of redemptions. * : As at the end of March.
Source: Securities and Exchange Board of India.

inflow of Rs.2,56,755 crore as compared with that of Rs.48,128 crore in the comparable period last year.

7.98 In the Indian context, a key objective of financial sector reform beginning the early 1990s has been to promote price discovery process in financial markets and thereby, improve allocation and operating efficiencies of intermediaries and market participants. It is now generally agreed that Indian financial markets have shown considerable maturity in terms of price discovery process. There is evidence of integration among various market segments, reflecting on the operating efficiency of financial markets. There is also evidence that financial markets are able to price various risks, which is in turn reflective of the risk management by financial intermediaries and participants to hedge against risks, devise optimal hedging strategies, establish trading strategies and make portfolio allocation decisions. The risk pricing could imply operating efficiency on the part of financial intermediaries and other market participants. Such efficiency in turn contribute to efficiency in allocation of resources to productive sectors, thereby, leading to a more matured and developed financial system (Box VII.6).

Payment and Settlement System

7.99 During the global financial turmoil, the payment systems everywhere have functioned well both for retail customers and enterprises as well as for banks and other financial institutions. They have, thus, helped to maintain economic activity during a period when confidence in counterparties has been at low ebb (Box IV.4 in Chapter I).

7.100 The payment and settlement systems in India functioned normally in the midst of the global financial crisis, ensuring the continued confidence of the public in these systems. The Reserve Bank as the Central Bank of the country has played a catalytic role, over the years, in creating an institutional framework for development of a safe, secure, sound and efficient payment system in the country. In order to strengthen the institutional framework for the payment and settlement system in the country, BPSS as a Committee of the Central Board was constituted by the Reserve Bank in March 2005. The BPSS was reconstituted in August 2008 following the notification of PSS Act and BPSS regulations, 2008.

7.101 The total turnover under various payment and settlement systems rose by 13.9 per cent in terms of value during 2008-09 as compared with 41.8 per cent during 2007-08. As a ratio to GDP, the annual turnover in terms of value increased marginally from 12.7 per cent in 2007-08 to 12.9 per cent in 2008-09. The Systemically Important Payment System's (SIPS) share in the total turnover accounted for 53.8 per cent followed by Financial Markets' Clearing at 33.9 per cent. The SIPS continued to exhibit

Box VII.6: Risk Pricing in India's Financial Markets

One of the lessons learned from various crises across the emerging market economies, which occurred during the late 1990s and the early part of the current decade, and the global crisis originating from an advanced economy such as the US in the more recent period is that it is useful to have continuous assessment and monitoring of the risk-pricing mechanism underlying the financial markets for policy purposes.

In the Indian context, a key objective of financial sector reform beginning the early 1990s has been to promote price discovery process in financial markets and thereby, improve allocation and operating efficiencies of intermediaries and market participants. The reform process has completed two decades. It is now generally agreed that Indian financial markets have shown considerable maturity in terms of price discovery process. There is evidence of integration among various market segments, reflecting on the operating efficiency of financial markets (Bhoi and Dhal, 1999, RBI 2005-06).

In terms of risk pricing, studies based on univariate Generalised Autoregressive Conditional Heteroskedasticity (GARCH) model provide various perspectives (Misra and Dhal, 2009). First, the various segments of financial markets, excepting the corporate bond yield, exhibited their ability to price risks. Financial markets at short-end showed their ability to price risks. At the long end of the market, the sensitiveness of the equity market to international integration and the absence of risk pricing in the long-term corporate bond market segment require some thoughts on developing these market segments further. Second, the underlying risk pricing mechanism for various interest rates could be different from that of the equity returns. In particular, the conditional measure of risk arising from the GARCH model had positive impact on the conditional mean of various interest rate spreads, reflecting the trade-off between risk and return in the associated markets. On the other hand, the conditional risk showed inverse relationship with equity return, attributable to the leverage effect as postulated in the finance literature. Third, different market segments pertaining to liquidity, interest rate, credit, exchange rate and asset prices exhibited different volatility persistence. Fourth, money market interest rates, forward exchange rate premium and equity prices showed significant asymmetric response to good (bad) news, attributable to information efficiency. Fifth, all financial variables were found to be consistent with non-standard generalised error distribution. This implied that markets also took into account skewness and kurtosis measures influenced by the extreme movements as part of pricing risks. Sixth, international integration accentuated risk pricing in the domestic stock market in terms of higher mean and risk-return trade off.

From policy perspective, an understanding of the risk pricing mechanism assumes importance in many ways. The ability of markets to price various risks could reflect on the risk management by financial intermediaries and participants to hedge against risks, devise optimal hedging strategies, establish trading strategies and make portfolio allocation decisions. Also, risk pricing could imply for operating efficiency on the part of financial intermediaries and other market participants. Such efficiency in turn contribute to efficiency in allocation of resources to productive sectors, thereby, leading to a more matured and developed financial system.

References:

Bhoi, B.K. and S. Dhal (1999), 'Integration of Financial Markets in India: An Empirical Analysis', *Reserve Bank Of India Occasional Papers, Vol.19, and No 4.*

Engle, Robert F., (1982), 'Autoregressive Conditional Heteroskedasticity with Estimates of the Variance of United Kingdom Inflation, *Econometrica*, 50(4), 987-1007.

Misra, B.M. and S. Dhal (2009), Pricing of Risk in India's Financial Markets, RBI Staff Studies, SS(DEAP): 7/2009, RBI, Mumbai, August.

the rising trend and there was an increase of 12.2 per cent in terms of value in 2008-09 on top of the increase of 39.6 per cent in the previous year. The rise was mainly contributed by increase in Real Time Gross Settlement (RTGS) transactions in 2008-09, while high value clearing component of SIPS, declined by 17.3 per cent during the year. This decline in high value SIPS clearing could be due to shift from paper based transactions to electronic modes of payments like RTGS, besides the impact of the general slowdown in the economy on the value and volume of such transactions.

7.102 The trends in the volume and value of paper clearing versus electronic clearing over the recent years show that while in value terms the share of electronic transactions has increased significantly, in volume terms paper based transactions still dominate (Table VII.4).

7.103 Banks have been advised to encourage their customers to use NEFT which is a nation-

Table VII.4: Volume of Transactions and Value of Transactions

(Volume in '000s and Value in Rs. crore)

	Volume				Value			
	Paper Based	Electronic *	Total	Share of Electronic (in per cent)	Paper Based	Electronic*	Total	Share of Electronic (in per cent)
1	2	3	4	5	6	7	8	9
2003-04	10,22,800	1,67,547	11,90,346	14.1	1,15,95,960	48,90,962	1,64,86,922	29.7
2004-05	11,66,848	2,30,016	13,96,864	16.5	1,04,58,895	1,09,09,497	2,13,68,392	51.1
2005-06	12,86,758	2,87,421	15,74,179	18.3	1,13,29,134	1,94,86,152	3,08,15,286	63.2
2006-07	13,67,280	3,83,358	17,50,638	21.9	1,20,42,426	30,31,79,623	4,23,60,389	71.6
2007-08	14,60,564	5,42,123	20,02,687	27.1	1,33,96,066	4,66,89,754	6,00,85,820	77.7
2008-09	13,95,906	6,82,299	20,78,205	32.8	1,24,61,202	5,59,72,211	6,84,33,413	81.8

Note: *includes ECS Dr. , ECS Cr. , EFT, RTGS, CARDs, CCIL.

wide electronic fund transfer system. As at the end of March 2009, 55,225 branches of 89 banks were participating in NEFT. To encourage the retail electronic payment systems various measures were initiated by the Reserve Bank, *viz.*, (i) facilitating initiation of NEFT transactions by accepting cash from walk-in customers (from the earlier account to account transfer), (ii) option to make credit card payments, (iii) extending the settlement time window for NEFT by one and half hours. Reflecting these, there has been substantial increase in both the volume and amount of transactions in retail electronic fund transfer systems during 2008-09.

7.104 ATMs have become an important channel for delivering banking transactions and services in India, particularly for cash withdrawal and account balance enquiry. The spread of ATMs has increased from 34,789 in March 2008 to 43,651 in March 2009. In March 2008, the population per ATM in India was more than 29,500 as against the range of 1,000 – 9,500 in some of the EMEs.

7.105 RTGS System in operation since March 2004 is primarily for large value transactions with the minimum threshold limit at Rs.1 lakh. The number of RTGS enabled bank branches stood at 55,006 as on March 31, 2009 with the addition of 11,494 branches to the RTGS network during the year 2008-09. The increased network coverage is reflected in the increase in the volume and value settled in RTGS. RTGS peak volume and value in a day were 1,28,295 transactions and Rs.2,73,450 crore, respectively, on March 30, 2009. At end-August 2009, the bank/branch coverage of RTGS further increased to 58,720 branches. The daily average volume of 90,000 transactions it about Rs.1,20,000 crore of which 82,000 transactions for about Rs.98,000 crore pertain to customer transactions at end-August 2009.

7.106 The Reserve Bank took the initiative of setting up the Clearing Corporation of India (CCIL) with some of the major banks as its core promoters to upgrade the country's financial infrastructure in respect of clearing and settlement of debt instruments and forex transactions. CCIL currently provides guaranteed settlement facility for Government securities clearing, clearing of CBLO and foreign exchange clearing. Assessment of CFSA on Central Counterparties is given in Box VII.7.

7.107 The development of corporate bond market in India lagged behind in comparison with other financial markets owing to many structural problems. To facilitate settlement of Over the Counter (OTC) corporate bond transactions in RTGS system on a D*v*P-I basis, it was decided to allow the clearing houses of the exchanges to have a transitory pooling account

Box VII.7: Central Counterparties – The Assessment by CFSA

The role of CCIL as the only CCP catering to money, securities and forex markets, leads to concentration risk. Though concentration of business with CCIL helps pool the risks and reduce the overall transaction costs for the system, the risk management systems in CCIL should be further strengthened. CCIL may endeavour to develop capacity to measure intra-day exposure and margin requirements (based on intra-day exposures) for Government securities, CBLO and forex segments.

The assessment of NSCCL and BOISL/BSE in the equities settlement systems shows that they comply with all recommendations.

CCIL is compliant with the recommendations pertaining to, among others, legal risk, participation requirements, operation risk management, governance and regulation and oversight. The major issues brought out in the assessment pertain to the lack of adequate financial resources, measurement and management of credit exposures, money settlements and default procedures.

Though the CCIL's risk management systems are satisfactory, concomitant with the increase in its business, its liquidity requirements have also increased. As part of its operations, CCIL also encounters intra-day liquidity shortfalls. To tide over the intra-day liquidity requirements, CCIL has availed of dedicated Lines of Credit (LoC) from a few commercial banks. Given the significant increase in the volumes of trade in the debt, money and forex markets and as the settlements at CCIL are effectively taking place at the end of the day, it would be very difficult for CCIL to raise liquidity from commercial banks equivalent to international benchmarks. The grant of a limited purpose banking licence will enable CCIL to avail of a repo window with another bank or from the Reserve Bank to fulfill the requirement of additional liquidity, when needed. Appropriate amendments in the legal provisions could be considered, making it easier to go ahead with issuing differentiated bank licenses for this purpose.

The CFSA has noted that initially CCIL was operating with lines of credit facilities from various banks for up to Rs.400 crore, which were subsequently increased to Rs.1,300 crore, and this is being further enhanced to Rs.1,600 crore. CCIL is also in the process of putting in place the concept of clearing member under which the settlements will be done only in the books of a few members, in which case the liquidity requirements in the CCIL system may come down automatically.

facility with the Reserve Bank. A transitory pooling account for National Securities Clearing Corporation Limited (NSCCL) has since been opened for settlement of corporate bond transactions in RTGS. The settlement of corporate bond transactions will be on a non-guaranteed basis and hence line of credit (LOC) support will not be provided, however, banks participating in the settlement would be eligible for intraday liquidity (IDL) support of the Bank.

7.108 To sum up, the Reserve Bank could restore normalcy in the financial markets over a short time period through its liquidity operations in both domestic currency and foreign currency; the absence of any direct exposure of the Indian banks and financial institutions to the troubled assets and failing financial institutions in the advanced countries helped in the avoidance of any serious stress in the financial system. In line with the global experience, in India also the payment and settlements system functioned efficiently and provided a robust infrastructure for financial stability.

7. How India ensured Financial Stability

7.109 Ensuring financial stability is a prime concern for monetary policy in India while maintaining growth momentum at reasonable levels and giving a high priority to price stability. Financial stability in India has been sought to be achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent. As a result, while there are orderly conditions in financial markets, the financial institutions, especially banks, reflect strength and resilience. Certain policy measures, as described below, were adopted to ensure financial stability.

Investment Portfolio

7.110 In the year 2000, the Reserve Bank conducted a stress test of the banks' investment portfolio in an increasing interest rate scenario, when the general trend then was decreasing interest rates. At that time, banks in India were maintaining a surrogate capital charge for market risk, which was at a variance from the Basel norms. On the basis of the findings, in order to equip the banking system to be better positioned to meet the adverse impact of interest rate risk, banks were advised in January 2002 to build up an Investment Fluctuation Reserve (IFR) within a period of five years. The prudential target for the IFR was 5 per cent of their investments in 'Held for Trading' (HFT) and 'Available for Sale' (AFS) categories. Banks were encouraged to build up a higher percentage of IFR up to 10 per cent of their AFS and HFT investments. This counter-cyclical prudential requirement enabled banks to absorb some of the adverse impact when interest rates began moving in the opposite direction in late 2004. Banks have been maintaining capital charge for market risk as envisaged under the Basel norms since end-March 2006.

7.111 The regulatory guidelines in India require banks to classify their investments in three categories, similar to the international standards. The investments included in the Held to Maturity (HTM) category was capped at 25 per cent of the total investments and banks are allowed to carry the investments in the HTM category at cost, subject to amortisation of premium, if any. With the change in the direction of the movement of interest rates in 2004, the cap on the HTM category was reviewed in the light of the statutory prescriptions (referred to as SLR in India) requiring banks to mandatorily invest up to 25 per cent of their net Demand and Time Liabilities (DTL) in eligible Government securities. In view of the statutory pre-emption and the long duration of the Government securities, banks were permitted to exceed the limit of 25 per cent of total investments under Held to Maturity (HTM) category provided the excess comprised only of the SLR securities, and the total SLR securities held in the HTM category was not more than 25 per cent of their NDTL. Such shifting was allowed at acquisition cost or book value or market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer was required to be fully provided for. The above transition is consistent with international standards that do not place any cap on HTM category, and was considered advisable taking into account the statutory nature of the SLR while ensuring prudence and transparency in valuation on transfer to HTM category. While the earlier prescription for this category was relatively more conservative, the changes in September 2004 recognised the dynamic interface with the interest rate cycles and were counter-cyclical.

Capital Adequacy – Risk Weights

7.112 In view of the increase in growth of advances to the real estate sector raising concerns about asset quality and the potential systemic risks posed by such exposure, banks were advised to put in place a proper risk management system to contain the risks involved. Banks were also advised to put in place a system for ensuring proper checking and documentation of related papers before sanctioning/disbursing of such loans. In June 2005, the Reserve Bank advised banks to have a board mandated policy in respect of their real estate exposure covering exposure limits, collaterals to be considered, margins to be kept, sanctioning authority/level and sector to be financed.

7.113 Through pre-emptive countercyclical provisioning and a differentiated risk weight stipulation for 'sensitive sectors', the adverse impact of high credit growth in some sectors and asset price fluctuations on banks' balance sheets were contained (Box VII.8). In the light of the strong growth of consumer credit and the volatility in the capital markets, it was felt that the quality of lending could suffer during the phase of rapid expansion. Hence, as a counter cyclical measure, the risk weight for consumer credit and capital market exposures was raised from 100 per cent to 125 per cent.

Box VII.8: Counter-Cyclical Prudential Regulations – The Indian Experience

In the context of the present global financial meltdown, an issue that has received considerable attention from policy makers world over is that of counter-cyclical financial measures including counter-cyclical prudential regulation and supervision of banks and financial institutions. There is a consensus in the theoretical literature that financial institutions including banks tend to behave in a pro-cyclical manner. The various reasons for such pro-cyclical behaviour by financial institutions as described in the literature are herd behaviour, "disaster myopia" and growing competition among financial institutions during periods of economic upturns (Jimnez and Saurina, 2005). Apart from these reasons, some inherent weaknesses in the prudential regulatory structure itself can also contribute to the pro-cyclical behaviour of banks. This underlines the rationale behind the need for designing counter-cyclical prudential regulations to ensure financial stability.

After making a thorough review of the pro-cyclical nature of the existing regulatory framework, the Financial Stability Forum (FSF, 2009) suggested that regulatory authorities should use the flexibility within the Basel framework to ensure that risk management, capital buffers, and estimates of potential credit losses are appropriately forward-looking and take account of uncertainties associated with models, valuations and concentration risks and expected variations through the cycle. The dynamic provisioning, leverage ratio, capital insurance, counter-cyclical capital buffers, time-varying capital requirements, are some of the commonly discussed counter-cyclical prudential measures in the literature. The Bank of Spain has already adopted dynamic provisioning as an attempt to limit the pro-cyclicality in the banking system. The leverage ratio has also been accepted by some of the countries such as United States.

India, also adopted a counter-cyclical approach through a calibrated increase in the risk weights and provisioning requirements during the period of rapid credit growth. However, the important difference was that Indian approach entailed sector-specific prescriptions. To illustrate, the housing loans and commercial real estate are the sectors which experienced high credit growth during the high credit phase of 2002-03 to 2006-07. Accordingly, the movement in risk weights on real estate lending and mortgage backed securities over the years are given in the Table. The objective was not so much to lean against the wind of rising asset prices but as a cautionary measure to contain the exposure of the banking sector to sensitive asset classes where rapid credit expansion was observed (Gopinath, 2009).

The Reserve Bank in 2009 stated that it is necessary that banks do realise the importance of building buffers such as floating provisions in good times so that they are able to use these in adverse circumstances. Therefore, in India, banks are encouraged to build floating provisions as a buffer for the possible stress on asset quality later. In this regard, the Reserve Bank instructed the banks that the floating provisions can only be utilised for making specific provisions in extraordinary circumstances and cannot be reversed back to the profit and loss account by way of credit. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs, or alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk weighted assets. However, this policy will be modified once the on-going work by FSB, BCBS, CGFS and accounting standard setters on measures to mitigate pro-cyclicality including counter cyclical provisioning is finalised.

Table: Risk Weights and Provisioning on Housing Loans and Real Estate Lending

Year/Month	Amount of Loan	Housing Loans		Commercial Real Estate	
		Risk Weight (%)	Provisions on Standard Assets (%)	Risk Weight (%)	Provisions on Standard Assets (%)
Before May 2002		100	0.25	100	0.25
May 2002		50	0.25	100	0.25
December 2004		75	0.25	100	0.25
July 2005		75	0.25	125	0.25
March 2006		75	0.40	125	0.40
May 2006	Upto Rs.20 lakh	75	0.40	150	1.00
	Above Rs.20 lakh	75	1.00		
January 2007	Upto Rs.20 lakh	75	0.40	150	2.00
	Above Rs.20 lakh	75	1.00		
May 2007	Upto Rs.20 lakh	50	0.40	150	2.00
	Above Rs.20 lakh	75	1.00		
May 2008	Upto Rs.30 lakh	50 (LTV=75%)	0.40	150	2.00
		100 (LTV>75%)			
	Above Rs.30 lakh	75 (LTV=75%)			
		100 (LTV>75%)	1.00		
November 2008	Upto Rs.30 lakh	50 (LTV=75%)	0.40	100	0.40
		100 (LTV>75%)			
	Above Rs.30 lakh	75 (LTV=75%)	0.40		
		100 (LTV>75%)			

References:

1. Financial Stability Forum (2009), Report of the Financial Stability Forum on Addressing Procyclicality in the Financial System, Basel.
2. Gopinath, S (2009), "Lessons for Financial Policy Making – Interpreting the Dilemmas", Inaugural Address delivered at 10th FIMMDA-PDAI Annual Conference at Mumbai on March 3.
3. Jimenez, Gabriel and Jesus Saurina (2005), "Credit Cycles, Credit Risk and Prudential Regulations", Banco de Espana, Spain.

Provisions against Standard Assets

7.114 The provisions for standard assets were revised progressively in November 2005, May 2006 and January 2007, in stages in view of the continued high credit growth in the real estate sector, personal loans, credit card receivables, and loans and advances qualifying as capital market exposure and a higher default rate with regard to personal loans and credit card receivables, which emerged as a matter of concern. The standard assets in the following categories of loans and advances attract a two per cent provisioning requirement (i) personal loans (including credit card receivables); (ii) loans and advances qualifying as capital market exposure; (iii) real estate loans (excluding residential housing loans), and (iv) loans and advances to systemically important non-deposit accepting non-banking finance companies (NBFC-ND-SI). In order to ensure continued and adequate availability of credit to the highly productive sectors of the economy, the provisioning requirement for all other loans and advances, classified as standard assets was kept unchanged, *viz*., (i) direct advances to the agricultural and SME sectors at 0.25 per cent; and (ii) all other loans and advances at 0.4 per cent. The provisioning requirement for all types of standard assets was reduced to a uniform level of 0.40 per cent in November 2008 except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto.

7.115 It may be relevant to highlight some of the specific features of Indian system that have contributed to achieve financial stability:

- Banks are required to hold a minimum percentage of their liabilities in risk free Government securities under the SLR system. This stipulation ensures that banks are buffered by liquidity in times of stress.
- The capital account was managed actively. In the face of large capital inflows during 2006-08, the resultant excess liquidity was sterilised through calibrated hikes in the CRR and issue of MSS securities. When the flows reversed during the last quarter of 2008, the measures were reversed. CRR was cut and the MSS securities were bought back to inject liquidity into the banking system.
- To ensure that securitisation is value adding, 'true sale' is insisted on, and credit enhancements and liquidity support are subject to capital regulations. It is required that profit from sale of assets to SPVs to be amortised over the life of the securities issued.
- Access to overnight unsecured call market is restricted to banks and primary dealers. Other entities can access the overnight market only through collateralised instruments which are cleared and settled on a guaranteed basis through a central counterparty.
- Regulation and oversight have been extended to systemically important non-deposit taking, non-banking finance companies, and this has limited leverage and space for regulatory arbitrage.
- Systemic interconnectedness has been addressed by bringing banks' exposures to non-bank finance companies within the prudential framework.
- Central counterparty (CCP) clearing and guaranteed settlement is currently operative for Government securities transactions and inter-bank rupee-USD forex transactions. CCP guaranteed arrangements for forex forwards and OTC rupee interest rate swaps are underway.
- In addition, the Reserve Bank's guidelines in respect of exposure to inter-bank liability, securitisation, banks' investment in non-SLR securities and marking-to-market over the years, have helped.

Financial Stability Unit in RBI

7.116 The Reserve Bank used both monetary and regulatory measures to maintain financial stability. This synergistic approach has been possible because the Reserve Bank is both the monetary authority and the regulator of banks, non-banks and a large segment of the financial markets. On the way forward, Indian financial markets will deepen and broaden further and will also be increasingly exposed to the forces of globalisation. All this will have implications for the financial stability. The Reserve Bank is conscious of the need to pay increasing attention to financial stability and to improve the required skills in this area. As a beginning in this direction, the Reserve Bank has set up a multi-disciplinary Financial Stability Unit to put out a regular Financial Stability Report. The first report is planned in the next few months. These reports will present an overall unified assessment of the health of the financial system with a focus on identification and analysis of potential risks to systemic stability.

Sources of Vulnerability in India's Financial System

7.117 Way forward, financial stability analysis in India needs to take into account the key sources of vulnerability in the financial system. Some of them are as below:

Infrastructure Financing

7.118 A concern has been raised that infrastructure funding by banks constitutes a potential area of macroeconomic vulnerability. An investment requirement of roughly Rs.22,50,000 crore has been projected as financing requirements for physical infrastructure (comprising roads, power, telecom, railways, airports and ports) in India over the Eleventh Plan period, of which an amount of roughly Rs.6,75,000 crore is to be funded by the private sector. With budgetary resources limited, the Government has sought to foster a policy and procedural environment that actively encourages public-private partnerships (PPP) and, increasingly, it is perceived that commercial entities such as banks could play an important role in this respect. The significant challenge for the banking sector in funding the growing infrastructure need would emanate from the asset-liability mismatch as the maturity of banks' assets has become longer term while their liabilities have become shorter. Banks will also reach exposure limits to large developers. Lending by NBFCs will be constrained, as they rely to a large extent on unsecured borrowings and to a certain extent on commercial banks for their funding and the cost would be higher due to prudential requirements for bank lending to NBFCs. External Commercial Borrowing has to be managed prudently, in keeping with resulting macroeconomic vulnerabilities and desirable levels of capital flows.

Dependence of Banks on Bulk Deposits and Purchased Liquidity

7.119 Typically, banks can meet their liquidity needs by two methods: stored liquidity and purchased liquidity. Stored liquidity uses on-balance sheet liquid assets and a well-crafted deposit structure to provide all funding needs. Purchased liquidity uses non-core liabilities and borrowings to meet funding needs. While dependence on stored liquidity is considered to be safer from the liquidity risk perspective, it has cost implications.

7.120 An observed trend for Indian banks is that there is growing dependence on purchased liquidity and also an increase in the illiquid component in banks' balance sheets with greater reliance on volatile liabilities, like bulk deposits to fund asset growth. With this, there could emerge liquidity and profitability implications. An increase in growth in housing loans, real estate exposure as also infrastructure has resulted in elongation of the maturity profile of bank assets. Simultaneously, there has been a shortening of residual maturities, leading to a higher asset-liability mismatch.

7.121 There is a need to strengthen liquidity management in this context as also to shore up the core deposit base and to keep an adequate cushion of liquid assets to meet unforeseen contingencies. A balanced approach to liquidity strategy in terms of dependence on stored and purchased liquidity is the most cost-effective and optimal risk strategy. What needs to be borne in mind is that while at an individual bank level, retail deposits may be volatile, but for the banking system as a collective whole, it provides solid foundation for the banks to fund their long term assets like infrastructure and similar business activities. Dependence of the banks on bulk resources, however, needs to be contained.

8. Overall Assessment and Way Forward

7.122 Like all other policy measures, maintenance of financial stability involves trade-offs and throws up a number of challenges. Important challenges that need to be addressed on the way forward are the following:

7.123 Some of the critical elements, as indicated below, of any financial stability framework, need to be addressed:

- Excessive volatility of macro-variables such as interest rates and exchange rates which have direct impact on the real economy;
- Build-up of significant leverage in financial, corporate and household sector balance sheets;
- The moral hazard risks posed by institutions that have become 'too-big-to-fail' or too interconnected or complex to resolve;
- Internal systemic buffers within the financial sector, both at the institution and systemic levels, to counter potential shocks to the economy;
- Putting in place a strong policy and institutional mechanisms;
- Prevalence of unregulated nodes in the financial sector which, through their interconnectedness with the formal regulated system, can breed systemic vulnerabilities.

7.124 Second, the crisis has triggered an active discussion on an appropriate regulatory structure that is best suited to safeguard financial stability. There are several regulatory models around including those where the central bank is a pure monetary authority with bank regulation and supervision vested with another agency. Post-crisis, the emerging view is that the crisis was caused, at least in part, by the lack of coordination and communication between the separate bodies and that it is optimal, in the interest of financial stability, to entrust the function of regulation of banks and non-banks also to central banks.

7.125 Third issue is managing the trade-offs between growth and financial stability. In order to safeguard financial stability, the Reserve Bank has traditionally used a variety of prudential measures such as specifying exposure norms and pre emptive tightening of risk weights and provisioning requirements. But these measures are not always costless. For instance, tightening of risk weights tempers the flow of credit to certain sectors, but excessive, premature or unnecessary tightening could blunt growth. Thus, as in the case of price stability, central banks face the challenge of managing the trade-off between financial stability and growth.

7.126 Fourth, reforming regulatory architecture is assuming significance as the central banks are vigorously reinventing themselves and almost all countries are reviewing their regulatory architectures. Two key lessons are driving this change: first that the responsibility for financial stability cannot be fragmented across several regulators; it has to rest unambiguously with a single regulator, and that single regulator optimally is the central bank. Second, there is need for coordination across regulators on a regular basis and for developing a protocol for responding to a crisis situation. In this context, regulatory coordination is important as in India, there are a host of regulators in the financial sector - RBI, SEBI, IRDA and PFRDA. In order to facilitate coordination between them, there is a High Level Coordination Committee on Financial Markets (HLCC-FM) comprising all the regulators and the Finance Secretary. While the Governor of the Reserve Bank chairs the HLCC-FM, the Ministry of Finance provides the secretariat. The meetings are informal and there is free exchange of positions, views and opinions. There is a view that the HLCC-FM should be given a formal structure. While a formal structure will have the merit of enforcing accountability, the flip side is that it may make the forum excessively bureaucratic and detract from its other value adding features.

7.127 Currently, the arrangement for regulation of financial markets is as follows. Apart from banks, NBFCs and other financial institutions, RBI regulates the money market, the Government securities market, the credit market and the foreign exchange market and the derivatives thereon. In respect of OTC derivatives, only those derivatives where one party to the transaction is an the Reserve Bank regulated entity have legal validity. In respect of products traded on the exchanges, procedures for trade execution fall within the regulatory purview of SEBI. Thus, unlike many countries, India has established procedures for regulation of OTC derivatives.

7.128 Unlike equity prices, interest rates and exchange rate are key macroeconomic variables with implications for monetary policy and overall macroeconomic stability. In addition, banks dominate the interest and exchange rate markets. By also being the regulator of these markets, the Reserve Bank is in a position to exercise oversight of institutions, markets and products, to monitor market developments, sense impending developments, take advance action, prevent excessive volatility and maintain financial stability at the systemic level. This is an arrangement that has stood the test of time, has protected financial stability even in the face of some severe onslaughts. It may be desirable to continue with the present arrangement in the interest of preserving financial stability.

7.129 A question in the reform of regulatory architecture is about whether a central bank should also be a banking regulator. Pre-crisis, there was a dominant argument for separation of the monetary and regulatory functions premised on a possible conflict of interest. According to this view, if financial stability becomes the dominant concern of a central bank, it could result in a moral hazard for banks. The crisis has also shown that there are clear synergies between monetary policy management and financial sector regulation. It is worth noting that some advanced economies where regulation and supervision are with an agency other than the central bank are themselves revisiting their regulatory structures and contemplating some unification.

7.130 Fifth, the tension between fiscal and monetary policies that could potentially militate against financial stability. If Governments continue to incur large fiscal deficits, it may be difficult for central banks to maintain price stability. While the current crisis has shown that price stability is not sufficient to ensure financial stability, price stability is decidedly a necessary condition for financial stability. Higher inflation could also push the yield curve upwards. This could result in significant mark to market losses for fixed income instruments with potentially adverse implications for banks' profitability.

7.131 In India, elements of macro-prudential regulation were visible even before the global crisis started, in terms of counter-cyclical use of riskweights and provisioning norms. In view of the interconnectedness between banks and institutions, financial markets, and the economy, systemic risk analysis needs to involve assessing the changing dynamics between these three segments on a continuous basis. Vulnerability in any of these segments has the potential to amplify and become systemic in view of the strong inter-linkages.

7.132 The ongoing international initiatives indicate a multipronged approach, covering several important aspects of stability : (a) introducing automatic stabilisers into the regulatory framework by adopting counter-cyclical capital charge; (b) adequacy and quality of capital as per Basel-II risk based capital framework, and simultaneous use of simpler measures such as the leverage ratio ; (c) capital requirements for reputational and other risks in respect of securitisation activities and activities undertaken by the sponsored or connected conduits/shadow banks; (d) capital treatment for trading book exposures, and the need for supplementing value-at-risk approach with incremental risk charge ; (e) strengthened Pillar 2 supervision, focusing on risk concentration, off-balance sheet exposures, valuations of financial instruments, access to funding liquidly during hypothetical possibility of a financial crisis, stress test practices adopted in banks and system level stress-tests and their integration into capital and liquidity planning; and (f) promotion of market discipline under Pillar 3 through better disclosure and clarity on the risk associated with exposure to certain instruments. The international deliberations have also highlighted other important issues like the risk associated with distorted incentive structures for the market players, the inadequacy of self regulation for rating agencies, the deficiencies of models for risk analysis and measurement, and the need for improving market structure for derivatives. The emerging international standards and best practices would have to be carefully examined from the stand point of their relevance to India, while further strengthening the domestic financial stability framework to avoid systemic stress on the financial system.

Annex II.1: Policy Responses to the Crisis: Financial Sector Rescue Efforts

Headline support for the financial sector and upfront financing need, in per cent of GDP

	Capital injection (A)	Purchase of assets and lending by treasury (B)	Central bank support provided with treasury backing (C)	Liquidity provision and other support by central bank (D)	Guarantees (E)	Total (A+B+ C+D+E)	Upfront government financing
1	2	3	4	5	6	7	8
OECD members							
Australia	0	0.7	0	0	n.a.	0.7	0.7
Austria	5.3	0	0	0	30	35.3	5.3
Belgium	4.7	0	0	0	26.2	30.9	4.7
Canada	0	8.8	0	1.6	11.7	22	8.8
France	1.2	1.3	0	0	16.4	19	1.5
Germany	3.7	0.4	0	0	17.6	21.7	3.7
Greece	2.1	3.3	0	0	6.2	11.6	5.4
Hungary	1.1	0	0	4	1.1	6.2	1.1
Ireland	5.3	0	0	0	257	263	5.3
Italy	1.3	0	0	2.5	0	3.8	1.3
Japan	2.4	6.7	0	0	3.9	12.9	0.2
Netherlands	3.4	2.8	0	0	33.7	39.8	6.2
Norway	0	13.8	0	0	0	13.8	13.8
Poland	0.4	0	0	0	3.2	3.6	0.4
Portugal	2.4	0	0	0	12	14.4	2.4
South Korea	2.5	1.2	0	0	10.6	14.3	0.2
Spain	0	4.6	0	0	18.3	22.8	4.6
Sweden	2.1	5.3	0	15.3	47.3	70	5.8
Switzerland	1.1	0	0	10.9	0	12.1	1.1
Turkey	0	0	0	0.2	0	0.2	0
United Kingdom	3.5	13.8	12.9	0	17.4	47.5	19.8
United States	4	6	1.1	31.3	31.3	73.7	6.3
Non-OECD G20 members							
Argentina	0	0.9	0	0	0	0.9	0
Brazil	0	0	0	1.5	0	1.5	0
China	0.5	0	0	0	0	0.5	0
India	0	0	0	5.6	0	5.6	0
Indonesia	0	0	0	0	0.1	0.1	0.1
Russia	0.1	0.4	2.9	3.2	0.5	7.1	0.6
Saudi Arabia	0.6	0.6	0	8.2	n.a.	9.4	1.2
G20 average	1.9	3.3	1	9.3	12.4	27.9	3.3

Source: Wehinger, Gert (2009): The Turmoil and the Financial Industry: Developments and Policy Responses, OECD.

Annex III.1
Initiatives by the Board for Financial Supervision – 2008-09 (July – June)

- With regard to the issue of revaluation of physical assets by the banks, the BFS expressed that it would not be in order for banks to revalue their operating assets such as the building from where the bank was functioning/conducting business and take the notional appreciation to the reserves as if the bank actually sold off this property. In this context, the issue of *Sale and leaseback*, in which one party sells a property to a buyer and the buyer immediately leases the property back to the seller, by banks were discussed and the BFS directed that proposals for sale of property by banks to its own subsidiaries/group entities and/or SPVs floated by the bank for subsequent lease back cannot be accepted.

- In the background of the global financial crisis, the BFS closely monitored the emerging signals across the global markets and the consequent ramifications on the Indian financial sector. As an additional measure, the BFS is now monitoring the Mark-to-Market losses in credit derivatives and other investment portfolio of overseas operations of banks in India on monthly basis. In this context, BFS also monitored the results of stress test of the credit portfolio of commercial banks in India to assess the resilience of banks under various stress scenarios as at end-March 2008 which revealed that, at system level, under none of the scenarios the CRAR declined below the stipulated minimum level. It was also seen that though the CRAR of some individual banks would decline below the minimum required level, the systemic impact would not be very high.

- In view of the emergence of the concerns in the media regarding forex derivatives, BFS directed that detailed information be called for in structured formats in respect of certain select banks at the top end of the exposures. A series of meetings were held with the Chairmen/CEOs of certain banks including foreign banks which had dealt with these products to discuss issues with regard to 'Suitability and Appropriateness' principles, risk management policies of corporates and cost cutting measures initiated by the banks and the Reserve Bank concerns in the matter were conveyed to them. A comprehensive report was placed before the BFS based on the discussions.

- While examining the issue of a bank undertaking activities through subsidiary route which the bank is not permitted to undertake under Section 6 of the Banking Regulation Act, 1949, the BFS decided that the activities which a bank itself is not permitted to undertake as per the provisions of Banking Regulation Act, 1949 cannot be undertaken by entities in which the bank has significant financial stake.

- With regard to the issues related to the outsourcing arrangements, the BFS laid specific emphasis on the availability of a proper documentation process/proper document preservation clause in the outsourcing contracts signed by banks with Third Party Service Providers. The Board emphasised that adherence to the Reserve Bank's guidelines could be ensured only if the records were proper and documentation complete. Absence of documents and records make it difficult to determine the legal rights and responsibility applicable to the bank and the outsourced agency and the very enforceability of the contract. The Board directed that (i) the outsourcing guidelines should clearly emphasise the enforceability requirement in respect of the outsourcing contracts and the contract should provide that all outsourcing documents are available for inspection by the Reserve Bank and bank's internal inspectors and (ii) audit of the outsourced agents/agencies should be an obligatory function for the internal audit of banks and (iii) a confirmation report and compliance certificate in this regard may be submitted to the Reserve Bank by the banks. Based on the directions of BFS, a circular was issued to all the commercial banks to plug the regulatory gaps regarding the submission of confirmation report and compliance certificate by banks.

- The retail credit practices among the commercial banks drew the attention of the BFS. The BFS was appraised that the practices in the retail credit business had evolved rapidly and were very different from traditional banking practices followed in this regard. In this regard, the BFS decided that while the banks cannot be restricted from use of the statistical models in this regard, it is essential to test the robustness, soundness and effectiveness of the models. The methods, assumptions deployed, samples used along with the sampling techniques need to be tested. It should also be verified that the provision requirements worked out under these techniques/models is at least equal to the requirements under the individual account assessment process as any diminution in the provision requirement assessment cannot be accepted. It was also felt that building quantitative abilities in the Bank including engagement of professionals was becoming very essential as use of models would be increasing, including in the context of the advanced methods under Basel II. Accordingly, it was decided that an inter-departmental team would undertake the evaluation exercise.

- With regard to the progress in the reconciliation of nostro accounts based on the quarterly reports received from banks, BFS accorded approval to a proposal, *inter alia*, to allow banks to transfer to profit and loss account (i) the credit balance arising out of the netting of entries pertaining to the period prior to April 1 1996 (ii) aggregate of individual unreconciled credit entries in nostro and mirror accounts 'less than USD 2500' and originated between April 1, 1996 and March 31, 2002 and parked in the blocked account.

- While deliberating on issue of sale of NPAs by banks particularly in the context of deficiencies observed in such procedures followed by banks, the BFS decided to inform the banks that the extant circular issued in October 2007 merely lays down the broad principles to be adopted by banks while entering into compromise settlements. Banks can continue to enter into compromise settlements based on the circumstances, facts of each case and their commercial judgement and should be able to justify the decision taken.

- In the context of merger of banks, the BFS opined that subordinated debt of the merged entity should be reissued just as equity is reissued. It also approved the proposal that in the Indian context in all cases of voluntary merger/compulsory merger and acquisition, the extent of admissible liability towards the Tier I and Tier II instruments would be laid down in the scheme of merger/amalgamation. Consequently, these instruments may have to be reissued.

- The BFS while deliberating on the present approach towards branch inspection, approved a proposal to revise the existing criteria for selection of branches for Annual Financial Inspection. In addition to the existing parameters including minimum stipulated coverage of advances, it was proposed to prescribe a mix of additional parameters like 'branches with unusually high growth in business', 'branches with adverse internal rating', 'branches having unusually large number of accounts opened within a short period', and 'branches with significant quick mortality of advances'. More emphasis will be given to asset classification, post-disbursement supervision over advances, KYC/AML compliance, CTR/STR, and adequacy of customer service. Further, it is also proposed that under the Off-Balance sheet business, all types of derivative products offered by the bank should be checked on sample basis with a range of 10 per cent to 50 per cent of Off- Balance sheet transactions entered during the year depending on volume of business. These additional parameters will result in a dynamic process of identification of branches which would throw up a better sample of branches for inspection. The proposal was approved by the BFS and the necessary instructions have been circulated to all the Regional Offices.

- In the backdrop of recent sub-prime crisis, the BFS deliberated at length on the treatment/availability of assets of foreign banks in India for liquidation of global liabilities in a scenario like the present crisis. After exhaustive discussions on the academic literature and international legal position regarding ring fencing, differences in ring fencing of branches and subsidiaries, country wise practices of ring fencing and Indian legal position regarding ring fencing, the BFS directed that the status quo be maintained in the matter and also that the Reserve Bank may remain in preparedness for necessary action once the international principles and standards emerge in the matter.

- While looking into the interpretational issues in respect of group entities (subsidiaries, associates and joint ventures) which are required to be consolidated with the parent bank, the BFS directed that banks should record the intent of holding of the investment for a temporary period or otherwise at the time of investment in the subsidiary, associate and joint venture. In the absence of record of such intent by the Board at the time of such investment, the same would be taken into account for the purpose of consolidation.

- Continuing with its stress on fine tuning of supervisory rating model ever since its introduction, the BFS has accorded approval to revise the Earnings Appraisal component of the rating model by reducing the marks allotted to ROE (Return on Equity) in the 'Earnings Appraisal' component of the existing rating model was reduced from 60 to 30 marks and reintroducing the ROA (Return on Assets) parameter with 30 marks. All other parameters have also been retained with the existing marks. BFS further directed the revised model be implemented with effect from the inspection cycle of 2009-10.

Annex VII.1: Financial Stability Reports of Central Banks: Key Features

Countries	Title of the publication	Year of Commencement	Frequency of publication	Latest Report	Size (pages)
1	2	3	4	5	6
Developed Economies					
Australia	Financial Stability Review	2004	Half yearly	Sep-08	71
Austria	Financial Stability Report	2001	Half yearly	Dec-08	175
Belgium	Financial Stability Review	2003	Annual	2008	160
Canada	Financial Stability Review	2002	Half yearly	Dec-08	66
Denmark:	Financial Stability in Denmark	2002	annual (half from 2008)	2008	62
European Union:	Financial Stability Review	2004	Half yearly	2008(Dec)	157
Finland:	Financial Markets Report	2008	Quarterly	2008(4)	22
France	Financial Stability Review	2002	Initially half yearly, of late irregular	Oct-08	150-200
Germany	Financial Stability Review	2003*	Annual	Nov-07	150
Hong Kong	Monetary and Financial Stability Report	2003	Half yearly	Dec-08	90
Iceland	Financial Stability Report	2005	Annual	2008	80-100
Ireland	Financial Stability Report	2001	Annual	2007	60-80
Japan	Financial Stability Report	2005	Half yearly#	Sep-08	85
Korea	Financial Stability Report	2005	Half yearly	Oct-08	117
Netherlands:	Financial Stability Overview	2004	Half yearly	Sep-08	25
New Zealand	Financial Stability Report	2004	Half yearly	Nov-08	52
Norway	Financial Stability Report	1999	Half yearly#	2008(H2)	60-70
Portugal:	Financial Stability Report	2004	Annual	2007	178
Singapore	Financial Stability Review	2004	Annual#	Nov-08	70
Spain:	Financial Stability Report	2002	Half yearly	Nov-08	52
Sweden	Financial Stability Report	1997	Half yearly	Nov-08	124
Switzerland	Financial Stability Report	2003	Annual	Jun-08	45
UK	Financial Stability Report	1996*	Half yearly	Oct-08	70-80
Developing and Emerging Economies					
Albania:	Financial Stability Report (Bulletin earlier)	2007	Annual	2007	70
Argentina:	Financial Stability Report	2004	Half yearly	Sep,08	87
Armenia:	Financial Stability Report	2007	Annual	2007	56
Bahrain:	Financial Stability Report	2007	Half yearly	Jul-08	49
Bangladesh:	Financial Stability Review	2006	Half yearly	Jun-08	88
Belarus:	Financial Stability in Belarus	2007	Annual	2007	61
Bosnia:	Financial Stability Report	2007	Annual	2007 (July 2008)	66
Brazil	Financial Stability Report	2002	Half yearly	May-08	156
Chile	Financial Stability Report	2004	Half yearly	2nd Half 2008	80
China	Financial Stability Report	2005	Annual	May-08	170
Colombia:	Financial Stability Report	2002	Half yearly	Mar 08	104
Croatia:	Financial Stability Croatia	2008	Half yearly	June 08	48
Czech Republic	Financial Stability Review	2004	Annual	2007	110
East Caribbean	Economic and Financial Review	2001	Annual/Quarterly	2008(June)	109
Estonia:	Financial Stability Report	2003	Half yearly	2008(2)	73

Annex VII.1: Financial Stability Reports of Central Banks: Key Features *(Contd.)*

Countries	Title of the publication	Year of Commencement	Frequency of publication	Latest Report	Size (pages)
1	2	3	4	5	6
Georgia	Financial Stability Report	2006	Annual	2008	44
Hungary:	Financial Stability Report	2000	Half yearly	2008(Oct)	67
Indonesia	Financial Stability Review	2003	Half yearly	Sep-08	104
Israel	Financial Stability Report	2003	Annual	Discontinued in 2005	150
Jamaica:	Financial Stability Report	2005	Annual	2007	62
Kazakhstan:	Financial Stability Report	2006	Annual	2008	120
Latvia:	Financial Stability Report	2003	Half yearly	2007	61
Macedonia:	Financial Stability Report	2007	Annual	2007	107
Malaysia	Financial Stability & Payment System Report	2006	Annual	2007	157
Mexico	Financial System Report	2007	Annual	2007	185
Mongolia	Financial Stability Report	##	Half yearly		
Pakistan	Financial Stability Assessment	2000	Annual	2005	185
Philippines	Status report on the Philippines financial system	NA	Half yearly	First semester 2008	225
Poland	Financial System Report	2003	Annul FSR with half yearly reviews	Oct-08	118
Qatar:	Financial Stability Report	2006	quarterly	2006	11
Romania:	Financial Stability Report	2006	Annual	2008	94
Russia	Financial Stability Review	2005	Annual	2006	45
Serbia:	Financial Stability Report	2005	Annual	2008	68
Slovakia:	Financial Stability Report	2003	Annual	2007	89
Slovenia:	Financial Stability Review	2004	Annual	May-08	173
South Africa:	Financial Stability Review	2004	Half yearly	Mar-08	41
Sri Lanka:	Financial System Stability Review	2004	Annual	2007 (Oct)	83
Thailand:	NA				
Turkey	Financial System Report	2005	Half yearly	Nov-08	86
International Institutions					
IMF	Global Financial Stability Report	2002	Half yearly	Oct-08	220-230
ECB	Financial Stability Review	2004	Half yearly	Dec-08	200-250

Annex VII.1: Financial Stability Reports of Central Banks: Key Features *(Contd.)*

Country/Institution	Chapter Scheme of Latest Issue	Statistical Annex	Status of Publication	Whether Banking Regulator!	Whether FS is a key function!	Dissemination
1	7	8	9	10	11	12
Developed Economies						
Australia	Fixed	No	Non-Statutory	No	Yes	Link on home page
Austria	Mixed	Yes	Non-Statutory	No	Yes	Link on home page
Belgium	Mixed (Fixed & articles)	No	Non-Statutory	No	Yes	Through publication link
Canada	Mixed	No	Non-Statutory	No	Yes	Link on home page
Denmark:	Theme	No	no	No	Yes	Through publication link
European Union:	Mixed (Fixed & articles)	Yes	no	No	No	Through publication link
Finland:	Fixed	No	Non-Statutory	No	No	Through publication link
France	No fixed structure (Overview & Articles)	No	Non-Statutory	Yes	No	Through publication link
Germany	Mixed (Fixed & issue based articles)	No	Non-Statutory	Yes	No	Link on home page
Hong Kong	Fixed	No	Non-Statutory	Yes	Yes	Link on home page
Iceland	Not rigid	No	Non-Statutory	No	Yes	Link on home page
Ireland	Mixed (Fixed, Thematic & Articles)	No	Statutory	No	Yes	Link on home page
Japan	Fixed	No	Non-Statutory	No	Yes	Link on home page
Korea	Fixed	No	Non-Statutory	No	Yes	Through publication link
Netherlands:	Fixed	No	Non-Statutory	Yes	Yes	Through publication link
New Zealand	Fixed	Graphical annex	Statutory	Yes	Yes	Link on home page
Norway	Earlier fixed now issue based	Yes	Non-Statutory	No	Yes	Link on home page
Portugal:	Mixed	Yes	Non-Statutory	Yes	No	Through publication link
Singapore	Mixed (earlier fixed)	Yes	Non-Statutory	Yes	Yes	Link on home page
Spain:	Fixed	No	Non-Statutory	Yes	Yes	Through publication link
Sweden	Mixed (Fixed & articles)		Statutory	No	Yes	Link on home page
Switzerland	Mixed	No	Statutory	No	Yes	Link on home page
UK	No fixed structure/ Theme	No	Non-Statutory	No	Yes	Link on home page
Developing and Emerging Economies						
Albania:	Fixed	Yes	Statutory	Yes	Yes	Link on home page
Argentina:	Fixed	Yes	Non-Statutory	Yes	Yes	Link on home page
Armenia:	Fixed	No	Statutory	Yes	Yes	Through publication link
Bahrain:	Fixed	No	Non-Statutory	Yes	Yes	Through publication link
Bangladesh:	Fixed	No	Non-Statutory	Yes	No	Through publication link
Belarus:	Fixed	No	Non-Statutory	Yes	No	Through publication link
Bosnia:	Fixed	Yes	Non-Statutory	No	No	Through publication link
Brazil	Mixed (Fixed & articles)	Yes	Non-Statutory	Yes	Yes	Through publication link
Chile	No fixed format	No	Non-Statutory	No	No	Link on home page
China	Mixed (Fixed & articles)	Yes	Non-Statutory	No	Yes	Link on home page

Annex VII.1: Financial Stability Reports of Central Banks: Key Features *(Concld.)*

Country/Institution	Chapter Scheme of Latest Issue	Statistical Annex	Status of Publication	Whether Banking Regulator!	Whether FS is a key function!	Dissemination
1	7	8	9	10	11	12
Colombia:	Mixed (Fixed & articles)	No	Non-Statutory	No	No	Through publication link
Croatia:	Fixed	No	Non-Statutory	No	No	Link on home page
Czech Republic	Mixed (Fixed & articles)	No	Statutory	Yes	No	Link on home page
East Caribbean	Fixed	Yes	no	Yes	No	Through publication link
Estonia:	Mixed (Fixed & articles)	No	no	No	Yes	Through publication link
Georgia	Mixed	Yes	Non-Statutory	Yes	Yes	Link on home page
Hungary:	Mixed	Yes	Non-Statutory	No	No	Link on home page
Indonesia	Mixed (Fixed & articles)	No	Non-Statutory	Yes	No	Link on home page
Israel	Mixed	No	Non-Statutory	Yes	No	Through publication link
Jamaica:	Fixed	No	Non-Statutory	Yes	No	Through publication link
Kazakhstan:	Mixed	Yes	Non-Statutory	Yes	Yes	Link on home page
Latvia:	Fixed	No	Non-Statutory	No	No	Through publication link
Macedonia:	Fixed	No	Non-Statutory	Yes	No	Through publication link
Malaysia	No fixed format	Yes	Statutory	Yes	No	Through publication link
Mexico	Fixed	No	Non-Statutory	No	No	Through publication link
Mongolia					Yes	Link on home page
Pakistan	Fixed	Yes	Non-Statutory	Yes	No	Through publication link
Philippines	Fixed	Yes	Statutory	Yes	No	Through publication link
Poland	Fixed	No	Non-Statutory	Yes	Yes	Through publication link
Qatar:	Fixed	No	Non-Statutory	Yes	No	Link on home page
Romania:	Mixed	No	Non-Statutory	Yes	No	Through publication link
Russia	Fixed	No	Non-Statutory	Yes	No	Through publication link
Serbia:	Fixed	No	Statutory	Yes	Yes	Through publication link
Slovakia:	Fixed	No	Non-Statutory	Yes	No	Through publication link
Slovenia:	Fixed	Yes	Non-Statutory	Yes	No	Through publication link
South Africa:	Fixed	No	Non-Statutory	Yes	No	Link on home page
Sri Lanka:	Fixed	No	Non-Statutory	Yes	Yes	Link on home page
Thailand:						Through publication link
Turkey	Fixed	No	Non-Statutory	No	Yes	Link on home page
International Institutions						
IMF	Theme based	45-50	Non-Statutory	No	Yes	Link on home page
ECB	Fixed	50-60 pages	Non-Statutory	No	Not part of 'basic tasks' but part of ' further tasks'	Through publication link

Annex VII.2: Commonly used Variables in Financial Stability Analysis

Sectors	Measures	Frequency	What do they measure	Signaling properties
1	2	3	4	5
Real Economy	GDP growth	Q or A	Indicative of the strength of the macro-economy, GDP is key measures especially used in conjunction with measures such as credit expansion, fiscal deficit.	Negative, or low positive values would indicate a slowdown, excessively high values may show unsustainable growth.
	Fiscal position of Government	A, Q or M	Ability of Government to find financing, vulnerability of sovereign debtor to unavailability of financing	High deficit values relative to GDP can mean unsustainable Government indebtedness and vulnerability of the sovereign debtor.
	Inflation	M or A	Rate of increase of various price indices	High levels of inflation would signal structural weakness in the economy and increased levels of indebtedness, potentially leading to a tightening of monetary conditions. Conversely, low levels of inflation could potentially increase the risk appetite in the financial markets.
Corporate sector	Total debt to equity	Q or A	Corporations' leverage	Excessively high levels may signal difficulties in meeting debt obligations.
	Earnings to interest and principal expenses	Q or A	Corporations' ability to meet payment obligations relying on internal resources	Excessively low levels of liquidity may signal inability to meet debt obligations.
	Net foreign exchange exposure to equity	Q or A	Currency mismatch	High levels of this ratio may signal difficulties in the corporate sector arising from adverse currency moves.
	Corporate defaults	Q or A	Insolvencies in the corporate sector	High values can signal future problems in the banking sector, if insufficiently provisioned.
Household sector	Household assets (financial, real estate)	A, Q or M	Assets and debt can be used to compute net household assets	Net household assets and disposable income can measure households' ability to weather (unexpected) economic downturns.
	Household debt	A, Q or M		
	Household income (labour income, savings income)	A, Q or M	Income, consumption and debt services payments can be combined to compute net disposable income	
	Household consumption	A, Q or M		
	Household debt service and principal payments	A, Q or M		

Annex VII.2: Commonly used Variables in Financial Stability Analysis *(Contd.)*

Sectors	Measures	Frequency	What do they measure	Signaling properties
1	2	3	4	5
External Sector	(Real) exchange rate	D	Over/undervaluation of a currency.	Over or undervaluation of currency can trigger a crisis (capital outflows, massive inflows or loss of export competitiveness).
	Foreign exchange reserves	D	Ability of country to resist external shocks.	Reserves below short-term foreign debt, or below three months' worth of exports can signal problems.
	Current account/ capital flows	A, Q or M	Trade position of country.	Significant trade deficits require large capital inflows in order to be financed; this raises sustainability issues about such inflows.
	Maturity/currency mismatches	A, Q or M	Disparity in the currency/ maturity composition of assets and liabilities.	Maturity and Currency mismatches can expose the economy to adverse shocks in case of adverse currency movements or sudden reversals of capital inflows.
Financial Sector	Monetary aggregates	M	Transaction, saving, credit.	Excessive growth can signal inflation pressures.
	(Real) interest rates	D	Cost of credit, ability to attract deposits sustainability of debt.	Real interest rates above a threshold likely to exceed the trend rate of economic growth, making debt/ GDP ratios explosive; negative real rates may mean banks will struggle to attract deposits
	Growth in bank credit bank leverages ratios, NPLs Risk Premia (CDS); credit risk components of 3 month LIBOR - OIS spreads	M Q or A Q or A D	Riskiness of the banking sector.	Very rapid loan growth has often accompanied declining loan standards/ greater risk. Excessively high loan losses, leverage ratios and risk premia can foreshadow a banking crisis. Loan losses/GDP can measure cost of a banking crisis for economy.
	Capital adequacy	Q or A	Banks' capital cushion size to address expected or unexpected losses.	Excessively low levels of this ratio points to potential defaults and can be a forerunner of a banking crisis.
	Liquidity ratio	Q or A	Ratio of banks' readily available short-term resources that can be used to meet short-term obligations.	Excessively low levels of this ratio can lead to a systemic crisis.
	Standalone bank credit ratings	Irregular	Individual strength of banks, after the effect of Government or other guarantees has been taken into account.	Possible coincident indicator of banks' condition, likely to influence their future funding costs.
	Sector/ regional concentration, systemic focus	Q or A	Concentration of diversification of banks' lending strategy	Can proxy for speed of propagation of shocks in the economy.

Annex VII.2: Commonly used Variables in Financial Stability Analysis *(Concld.)*

Sectors	Measures	Frequency	What do they measure	Signaling properties
1	2	3	4	5
Financial markets	Change in Equity Indices	D	Net worth of present value of future cash-flows of firms comprising the index.	Above-trend growth in index, or very high levels of market to book value can be indicative of an equity price bubble.
	Corporate bond spreads	D	Riskiness of debt compared to risk-free instruments.	Spikes in spreads can suggest higher levels of risk, changes in risk appetite, and changes in the incorporation of news into prices by the market.
	Market liquidity (Government bonds, liquidity risk component of 3m LIBOR - OIS spreads)	D	Price attached by the market to the ease with which liquid instruments can be traded.	Spikes in these premia can reflect disruptions in market liquidity.
	Volatility	D	Intensity of price movements on markets Ease of trade on the market.	Low volatility can be indicative of a calm market, but also of failings in the price discovery process. High volatility can mirror a disruption of market liquidity.
	House prices	Q, A or M		House price bubble, consumption boom fuelled by equity withdrawals, potential losses to financial sector in case of downturn in prices.

A : Annual. Q : Quarterly. M : Monthly. D : Daily.

Note : Data available with a high frequency may sometimes be used with a lower frequency of FS monitoring.

Source : Blaise Gadanecz and Kaushik Jayaram (2009), Measures of financial stability – a review, BIS.

Appendix Table IV.1(A): Consolidated Balance Sheet of Public Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks*				Nationalised Banks				State Bank Group			
	2008		2009		2008		2009		2008		2009	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	13,065	0.4	13,536	0.4	10,774	0.6	11,731	0.5	1,566	0.2	1,080	0.1
2. Reserve and Surplus	1,61,721	5.4	1,94,762	5.2	93,484	5.0	1,14,721	5.0	60,140	5.9	71,341	5.6
3. Deposits	24,53,868	81.2	31,12,748	82.6	16,06,995	85.5	19,93,305	86.1	7,73,875	76.5	10,07,042	78.7
3.1. Demand Deposits	2,83,322	9.4	3,11,236	8.3	1,55,859	8.3	1,67,742	7.2	1,20,195	11.9	1,32,374	10.3
3.2. Savings Bank Deposits	5,95,734	19.7	7,05,481	18.7	3,86,277	20.5	4,44,128	19.2	2,04,635	20.2	2,55,855	20.0
3.3. Term Deposits	15,74,812	52.1	20,96,031	55.6	10,64,859	56.6	13,81,434	59.7	4,49,045	44.4	6,18,814	48.3
4. Borrowings	1,56,357	5.2	1,58,305	4.2	47,943	2.5	51,647	2.2	64,591	6.4	62,240	4.9
5. Other Liabilities and Provisions	2,36,913	7.8	2,87,366	7.6	1,21,075	6.4	1,42,698	6.2	1,10,787	11.0	1,38,508	10.8
Total Liabilities	**30,21,924**	**100.0**	**37,66,716**	**100.0**	**18,80,271**	**100.0**	**23,14,102**	**100.0**	**10,10,959**	**100.0**	**12,80,212**	**100.0**
Assets												
1. Cash and Balances with RBI	2,29,679	7.6	2,24,141	6.0	1,48,271	7.9	1,41,443	6.1	74,714	7.4	74,107	5.8
2. Balances with Banks and Money at Call and Short Notice	63,586	2.1	1,31,304	3.5	42,453	2.3	75,153	3.2	19,069	1.9	53,522	4.2
3. Investments	7,99,841	26.5	10,12,666	26.9	5,03,215	26.8	6,04,994	26.1	2,63,823	26.1	3,57,624	27.9
3.1 In Government Securities (a+b)	6,48,847	21.5	8,47,232	22.5	4,16,780	22.2	5,05,507	21.8	2,08,764	20.7	3,01,007	23.5
a. In India	6,43,430	21.3	8,41,597	22.3	4,11,757	21.9	5,00,615	21.6	2,08,370	20.6	3,00,264	23.5
b. Outside India	5,418	0.2	5,635	0.1	5,023	0.3	4,892	0.2	394	–	743	0.1
3.2 In Other Approved Securities	10,274	0.3	7,931	0.2	7,003	0.4	5,671	0.2	3,260	0.3	2,252	0.2
3.3 In Non-Approved Securities	1,40,720	4.7	1,57,504	4.2	79,432	4.2	93,816	4.1	51,799	5.1	54,365	4.2
4. Loans and Advances	17,97,401	59.5	22,60,156	60.0	11,21,466	59.6	14,17,121	61.2	5,93,722	58.7	7,39,606	57.8
4.1 Bills Purchased and Discounted	1,07,783	3.6	1,27,523	3.4	60,860	3.2	71,605	3.1	44,280	4.4	53,465	4.2
4.2 Cash Credits, Overdrafts, *etc.*	6,92,443	22.9	8,95,999	23.8	4,62,440	24.6	5,82,858	25.2	2,21,771	21.9	3,00,331	23.5
4.3 Term Loans	9,97,175	33.0	12,36,634	32.8	5,98,165	31.8	7,62,659	33.0	3,27,672	32.4	3,85,809	30.1
5. Fixed Assets	28,797	1.0	33,743	0.9	21,440	1.1	25,407	1.1	4,591	0.5	5,512	0.4
6. Other Assets	1,02,619	3.4	1,04,707	2.8	43,426	2.3	49,984	2.2	55,039	5.4	49,840	3.9
Total Assets	**30,21,924**	**100.0**	**37,66,716**	**100.0**	**18,80,271**	**100.0**	**23,14,102**	**100.0**	**10,10,959**	**100.0**	**12,80,212**	**100.0**

* Includes IDBI Bank Ltd.

Appendix Table IV.1 (B): Consolidated Balance Sheet of Private Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	2008		2009		2008		2009		2008		2009	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	4,613	0.5	4,591	0.5	1,083	0.6	1,171	0.5	3,531	0.5	3,420	0.4
2. Reserve and Surplus	86,757	9.2	95,431	9.3	14,232	7.3	16,309	7.0	72,525	9.7	79,122	9.9
3. Deposits	6,75,033	71.8	7,36,379	71.7	1,65,589	85.1	1,99,274	85.9	5,09,444	68.3	5,37,105	67.5
3.1. Demand Deposits	99,534	10.6	1,00,793	9.8	17,313	8.9	17,632	7.6	82,220	11.0	83,160	10.5
3.2. Savings Bank Deposits	1,22,064	13.0	1,40,269	13.7	29,869	15.4	34,532	14.9	92,195	12.4	1,05,738	13.3
3.3. Term Deposits	4,53,435	48.2	4,95,317	48.2	1,18,406	60.9	1,47,110	63.4	3,35,029	44.9	3,48,207	43.8
4. Borrowings	87,957	9.4	94,754	9.2	3,477	1.8	4,263	1.8	84,480	11.3	90,490	11.4
5. Other Liabilities and Provisions	85,783	9.1	96,311	9.4	10,164	5.2	10,984	4.7	75,619	10.1	85,327	10.7
Total Liabilities	**9,40,144**	**100.0**	**10,27,465**	**100.0**	**1,94,544**	**100.0**	**2,32,001**	**100.0**	**7,45,599**	**100.0**	**7,95,464**	**100.0**
Assets												
1. Cash and Balances with RBI	71,282	7.6	57,477	5.6	15,512	8.0	13,250	5.7	55,769	7.5	44,227	5.6
2. Balances with Banks and Money at Call and Short Notice	25,588	2.7	34,026	3.3	6,880	3.5	10,122	4.4	18,708	2.5	23,904	3.0
3. Investments	2,78,578	29.6	3,06,455	29.8	54,080	27.8	72,316	31.2	2,24,498	30.1	2,34,139	29.4
3.1 In Government Securities (a+b)	1,94,025	20.6	2,17,216	21.1	42,133	21.7	53,623	23.1	1,51,892	20.4	1,63,593	20.6
a. In India	1,93,885	20.6	2,17,121	21.1	42,133	21.7	53,623	23.1	1,51,752	20.4	1,63,497	20.6
b. Outside India	140	–	95	–	–	–	–	–	140	–	95	–
3.2 In Other Approved Securities	281	–	217	–	245	0.1	185	0.1	36	–	31	–
3.3 In Non-Approved Securities	84,272	9.0	89,022	8.7	11,702	6.0	18,508	8.0	72,570	9.7	70,514	8.9
4. Loans and Advances	5,18,402	55.1	5,75,336	56.0	1,11,670	57.4	1,28,512	55.4	4,06,733	54.6	4,46,824	56.2
4.1 Bills Purchased and Discounted	27,441	2.9	31,227	3.0	7,028	3.6	7,523	3.2	20,413	2.7	23,704	3.0
4.2 Cash Credits, Overdrafts, *etc.*	1,29,861	13.8	1,44,835	14.1	49,035	25.2	56,419	24.3	80,826	10.8	88,416	11.1
4.3 Term Loans	3,61,100	38.4	3,99,274	38.9	55,606	28.6	64,570	27.8	3,05,493	41.0	3,34,703	42.1
5. Fixed Assets	9,628	1.0	9,880	1.0	2,022	1.0	2,183	0.9	7,607	1.0	7,698	1.0
6. Other Assets	36,666	3.9	44,290	4.3	4,381	2.3	5,617	2.4	32,285	4.3	38,673	4.9
Total Assets	**9,40,144**	**100.0**	**10,27,465**	**100.0**	**1,94,544**	**100.0**	**2,32,001**	**100.0**	**7,45,599**	**100.0**	**7,95,464**	**100.0**

* Includes IDBI Bank Ltd.

Appendix Table IV.I (C): Consolidated Balance Sheet of Foreign Banks in India
(As at end-March)

(Amount in Rs. crore)

Item	2008		2009	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	22,286	6.1	25,911	5.8
2. Reserve and Surplus	27,046	7.4	34,026	7.6
3. Deposits	1,91,161	52.5	2,14,077	47.9
3.1. Demand Deposits	59,200	16.3	60,550	13.5
3.2. Savings Bank Deposits	26,254	7.2	28,789	6.4
3.3. Term Deposits	1,05,707	29.0	1,24,737	27.9
4. Borrowings	58,315	16.0	70,127	15.7
5. Other Liabilities and Provisions	65,291	17.9	1,03,009	23.0
Total Liabilities	**3,64,099**	**100.0**	**4,47,149**	**100.0**
Assets				
1. Cash and Balances with RBI	22,011	6.0	15,646	3.5
2. Balances with Banks and Money at Call and Short Notice	19,935	5.5	33,251	7.4
3. Investments	98,910	27.2	1,30,354	29.2
3.1 In Government Securities(a+b)	82,851	22.8	99,997	22.4
a. In India	82,851	22.8	99,997	22.4
b. Outside India	–	–	–	–
3.2 In Other Approved Securities	33	–	6	–
3.3 In Non-Approved Securities	16,026	4.4	30,350	6.8
4. Loans and Advances	1,61,133	44.3	1,65,415	37.0
4.1. Bills Purchased and Discounted	15,763	4.3	15,160	3.4
4.2. Cash Credits, Overdrafts,etc.	66,578	18.3	72,723	16.3
4.3. Term Loans	78,791	21.6	77,531	17.3
5. Fixed Assets	3,969	1.1	4,738	1.1
6. Other Assets	58,141	16.0	97,746	21.9
Total Assets	**3,64,099**	**100.0**	**4,47,149**	**100.0**

– : Nil/Negligible.
Source : Balance Sheets of respective banks.

Appendix Table IV.2: Issue of Certificates of Deposit by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Amount Outstanding	Range of Discount Rate (Per cent) @	Fortnight ended	Total Amount Outstanding	Rate of Discount Rate (Per cent) @
1	2	3	4	5	6
2008			**2009**		
January 4	1,27,154	6.9 - 9.8	January 2	1,52,901	7.0 - 11.5
January 18	1,29,123	7.9 - 9.2	January 16	1,62,883	6.1 - 11.5
February 1	1,32,395	7.9 - 9.9	January 30	1,64,979	5.3 - 11.5
February 14	1,35,097	6.8 - 9.8	February 13	1,74,088	5.4 - 11.5
February 29	1,39,160	9.2 - 10.3	February 27	1,75,057	5.4 - 11.5
March 14	1,43,714	7.0 - 10.5	March 13	1,67,320	5.5 - 11.5
March 28	1,47,792	9.0 - 10.8	March 27	1,92,867	6.0 - 11.5
April 11	1,49,986	8.0 - 9.7	April 10	1,98,497	5.9 - 11.5
April 25	1,50,865	7.7 - 10.0	April 24	2,10,954	3.9 - 11.5
May 9	1,53,410	7.8 - 10.2	May 8	2,11,370	3.8 - 6.2
May 23	1,56,780	8.0 - 10.2	May 22	2,18,437	3.7 - 7.6
June 6	1,59,696	8.6 - 10.2	June 5	2,18,079	3.9 - 6.6
June 20	1,63,143	8.6 - 9.8	June 19	2,21,491	3.6 - 8.0
July 4	1,64,557	8.3 - 10.6	July 3	2,28,638	3.3 - 8.3
July 18	1,64,892	8.9 - 11.0	July 17	2,35,715	3.3 - 8.0
August 1	1,63,546	8.9 - 11.1	July 31	2,40,395	3.6 - 8.0
August 15	1,66,996	8.9 - 11.1	Aug 14	2,30,198	3.8 - 8.0
August 29	1,71,966	10.0 - 11.6	Aug 28	2,32,522	3.6 - 8.0
September 12	1,78,280	8.9 - 12.0			
September 26	1,75,522	8.9 - 12.4			
October 10	1,74,975	8.9 - 21.0			
October 24	1,58,562	8.8 - 12.9			
November 7	1,54,172	8.9 - 11.5			
November 21	1,51,493	8.8 - 11.8			
December 5	1,50,779	8.5 - 11.0			
December 19	1,51,214	7.0 - 11.5			

@ : Effective discount rate range per annum.

Appendix Table IV.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Sector	Outstanding as on			Variation	
		March 31, 2007	March 28, 2008	March 27, 2009	2007-08	2008-09
	1	2	3	4	5	6
I.	**Gross Bank Credit (II + III)**	**18,48,187**	**22,47,289**	**26,48,501**	**3,99,102**	**4,01,212**
II.	**Food Credit**	**46,947**	**44,399**	**46,211**	**-2,548**	**1,812**
III.	**Non-Food Gross Bank Credit (1 to 4)**	**18,01,240**	**22,02,890**	**26,02,290**	**4,01,650**	**3,99,400**
		(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
	1. Agriculture and Allied Activities	**2,30,377**	**2,75,343**	**3,38,656**	**44,966**	**63,313**
		(12.8)	**(12.5)**	**(13.0)**	**(11.2)**	**(15.9)**
	2. Industry	**6,97,339**	**8,66,875**	**10,54,390**	**1,69,536**	**1,87,515**
		(38.7)	**(39.4)**	**(40.5)**	**(42.2)**	**(46.9)**
	3. Services	**4,20,766**	**5,53,185**	**6,46,765**	**1,32,419**	**93,580**
		(23.4)	**(25.1)**	**(24.9)**	**(33.0)**	**(23.4)**
	3.1 Transport Operators	28,332	37,818	39,302	9,486	1,484
		(1.6)	(1.7)	(1.5)	(2.4)	(0.4)
	3.2 Computer Software	5,156	8,251	9,687	3,095	1,436
		(0.3)	(0.4)	(0.4)	(0.8)	(0.4)
	3.3 Tourism and Hotels and Restaurants	9,797	12,205	13,625	2,408	1,420
		(0.5)	(0.6)	(0.5)	(0.6)	(0.4)
	3.4 Shipping	6,860	7,557	9,417	697	1,860
		(0.4)	(0.3)	(0.4)	(0.2)	(0.5)
	3.5 Professional Services	23,932	27,133	45,373	3,201	18,240
		(1.3)	(1.2)	(1.7)	(0.8)	(4.6)
	3.6 Trade	1,06,662	1,23,721	1,44,377	17,059	20,656
		(5.9)	(5.6)	(5.5)	(4.2)	(5.2)
	3.6.1 Wholesale Trade (other than food procurement)	50,143	55,702	67,425	5,559	11,723
		(2.8)	(2.5)	(2.6)	(1.4)	(2.9)
	3.6.2 Retail Trade	56,519	68,019	76,951	11,500	8,932
		(3.1)	(3.1)	(3.0)	(2.9)	(2.2)
	3.7 Real Estate Loans	44,079	63,314	91,575	19,235	28,261
		(2.4)	(2.9)	(3.5)	(4.8)	(7.1)
	3.8 Non-Banking Financial Companies	48,924	79,018	98,853	30,094	19,835
		(2.7)	(3.6)	(3.8)	(7.5)	(5.0)
	3.9 All Other Services	1,47,024	1,94,168	1,94,556	47,144	388
		(8.2)	(8.8)	(7.5)	(11.7)	(0.1)
	4. Personal Loans	**4,52,758**	**5,07,488**	**5,62,479**	**54,730**	**54,991**
		(25.1)	**(23.0)**	**(21.6)**	**(13.6)**	**(13.8)**
	4.1 Consumer Durables	9,189	8,799	8,187	-390	-612
		(0.5)	(0.4)	(0.3)	-(0.1)	-(0.2)
	4.2 Housing	2,30,990	2,57,792	2,76,957	26,802	19,165
		(12.8)	(11.7)	(10.6)	(6.7)	(4.8)
	4.3 Advances against Fixed Deposits (including FCNR (B), NRNR Deposits, *etc.*)	40,835	45,005	48,676	4,170	3,671
		(2.3)	(2.0)	(1.9)	(1.0)	(0.9)
	4.4 Advances to individuals against share, bonds, *etc.*	4,876	4,177	2,286	-699	-1,891
		(0.3)	(0.2)	(0.1)	-(0.2)	-(0.5)
	4.5 Credit Card Outstandings	18,299	26,393	28,000	8,094	1,607
		(1.0)	(1.2)	(1.1)	(2.0)	(0.4)
	4.6 Education	15,208	20,532	28,579	5,324	8,047
		(0.8)	(0.9)	(1.1)	(1.3)	(2.0)
	4.7 Other Personal Loans	1,33,361	1,50,658	1,69,795	17,297	19,137
		(7.4)	(6.8)	(6.5)	(4.3)	(4.8)
	Memo:					
	5. Priority Sector	**6,35,966**	**7,47,380**	**9,15,886**	**1,11,414**	**1,68,506**
		(35.3)	**(33.9)**	**(35.2)**	**(27.7)**	**(42.2)**
	5.1 Agriculture & Allied Activities	2,30,377	2,75,342	3,38,656	44,965	63,314
		(12.8)	(12.5)	(13.0)	(11.2)	(15.9)
	5.2 Micro & Small Enterprises *	N.A.	2,04,892	2,59,998	–	55,106
			(9.3)	(10.0)		(13.8)
	5.3 Housing	1,60,343	1,91,878	2,03,154	31,535	11,276
		(8.9)	(8.7)	(7.8)	(7.9)	(2.8)

* : Micro & Small Enterprises include manufacturing as well as service enterprises.

N.A. : Not Available.

Note : 1. Data are provisional and relate to select scheduled commercial banks which account for more than 90 per cent of bank credit of all scheduled commercial banks. 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.

3. Figures in parentheses represent the share in total non-food gross bank credit.

Appendix Table IV.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 2006	March 2007	March 2008	March 2009@	June 1969	March 2006	March 2007	March 2008	March 2009@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	238	251	276	294	162 (15.3)	1,55,220 (15.4)	2,02,614 (15.4)	2,49,397 (17.5)	2,98,211 (17.2)
i) Direct	221.0	237	237	272	288	1,12,126 (11.0)	1,44,372 (11.0)	1,44,372 (11.0)	1,77,259 (13.0)	2,15,643 (12.8)
ii) Indirect	17.0	14		4	6	43,093 (4.2)	58,242 (4.4)	58,242 (4.4)	72,138 (5.3)	82,569 (4.9)
II. Small-scale industries	0.5	17	17	–	–	257 (8.1)	82,434 (7.8)	1,02,550 (7.8)	– –	– –
II. (A) Small Enterprise*	–	–	–	40	42	–	–	–	1,51,137 (11.1)	1,91,307 (11.3)
III. Other priority sector advances	0.4	92	111	–	–	22 (0.7)	1,63,756 (16.1)	2,06,661 (15.7)	– –	– –
IV. Retail Trade*	–	–	–	32	34	–	–	–	40,519	43,061
V. Micro - Credit*	–	–	–	7	9	–	–	–	2,707	3,943
VI. Education*	–	–	–	12	16	–	–	–	19,748	26,913
VII. Housing*	–	–	–	34	36	–	–	–	1,46,868	1,56,590
VIII. Total priority sector advances #	2.6	358	389	401	431	441 (14.6)	4,09,748 (40.3)	5,21,376 (39.7)	6,10,450 (44.7)	7,20,083 (42.5)
IX. Net Bank Credit	–	–	–	–	–	3,016	10,17,656	13,13,840	13,64,268	16,93,437
IX. (A) Adjusted Net Bank Credit	–	–	–	–	–	–	–	–	–	–

@ : 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 IV.5: Advances of Public Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		Total Priority Sector Advances	
		Amount	Per cent to 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	12
	Public Sector Banks										
	Nationalised Banks										
1.	Allahabad Bank	7,045	14.2	1,944	3.9	8,989	18.1	5,010	10.1	20,040	40.3
2.	Andhra Bank	6,122	17.7	712	2.1	6,834	19.8	4,891	14.2	14,955	43.3
3.	Bank of Baroda	10,466	12.4	6,498	7.7	16,964	16.9	8,156	9.7	39,239	46.4
4.	Bank of India	12,082	13.7	4,264	4.8	16,346	18.2	10,400	11.8	41,317	46.7
5.	Bank of Maharashtra	3,181	10.7	1,341	4.5	4,522	15.2	1,893	6.4	11,933	40.1
6.	Canara Bank	15,510	14.6	4,634	4.4	20,144	19.0	10,809	10.2	48,763	46.0
7.	Central Bank of India	8,835	12.0	4,804	6.5	13,639	16.5	7,392	10.0	28,453	38.7
8.	Corporation Bank	2,567	6.6	1,764	4.5	4,330	11.1	2,118	5.4	15,752	40.2
9.	Dena Bank	2,563	11.0	1,288	5.5	3,851	15.5	1,462	6.3	9,715	41.6
10.	Indian Bank	6,438	16.9	1,180	3.1	7,618	19.9	4,079	10.7	18,157	47.5
11.	Indian Overseas Bank	7,961	14.0	2,612	4.6	10,573	18.5	6,073	10.7	23,719	41.6
12.	Oriental Bank of Commerce	4,823	8.8	3,742	6.9	8,565	13.3	2,984	5.5	22,230	40.7
13.	Punjab National Bank	18,529	15.4	5,277	4.4	23,806	19.7	13,509	11.2	50,136	41.5
14.	Punjab & Sind Bank	1,763	9.6	1,206	6.6	2,969	14.1	1,670	9.1	7,388	40.1
15.	Syndicate Bank	8,154	13.9	2,641	4.5	10,796	18.4	6,218	10.6	27,445	46.8
16.	Union Bank of India	8,608	11.5	4,625	6.2	13,233	16.0	6,278	8.4	35,747	47.7
17.	United Bank of India	2,382	8.5	1,487	5.3	3,869	13.0	2,595	9.2	11,652	41.4
18.	UCO Bank	7,200	14.5	3,839	7.7	11,038	19.0	5,663	11.4	24,607	49.4
19.	Vijaya Bank	3,053	9.5	1,460	4.6	4,513	14.0	3,045	9.5	13,450	42.0
20.	IDBI Bank Ltd.	4,799	5.8	3,512	4.3	8,311	10.1	1,214	1.5	22,738	27.5
	State Bank Group										
21.	State Bank of India	52,253	13.8	17,026	4.5	69,279	18.3	43,597	11.5	1,60,892	42.5
22.	State Bank of Bikaner & Jaipur	3,986	15.7	842	3.3	4,828	19.1	2,709	10.7	11,122	43.9
23.	State Bank of Hyderabad	5,160	14.3	1,772	4.9	6,932	18.8	4,602	12.8	14,496	40.2
24.	State Bank of Indore	2,575	14.0	769	4.2	3,343	18.2	2,164	11.8	10,052	54.8
25.	State Bank of Mysore	2,744	12.9	827	3.9	3,571	16.8	2,185	10.3	8,370	39.3
26.	State Bank of Patiala	4,405	12.0	635	1.7	5,040	13.7	3,323	9.1	13,779	37.5
27.	State Bank of Travancore	2,431	8.5	522	1.8	2,953	10.3	2,804	9.8	13,350	46.4

Notes : 1. Data are provisional.
2. ANBC – Adjusted net bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher, with effect from April 30, 2007.
3. 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 IV.5A: Targets Achieved by Public Sector Banks under the Priority Sector

(As on the last reporting Friday of March 2009)

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	√	x	x
4.	Bank of India	√	√	√
5.	Bank of Maharashtra	√	x	x
6.	Canara Bank	√	√	√
7.	Central Bank of India	x	x	√
8.	Corporation Bank	√	x	x
9.	Dena Bank	√	x	x
10.	Indian Bank	√	√	√
11.	Indian Overseas Bank	√	√	√
12.	Oriental Bank of Commerce	√	x	x
13.	Punjab National Bank	√	√	√
14.	Punjab & Sind Bank	√	x	x
15.	Syndicate Bank	√	√	√
16.	Union Bank of India	√	x	x
17.	United Bank of India	√	x	x
18.	UCO Bank	√	√	√
19.	Vijaya Bank	√	x	x
20.	IDBI Bank Ltd.	√	√	x
	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	x	x	√
26.	State Bank of Patiala	x	x	x
27.	State Bank of Travancore	√	x	x

* : Includes data for IDBI Bank Ltd.

√ : Indicates meeting the respective norm for the priority sector.

x : Indicates shortfall in respective norm for the priority sector.

Note : For IDBI Ltd. concessional priority sector lending and agriculture lending targets have been fixed at 27.0 per cent and 10.0 per cent of ANBC respectively at the end of the last reporting Friday of March 2009.

Appendix Table IV.6: Advances to the Priority Sectors by Private Sector Banks
(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2007		March 2008		March 2009@	
	Amount	Percentage of ANBC	Amount	Percentage of ANBC	Amount	Percentage of ANBC
1	2	3	4	5	6	7
Priority Sector Advances #	**1,44,549**	**42.9**	**1,64,068**	**47.8**	**1,90,207**	**46.8**
of which :						
I. Agriculture	52,034	12.7	58,567	15.4	76,062	15.9
II. Small-scale industries	13,136	3.9	–	–	–	–
III. Small Enterprises *	–	–	46,912	13.7	47,916	12.0
IV. Other priority sectors	76,919	22.9	–	–	–	–
V. Retail Trade	–	–	8,037	2.4	7,325	1.8
VI. Micro Credit	–	–	2,494	0.7	4,612	1.1
VII. Education	–	–	509	0.1	797	0.2
VIII. Housing	–	–	47,516	13.8	53,463	13.2

@ : 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. ANBC - 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 IV.7: Advances of Private Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2009)

(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										
1.	Axis Bank Ltd.	5,629	10.3	2,453	4.5	8,083	14.8	3,573	6.6	23,025	42.2
2.	Bank of Rajasthan Ltd.	148	2.0	815	10.8	962	6.5	98	1.3	1,992	26.5
3.	Catholic Syrian Bank Ltd.	467	13.9	214	6.4	681	18.4	356	10.6	1,462	43.5
4.	City Union Bank Ltd.	319	7.0	87	1.9	406	8.9	207	4.5	1,833	40.1
5.	Development Credit Bank Ltd.	444	10.8	325	7.9	770	15.3	214	5.2	1,553	37.8
6.	Dhanalakshmi Bank Ltd.	361	16.8	191	8.9	552	21.3	220	10.3	1,135	52.9
7.	Federal Bank Ltd.	1,770	9.4	705	3.7	2,475	13.1	906	4.8	8,687	46.0
8.	Yes Bank Ltd.	1,723	18.3	532	5.6	2,255	22.8	649	6.9	4,020	42.6
9.	HDFC Bank Ltd.	5,775	9.0	7,601	11.9	13,376	13.5	1,199	1.9	33,696	52.6
10.	ICICI Bank Ltd.	19,675	14.5	11,701	8.7	31,376	19.0	2,074	1.5	68,426	50.6
11.	IndusInd Bank Ltd.	2,014	15.7	1,020	8.0	3,035	20.2	1,280	10.0	6,257	48.9
12.	ING Vysya Bank Ltd.	740	5.1	951	6.5	1,691	9.6	389	2.7	6,293	43.0
13.	Jammu & Kashmir Bank Ltd.	1,184	7.1	703	4.2	1,886	11.3	2,031	12.1	7,339	43.8
14.	Karnataka Bank Ltd.	452	4.1	709	6.4	1,161	8.6	149	1.3	4,553	41.0
15.	Karur Vysya Bank Ltd.	681	7.1	295	3.1	976	10.2	520	5.4	3,815	39.9
16.	Kotak Mahindra Bank Ltd.	2,022	12.9	566	3.6	2,588	16.5	906	5.8	6,473	41.2
17.	Lakshmi Vilas Bank Ltd.	694	18.0	105	2.7	799	20.7	329	8.5	1,763	45.7
18.	Nainital Bank Ltd.	169	17.0	25	2.5	194	19.5	90	9.1	628	69.2
19.	Ratnakar Bank Ltd.	62	10.0	37	6.0	99	14.5	16	2.7	276	44.8
20.	SBI Commercial & International Bank Ltd.	4	1.0	36	9.8	39	5.5	–	–	134	36.8
21.	South Indian Bank Ltd.	1,438	13.4	330	3.1	1,768	16.4	274	2.6	4,263	39.6
22.	Tamilnad Mercantile Bank Ltd.	740	13.6	262	4.8	1,002	18.1	364	6.7	2,680	49.4

Notes : 1. Data are provisional.

2. ANBC - 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 IV.7A: Targets achieved by Private Sector Banks under the Priority Sector
(As on the last reporting Friday of March 2009)

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.	City Union Bank Ltd.	√	×	×
5.	Development Credit Bank Ltd.	×	×	×
6.	Dhanalakshmi Bank Ltd.	√	√	√
7.	Federal Bank Ltd.	√	×	×
8.	Yes Bank Ltd.	√	√	×
9.	HDFC Bank Ltd.	√	×	×
10.	ICICI Bank Ltd.	√	√	×
11.	IndusInd Bank Ltd.	√	√	√
12.	ING Vysya Bank Ltd.	√	×	×
13.	Jammu & Kashmir Bank Ltd.	√	×	√
14.	Karnataka Bank Ltd.	√	×	×
15.	Karur Vysya Bank Ltd.	×	×	×
16.	Kotak Mahindra Bank Ltd.	√	×	×
17.	Lakshmi Vilas Bank Ltd.	√	√	×
18.	Nainital Bank Ltd.	√	√	×
19.	Ratnakar Bank Ltd.	√	×	×
20.	SBI Commercial & International Bank Ltd.	×	×	×
21.	South Indian Bank Ltd.	×	×	×
22.	Tamilnad Mercantile Bank Ltd.	√	√	×

√: Indicates meeting the respective norm for the priority sector.
×: Indicates shortfall in respective norm for the priority sector.

Appendix Table IV.8: Advances to the Priority Sector by Foreign Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March-2007		March-2008		March-2009 @	
	Amount	Percentage of ANBC	Amount	Percentage of ANBC	Amount	Percentage of ANBC
1	2	3	4	5	6	7
Priority Sector Advances #	**37,831**	**33.4**	**50,254**	**39.5**	**55,483**	**34.3**
Of which :						
I. Export Credit	20,711	18.3	28,954	22.7	31,511	19.4
II. Small-Scale Industries*	11,637	10.3	15,489	12.2	18,138	11.2

@ : Provisional.

* : In terms of revised guidelines on lending to priority sector , broad category of advances under priority sector include agriculture, micro and small enterprises, retail trade, micro-credit, education and housing.

\# : 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 : ANBC - 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 IV.8A: Advances of Foreign Banks to Micro and Small Enterprises (MSE) and Export sectors

(As on the last reporting Friday of March 2009)

(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						
1	ABN Amro Bank	2,341	11.4	5,062	24.7	6,688	32.6
2	Abu Dhabi Commercial Bank	6	3.3	19	10.5	40	21.9
3	Antwerp Diamond Bank	152	31.9	770	161.7	713	149.7
4	AB Bank	10	38.8	0	0.6	10	39.5
5	Bank of America	335	10.3	784	24.1	1,119	34.4
6	Bank of Baharin and Kuwait	48	17.1	22	7.7	70	25.1
7	Bank of Ceylon	7	13.1	12	21.5	20	35.1
8	Bank of Nova Scotia	351	7.4	1,563	32.7	1,824	38.2
9	Bank of Tokyo-Mitsubishi	156	6.8	809	35.1	1,017	44.1
10	Barclays Bank PLC	1,004	13.2	953	12.5	2,559	33.5
11	BNP Paribas	670	17.6	532	14.0	1,292	34.0
12	China Trust Commercial Bank	40	31.3	18	14.1	59	45.4
13	Citi Bank	3,994	10.4	6,534	17.0	12,678	33.0
14	Calyon Bank	215	11.6	469	25.2	684	36.8
15	Deutsche Bank	1,051	11.7	2,006	22.2	3,108	34.4
16	DBS Bank	422	17.9	660	27.9	1,084	45.8
17	HSBC Ltd.	3,461	11.4	5,131	16.8	10,077	33.1
18	JP Morgan Chase Bank	126	10.3	288	23.6	414	33.9
19	Krung Thai Bank	7	73.6	0	3.0	7	73.6
20	Mashreqbank	3	7.4	8	20.6	11	28.0
21	Mizuho Corporate Bank	93	10.8	200	23.2	344	39.8
22	Oman International bank	–	–	–	–	–	–
23	Shinhan Bank	39	12.3	40	12.7	111	35.2
24	Societe Generale	41	10.5	90	23.3	130	33.8
25	Sonali Bank	1	9.0	8	105.2	9	114.3
26	Standard Chartered Bank	3,565	10.7	5,439	16.3	11,359	34.1
27	State Bank of Mauritius	35	16.4	16	7.5	81	38.0

– : Nil/Negligible.

Notes : 1. Data are provisional.

2. ANBC – 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 IV.8 B: Targets Achieved by Foreign Banks under the Priority Sector
(As on the last reporting Friday of March 2009)

Sr. No.	Name of the bank	Overall	Micro and Small Enterprises Advances	Export Credit
1	2	3	4	
	Foreign Banks			
1	ABN Amro Bank	√	√	√
2	Abu Dhabi Commercial Bank	x	x	x
3	Antwerp Diamond Bank	√	√	√
4	A B Bank	√	√	x
5	Bank of America	√	√	√
6	Bank of Baharin and Kuwait	x	√	x
7	Bank of Ceylon	√	√	√
8	Bank of Nova Scotia	√	x	√
9	Bank of Tokyo-Mitsubishi UFJ	√	x	√
10	Barclays Bank PLC	√	√	√
11	BNP Paribas	√	√	√
12	China Trust Commercial Bank	√	√	√
13	Citi Bank	√	√	√
14	Calyon Bank	√	√	√
15	Deutsche Bank	√	√	√
16	DBS Bank	√	√	√
17	HSBC Ltd.	√	√	√
18	JP Morgan Chase Bank	√	√	√
19	Krung Thai Bank	√	√	x
20	Mashreqbank	x	x	√
21	Mizuho Corporate Bank	√	√	√
22	Oman Inter Bank	x	x	x
23	Shinhan Bank	√	√	√
24	Societe Generale	√	√	√
25	Sonali Bank	√	x	√
26	Standard Chartered Bank	√	√	√
27	State Bank of Mauritius	√	√	x

√ : Indicates meeting the respective norm for the priority sector.

x : Indicates shortfall in respective norm for the priority sector.

Appendix Table IV.9: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sr. No.	Industry	Outstanding as on			Absolute Variation	
		March 31, 2007	March 28, 2008	March 27, 2009	2007-08	2008-09
	1	2	3	4	5	6
	Industry (Small, Medium and Large)	**6,97,339**	**8,66,875**	**10,54,390**	**1,69,536**	**1,87,515**
1.	Mining and Quarrying (Including Coal)	7,704	12,262	14,241	4,558	1,979
2.	Food Processing	40,011	49,382	53,779	9,371	4,397
	of which:					
	Sugar	11,551	16,080	17,309	4,529	1,229
	Edible Oils and Vanaspati	6,114	7,260	6,763	1,146	-497
	Tea	2,340	2,483	2,731	143	248
	Others	20,006	23,559	26,976	3,553	3,417
3.	Beverage & Tobacco	4,774	6,297	8,405	1,523	2,108
4.	Textiles	79,006	96,489	1,02,695	17,483	6,206
	of which:					
	Cotton Textiles	38,049	47,802	51,307	9,753	3,505
	Jute Textiles	967	1,080	1,469	113	389
	Man Made Textiles	4,178	5,280	6,398	1,102	1,118
	Other Textiles	35,812	42,327	43,521	6,515	1,194
5.	Leather & Leather Products	4,774	5,743	6,146	969	403
6.	Wood and Wood Products	2,889	3,160	4,138	271	978
7.	Paper and Paper Products	11,588	13,462	15,983	1,874	2,521
8.	Petroleum, Coal Products and Nuclear Fuels	35,886	41,601	68,147	5,715	26,546
9.	Chemicals and Chemical Products	55,900	62,460	75,555	6,560	13,095
	of which:					
	Fertiliser	9,837	9,179	14,265	-658	5,086
	Drugs & Pharmaceuticals	18,653	23,451	29,755	4,798	6,304
	Petro Chemicals	8,316	8,755	8,782	439	27
	Others	19,094	21,075	22,753	1,981	1,678
10.	Rubber,Plastic & their Products	9,250	11,148	13,587	1,898	2,439
11.	Glass and Glass Ware	2,564	2,776	4,240	212	1,464
12.	Cement and Cement Products	9,410	12,566	19,220	3,156	6,654
13.	Basic Metals and Metal Products	83,737	1,07,501	1,28,763	23,764	21,262
	of which:					
	Iron and Steel.	63,744	82,602	99,159	18,858	16,557
	Other Metal and Metal Products	19,993	24,899	29,604	4,906	4,705
14.	All Engineering	43,762	54,452	65,807	10,690	11,355
	of which:					
	Electronics	13,511	15,833	18,912	2,322	3,079
	Others	30,251	38,619	46,895	8,368	8,276
15.	Vehicles, Vehicle Parts and Transport Equipments	20,855	29,221	34,642	8,366	5,421
16.	Gems and Jewellery	23,850	25,083	28,537	1,233	3,454
17.	Construction	19,997	27,949	38,505	7,952	10,556
18.	Infrastructure	1,43,375	2,05,120	2,69,972	61,745	64,852
	of which:					
	Power	73,158	95,067	1,24,447	21,909	29,380
	Telecomunications	19,446	38,043	50,326	18,597	12,283
	Roads & Ports	24,984	34,530	47,060	9,546	12,530
	Other Infrastructure	25,787	37,479	48,159	11,692	10,680
19.	Other Industries	97,977	1,00,203	1,02,028	2,226	1,825

Note: 1. Data are provisional and relate to select banks. Data also include the effects of mergers of Bharat Overseas Bank with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.

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

Appendix Table IV.10: Accommodation by the Reserve Bank to Scheduled Commercial Banks

(Amount in Rs. crore)

As on the last reporting Friday of	Total Export Credit Refinance		Others		Total Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding
1	2	3	4	5	6 (2+4)	7 (3+5)
2003						
March	5,048	85	400	–	5,448	85
2004						
March	4,664	–	400	–	5,064	–
2005						
March	4,912	50	400	–	5,312	50
2006						
March	6,051	1,568	–	–	6,051	1,568
2007						
January	7,470	3,013	–	–	7,470	3,013
February	7,946	–	–	–	7,946	–
March	8,110	4,985	–	–	8,110	4,985
April	8,872	3,760	–	–	8,872	3,760
May	8,511	2,746	–	–	8,511	2,746
June	8,343	101	–	–	8,343	101
July	8,103	1	–	–	8,103	1
August	7,807	92	–	–	7,807	92
September	7,505	45	–	–	7,505	45
October	7,705	–	–	–	7,705	–
November	7,836	169	–	–	7,836	169
December	7,819	779	–	–	7,819	779
2008						
January	8,413	3,844	–	–	8,413	3,844
February	8,709	173	–	–	8,709	173
March	9,103	2,825	–	–	9,103	2,825
April	9,509	474	–	–	9,509	474
May	9,265	166	–	–	9,265	166
June	9,052	1,132	–	–	9,052	1,132
July	9,763	3,129	–	–	9,763	3,129
August	9,450	977	–	–	9,450	977
September	9,434	4,481	–	–	9,434	4,481
October	9,653	91	–	–	9,653	91
November	34,740	2,698	–	–	34,740	2,698
December	35,992	5,331	–	–	35,992	5,331
2009						
January	37,367	1,037	–	–	37,367	1,037
February	35,173	1,532	–	–	35,173	1,532
March	34,952	3,107	–	–	34,952	3,107
April	36,432	1,322	–	–	36,432	1,322
May	34,542	715	–	–	34,542	715
June	33,196	1,800	–	–	33,196	1,800
July	33,293	–	–	–	33,293	–
August	31,855	–	–	–	31,855	–

– : Nil/Negligible

Note: Total limits under normal and back-stop facility merged into a single facility since March 29, 2004

Appendix Table IV.11: Bank Group-wise Lending to the Sensitive Sectors

(Amount in Rs. crore)

Sector	State Bank Group			Nationalised Banks			Other Public Sector Banks			Public Sector Banks		
	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	8,429 (1.4)	8,674 (1.2)	2.9	19,597 (1.8)	21,582 (1.5)	10.1	2,976 (3.6)	2,947 (2.9)	-1.0	31,002 (1.7)	33,202 (1.5)	7.1
2. Real Estate @	85,768 (14.5)	92,945 (12.6)	8.4	1,81,926 (16.2)	2,19,566 (15.5)	20.7	15,731 (19.1)	21,793 (21.1)	38.5	2,83,425 (15.8)	3,34,305 (14.8)	18.0
3. Commodities	–	–	–	734 (0.1)	–	-100.0	–	–	–	734 (0.0)	–	-100.0
Total Advances to Sensitive Sectors	**94,197 (15.9)**	**1,01,619 (13.7)**	**7.9**	**2,02,258 (18.0)**	**2,41,148 (17.0)**	**19.2**	**18,706 (22.8)**	**24,740 (23.9)**	**32.3**	**3,15,161 (17.5)**	**3,67,507 (16.3)**	**16.6**

Sector	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation	2007-08	2008-09	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Capital Market #	22,729 (5.6)	13,779 (3.1)	-39.4	2,539 (2.3)	2,273 (1.8)	-10.5	5,368 (3.3)	6,028 (3.6)	12.3	61,638 (2.5)	55,282 (1.8)	-10.3
2. Real Estate @	1,17,457 (28.9)	1,23,307 (27.6)	5.0	18,645 (16.7)	22,212 (17.3)	19.1	37,331 (23.2)	44,405 (26.8)	19.0	4,56,858 (18.4)	5,24,228 (17.5)	14.8
3. Commodities	–	–	–	809 (0.7)	897 (0.7)	10.9	101 (0.1)	–	-100.0	1,644 (0.1)	897 (0.0)	-45.4
Total Advances to Sensitive Sectors	**1,40,186 (34.5)**	**1,37,086 (30.7)**	**-2.2**	**21,994 (19.7)**	**25,382 (19.8)**	**15.4**	**42,800 (26.6)**	**50,432 (30.5)**	**17.8**	**5,20,141 (21.0)**	**5,80,407 (19.3)**	**11.6**

– : 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 IV.12: Commercial Bank Survey

(Amount in Rs. crore)

Variable	Outstanding as on March 27, 2009	Variations							
		Financial year				April-September			
		2007-08		2008-09		2008-09		2009-10	
		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)	**37,66,842**	**5,95,531**	**23.4**	**6,26,838**	**20.0**	**2,36,442**	**7.5**	**2,84,727**	**7.6**
C.I.1 Demand Deposits	5,23,085	94,579	22.0	-1,225	-0.2	-25,411	-4.8	28,487	5.4
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	32,43,757	5,00,952	23.7	6,28,063	24.0	2,61,853	10.0	2,56,240	7.9
C.I.2.1 Short-term Time Deposits	14,59,691	2,25,429	23.7	2,82,628	24.0	1,17,834	10.0	1,15,308	7.9
C.I.2.1.1 Certificates of Deposits (CDs)	1,98,931	69,200	71.0	32,289	19.4	890	0.5	21,004	10.6
C.I.2.2 Long-term Time Deposits	17,84,067	2,75,524	23.7	3,45,435	24.0	1,44,019	10.0	1,40,932	7.9
C.II Call/Term Funding from Financial Institutions	**1,13,936**	**20,668**	**24.1**	**7,432**	**7.0**	**5,900**	**5.5**	**-19,347**	**-17.0**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**41,51,147**	**6,41,799**	**22.4**	**6,43,388**	**18.3**	**1,85,013**	**5.3**	**3,24,947**	**7.8**
S.I.1 Credit to the Government	11,55,786	1,82,603	23.5	1,97,124	20.6	13,604	1.4	2,01,351	17.4
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	29,95,361	4,59,196	22.0	4,46,264	17.5	1,71,409	6.7	1,23,596	4.1
S.I.2.1 Bank Credit	27,75,549	4,30,724	22.3	4,13,636	17.5	1,89,112	8.0	97,606	3.5
S.I.2.1.1 Food Credit	46,211	-2121	-4.6	1,812	4.1	776	1.7	-3793	-8.2
S.I.2.1.2 Non-food Credit	27,29,338	4,32,846	23.0	4,11,824	17.8	1,88,336	8.1	1,01,399	3.7
S.I.2.2 Net Credit to Primary Dealers	1,671	721	25.8	-1,850	-52.6	-1,971	-56.0	3,245	194.2
S.I.2.3 Investments in Other Approved Securities	10,624	-2,405	-15.6	-2,429	-18.6	-760	-5.8	5,260	49.5
S.I.2.4 Other Investments (in non-SLR Securities)	2,07,517	30,155	21.5	36,907	21.6	-14,972	-8.8	17,485	8.4
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-53,359**	**-29,585**	**72.8**	**16,837**	**-24.0**	**-25,489**	**36.3**	**1,489**	**-2.8**
S.II.1 Foreign Currency Assets	55,312	-27,564	-46.9	24,123	77.3	-5,449	-17.5	-11,012	-19.9
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	67,268	-10,525	-15.6	10,332	18.1	5,946	10.4	1,171	1.7
S.II.3 Overseas Foreign Currency Borrowings	41,404	12,546	39.3	-3,047	-6.9	14,094	31.7	-13,672	-33.0
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**2,46,748**	**81,050**	**42.6**	**-24,418**	**-9.0**	**64,522**	**23.8**	**3,598**	**1.5**
S.III.1 Balances with the RBI	2,38,195	76,900	42.7	-18,927	-7.4	61,179	23.8	-12,514	-5.3
S.III.2 Cash in Hand	20,281	1,905	11.8	2,237	12.4	5,438	30.1	4,384	21.6
S.III.3 Loans and Advances from the RBI	11,728	-2,245	-35.9	7,728	193.2	2,094	52.4	-11,728	-100.0
S.IV Capital Account	**3,32,444**	**69,821**	**34.4**	**59,822**	**21.9**	**52,550**	**19.3**	**43,840**	**13.2**
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,31,313**	**7,244**	**4.0**	**-58,285**	**-30.7**	**-70,845**	**-37.4**	**20,815**	**15.9**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	2,66,116	43,576	20.7	12,212	4.8	-15,980	-6.3	22,839	8.6
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	-20,785	-3,105	-22.3	-31,582	-292.5	-6,139	-56.9	13,099	-63.0

Note : Data are provisional.

Appendix Table IV.13: Credit – Deposit Ratio
(as at end-March)

(Per cent)

Bank Group/Banks	2008	2009	Bank Group/Banks	2008	2009
1	2	3	4	5	6
Scheduled Commercial Banks	**74.6**	**73.9**	Ratnakar Bank	53.2	61.3
Public Sector Banks	**73.2**	**72.6**	SBI Commercial and International Bank	68.7	52.9
Nationalised Banks	**69.8**	**71.1**	South Indian Bank	69.0	65.5
Allahabad Bank	69.4	69.2	Tamilnad Mercantile Bank	69.5	68.7
Andhra Bank	69.3	74.3	**New Private Sector Banks**	**79.8**	**83.2**
Bank of Baroda	70.2	74.8	Axis Bank	68.1	69.5
Bank of India	75.6	75.3	Centurion Bank of Punjab	74.2	–
Bank of Maharashtra	70.1	65.6	Development Credit Bank	67.0	70.5
Canara Bank	69.6	74.0	HDFC Bank	62.9	69.2
Central Bank of India	66.2	65.1	ICICI Bank	92.3	100.0
Corporation Bank	70.7	65.6	IndusInd Bank	67.2	71.3
Dena Bank	67.8	67.1	Kotak Mahindra Bank	94.7	106.3
Indian Bank	65.3	70.9	Yes Bank	71.1	76.7
Indian Overseas Bank	71.6	74.8	**Foreign Banks**	**84.3**	**77.3**
Oriental Bank of Commerce	70.1	69.6	AB Bank Ltd.	84.2	92.1
Punjab National Bank	71.8	73.8	ABN Amro Bank	107.8	104.4
Punjab and Sind Bank	73.9	71.0	Abu Dhabi Commercial Bank	39.2	27.0
Syndicate Bank	67.3	70.4	American Express Banking Corp.	–	211.5
UCO Bank	68.9	68.7	Antwerp Diamond Bank	597.8	867.2
Union Bank of India	71.5	69.6	BNP Paribas	116.6	110.6
United Bank of India	59.3	64.9	Bank International Indonesia	–	–
Vijaya Bank	66.1	65.0	Bank of America	82.4	80.5
State Bank Group	**76.7**	**73.4**	Bank of Bahrain & Kuwait	70.9	60.8
State Bank of Bikaner and Jaipur	73.5	76.1	Bank of Ceylon	55.9	52.4
State Bank of Hyderabad	71.5	69.9	Bank of Nova Scotia	127.1	161.5
State Bank of India	77.5	73.1	Bank of Tokyo-Mitsubishi UFJ	173.9	144.1
State Bank of Indore	73.8	76.3	Barclays Bank	110.6	84.5
State Bank of Mysore	76.6	77.8	Calyon Bank	159.7	215.4
State Bank of Patiala	74.9	72.7	Chinatrust Commercial Bank	139.8	244.3
State Bank of Saurashtra	75.7	–	Citibank	83.2	77.3
State Bank of Travancore	79.6	77.8	DBS Bank	46.4	45.2
Other Public Sector Bank			Deutsche Bank	65.1	62.2
IDBI Bank Ltd.	112.6	92.0	Hongkong & Shanghai Banking	70.3	55.2
Private Sector Banks	**76.8**	**78.3**	Corporation		
Old Private Sector Banks	**67.4**	**64.5**	J P Morgan Chase Bank	32.0	19.6
Bank of Rajasthan	53.7	51.2	JSC VTB Bank	–	466.7
Catholic Syrian Bank	62.3	58.2	Krung Thai Bank	11.1	9.0
City Union Bank	70.6	68.8	Mashreq Bank	130.3	46.8
Dhanalakshmi Bank	58.3	64.3	Mizuho Corporate Bank	191.6	97.5
Federal Bank	73.0	69.5	Oman International Bank	0.8	1.0
ING Vysya Bank	71.6	67.3	Shinhan Bank	93.4	59.7
Jammu & Kashmir Bank	66.0	63.4	Societe Generale	28.2	44.4
Karnataka Bank	63.7	58.1	Sonali Bank	33.5	25.4
Karur Vysya Bank	75.1	68.9	Standard Chartered Bank	90.1	89.8
Lakshmi Vilas Bank	68.7	71.3	State Bank of Mauritius	86.3	81.3
Nainital Bank	55.6	52.9	UBS AG	–	–

– : Nil/Negligible.
Source : Balance sheets of banks.

Appendix Table IV.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		
	2007-08	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	4,15,116 (41.1)	3,91,018 (30.5)	-5.8	5,48,699 (29.2)	6,15,292 (26.6)	12.1	30,294 (23.2)	33,829 (19.6)	11.7	9,94,109 (32.9)	10,40,139 (27.6)	4.6
2. Guarantees given	61,440 (6.1)	88,979 (7.0)	44.8	1,01,840 (5.4)	1,40,444 (6.1)	37.9	11,798 (9.0)	26,495 (15.4)	124.6	1,75,078 (5.8)	2,55,918 (6.8)	46.2
3. Acceptances, endorsements, *etc.*	4,68,,233 (46.3)	3,79,746 (29.7)	-18.9	1,70,289 (9.1)	1,80,056 (7.8)	5.7	59,114 (45.2)	53,565 (31.1)	-9.4	6,97,637 (23.1)	6,13,366 (16.3)	-12.1
Contingent Liabilities	**9,44,789 (93.5)**	**8,59,742 (67.2)**	**-9.0**	**8,20,828 (43.7)**	**9,35,792 (40.4)**	**14.0**	**1,01,206 (77.4)**	**1,13,889 (66.1)**	**12.5**	**18,66,824 (61.8)**	**19,09,422 (50.7)**	**2.3**

Item	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks		
	2007-08	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**	**2007-08**	**2008-09**	**Percentage Variation**
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Forward exchange contract	12,17,367 (163.3)	9,19,698 (115.6)	-24.5	85,454 (43.9)	96,661 (41.7)	13.1	85,79,297 (2356.3)	58,58,713 (1310.2)	-31.7	1,08,76,228 (251.4)	79,15,211 (151.0)	-27.2
2. Guarantees given	65,571 (8.8)	93,420 (11.7)	42.5	9,272 (4.8)	10,486 (4.5)	13.1	45,584 (12.5)	57,241 (12.8)	25.6	2,95,506 (6.8)	4,17,064 (8.0)	41.1
3. Acceptances, endorsements, *etc.*	10,26,943 (137.7)	6,11,920 (76.9)	-40.4	16,411 (8.4)	9,686 (4.2)	-41.0	15,85,863 (435.6)	11,04,714 (247.1)	-30.3	33,26,853 (76.9)	23,39,686 (44.6)	-29.7
Contingent Liabilities	**23,09,881 (309.8)**	**16,25,037 (204.3)**	**-29.7**	**1,11,137 (57.1)**	**1,16,834 (50.4)**	**5.1**	**1,02,10,744 (2804.4)**	**70,20,667 (1570.1)**	**-31.2**	**1,44,98,587 (335.1)**	**1,06,71,961 (203.6)**	**-26.4**

– : Nil/Negligible.
Note : Figures in parantheses are percentages to total liabilities of the concerned bank-group.
Source : Balance sheets of respective banks.

Appendix Table IV.15: Income of Public Sector Banks -Component-wise

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income	
		2007-08	2008-09	2007-08	2008-09
	1	2	3	4	5
	Public Sector Banks	**8,107**	**11,434**	**2,991**	**4,312**
	Nationalised Banks	**4,716**	**7,643**	**1,972**	**2,745**
1.	Allahabad Bank	471	573	54	44
2.	Andhra Bank	119	221	57	53
3.	Bank of Baroda	532	900	279	372
4.	Bank of India	366	746	307	624
5.	Bank of Maharashtra	78	176	22	16
6.	Canara Bank	435	675	154	174
7.	Central Bank of India	154	410	48	67
8.	Corporation Bank	136	442	41	78
9.	Dena Bank	90	54	42	44
10.	Indian Bank	179	195	100	105
11.	Indian Overseas Bank	230	637	110	157
12.	Oriental Bank of Commerce	154	481	69	107
13.	Punjab & Sind Bank	18	119	30	40
14.	Punjab National Bank	442	665	211	294
15.	Syndicate Bank	336	193	67	86
16.	UCO Bank	210	314	50	87
17.	Union Bank of India	377	321	261	339
18.	United Bank of India	179	216	28	16
19.	Vijaya Bank	210	304	41	41
	State Bank Group	**2,223**	**3,269**	**932**	**1,479**
1.	State Bank of India	1,650	2,567	693	1,179
2.	State Bank of Bikaner & Jaipur	69	76	24	70
3.	State Bank of Hyderabad	169	177	68	53
4.	State Bank of Indore	67	74	19	36
5.	State Bank of Mysore	80	121	29	44
6.	State Bank of Patiala	95	108	33	48
7.	State Bank of Saurashtra	50	–	14	–
8.	State Bank of Travancore	43	145	53	49
	Other Public Sector Banks	**1,168**	**522**	**87**	**87**
1.	IDBI Bank Ltd.	1,168	522	87	87

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 IV.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 Contin-gencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2006-07	65,977	31,203	2,74,716	231,675	43,041	243,514	142,420	66,319	36,148	34,775	89,255
	(1.9)	(0.9)	(7.9)	(6.7)	(1.2)	(7.0)	(4.1)	(1.9)	(1.0)	(1.0)	(2.6)
2007-08	83,590	42,726	368,873	308,482	60,391	326,147	208,001	77,283	39,954	40,864	100,481
	(1.9)	(1.0)	(8.5)	(7.1)	(1.4)	(7.5)	(4.8)	(1.8)	(0.9)	(0.9)	(2.3)
2008-09	111,349	52,771	463,837	388,816	75,021	411,066	263,221	89,268	47,660	58,578	125,596
	(2.1)	(1.0)	(8.9)	(7.4)	(1.4)	(7.8)	(5.0)	(1.7)	(0.9)	(1.1)	(2.4)
Public Sector Banks											
2006-07	42,655	20,152	187,869	164,185	23,684	167,717	101,960	43,255	27,803	22,503	62,225
	(1.8)	(0.8)	(7.7)	(6.7)	(1.0)	(6.9)	(4.2)	(1.8)	(1.1)	(0.9)	(2.6)
2007-08	50,307	26,592	245,872	213,075	32,797	219,280	148,902	46,663	28,660	23,715	64,172
	(1.7)	(0.9)	(8.1)	(7.1)	(1.1)	(7.3)	(4.9)	(1.5)	(1.0)	(0.8)	(2.1)
2008-09	66,972	34,394	315,608	273,428	42,180	281,215	193,447	55,190	34,250	32,578	79,981
	(1.8)	(0.9)	(8.4)	(7.3)	(1.1)	(7.5)	(5.1)	(1.5)	(0.9)	(0.9)	(2.1)
Nationalised Banks											
2006-07	27,456	12,950	117,612	104,375	13,237	104,662	63,666	26,489	17,050	14,507	40,709
	(1.8)	(0.9)	(7.7)	(6.8)	(0.9)	(6.8)	(4.2)	(1.7)	(1.1)	(1.0)	(2.7)
2007-08	31,563	16,856	154,004	134,606	19,398	137,147	93,729	28,711	17,983	14,707	40,877
	(1.7)	(0.9)	(8.2)	(7.2)	(1.0)	(7.3)	(5.0)	(1.5)	(1.0)	(0.8)	(2.2)
2008-09	42,184	21,639	197,318	172,601	24,718	175,679	121,371	33,764	21,350	20,544	51,230
	(1.8)	(0.9)	(8.5)	(7.5)	(1.1)	(7.6)	(5.2)	(1.5)	(0.9)	(0.9)	(2.2)
State Bank Group											
2006-07	14,292	6,572	62,885	53,465	9,420	56,313	32,607	15,987	10,470	7,720	20,858
	(1.8)	(0.8)	(7.8)	(6.6)	(1.2)	(7.0)	(4.1)	(2.0)	(1.3)	(1.0)	(2.6)
2007-08	17,444	9,006	82,245	70,428	11,818	73,240	47,809	16,993	10,294	8,438	22,619
	(1.7)	(0.9)	(8.1)	(7.0)	(1.2)	(7.2)	(4.7)	(1.7)	(1.0)	(0.8)	(2.2)
2008-09	23,410	11,896	105,268	89,196	16,073	93,373	61,770	20,088	12,331	11,515	27,425
	(1.8)	(0.9)	(8.2)	(7.0)	(1.3)	(7.3)	(4.8)	(1.6)	(1.0)	(0.9)	(2.1)

Appendix Table IV.16: Important Financial Indicators – Bank Group-wise *(Concluded)*

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses		Provisions and Contin-gencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	13	14	15	16	17	18	19	20	21	22	23
Other Public Sector Banks											
2006-07	907	630	7,373	6,345	1,027	6,742	5,687	778	283	276	658
	(0.9)	(0.6)	(7.1)	(6.1)	(1.0)	(6.5)	(5.5)	(0.8)	(0.3)	(0.3)	(0.6)
2007-08	1,299	729	9,623	8,041	1,582	8,893	7,364	959	382	570	676
	(1.0)	(0.6)	(7.4)	(6.2)	(1.2)	(6.8)	(5.6)	(0.7)	(0.3)	(0.4)	(0.5)
2008-09	1,378	859	13,022	11,632	1,390	12,163	10,306	1,338	569	519	1,326
	(0.8)	(0.5)	(7.6)	(6.8)	(0.8)	(7.1)	(6.0)	(0.8)	(0.3)	(0.3)	(0.8)
Old Private Sector Banks											
2006-07	3,021	1,122	13,042	11,474	1,568	11,920	7,055	2,967	1,693	1,899	4,420
	(1.9)	(0.7)	(8.1)	(7.2)	(1.0)	(7.4)	(4.4)	(1.9)	(1.1)	(1.2)	(2.8)
2007-08	3,604	1,978	16,798	14,614	2,184	14,821	9,960	3,235	1,804	1,626	4,654
	(1.9)	(1.0)	(8.6)	(7.5)	(1.1)	(7.6)	(5.1)	(1.7)	(0.9)	(0.8)	(2.4)
2008-09	4,799	2,409	21,572	18,783	2,789	19,163	12,834	3,939	2,225	2,390	5,949
	(2.1)	(1.0)	(9.3)	(8.1)	(1.2)	(8.3)	(5.5)	(1.7)	(1.0)	(1.0)	(2.6)
New Private Sector Banks											
2006-07	10,682	5,343	48,837	38,092	10,745	43,494	25,802	12,353	3,571	5,339	12,291
	(1.8)	(0.9)	(8.4)	(6.5)	(1.8)	(7.4)	(4.4)	(2.1)	(0.6)	(0.9)	(2.1)
2007-08	15,632	7,544	71,199	56,377	14,822	63,655	38,535	17,032	5,310	8,087	17,842
	(2.1)	(1.0)	(9.6)	(7.6)	(2.0)	(8.5)	(5.2)	(2.3)	(0.7)	(1.1)	(2.4)
2008-09	19,480	8,459	81,444	66,283	15,160	72,985	44,123	17,840	6,301	11,022	22,160
	(2.5)	(1.1)	(10.2)	(8.3)	(1.9)	(9.2)	(5.6)	(2.2)	(0.8)	(1.4)	(2.8)
Foreign Banks											
2006-07	9,619	4,585	24,968	17,924	7,044	20,382	7,603	7,745	3,081	5,034	10,320
	(3.5)	(1.7)	(9.1)	(6.5)	(2.6)	(7.4)	(2.8)	(2.8)	(1.1)	(1.8)	(3.8)
2007-08	14,047	6,612	35,004	24,417	10,588	28,392	10,604	10,353	4,180	7,435	13,813
	(3.9)	(1.8)	(9.6)	(6.7)	(2.9)	(7.8)	(2.9)	(2.8)	(1.2)	(2.0)	(3.8)
2008-09	20,098	7,510	45,213	30,322	14,891	37,703	12,817	12,299	4,884	12,588	17,506
	(4.5)	(1.7)	(10.1)	(6.8)	(3.3)	(8.4)	(2.9)	(2.8)	(1.1)	(2.8)	(3.9)

Note : 1. The number of scheduled commercial banks in 2006-07, 2007-08 and 2008-09 were 82, 79 and 80, respecitvely.
2. The number of old private banks in 2006-07, 2007-08 and 2008-09 were 17, 15 and 15, respectively
3. The number of new private banks in 2006-07, 2007-08 and 2008-09 were 8, 8 and 7, respectively.
4. The number of foreign banks in 2006-07, 2007-08 and 2008-09 were 29, 28 and 31, respectively.
5. Figures in parentheses are percentages to total assets.
6. NII – Net Interest Income.
7. Scheduled commercial banks data for 2007-08 are as reported in the balance sheets for 2008-09 and hence may not tally with those reported in the Report on Trend and Progress of Banking in India, 2007-08, to the extent the figures of 2007-08 were revised by some banks.

Source : Balance sheets of respective banks.

Appendix Table IV.17(A): Financial Performance of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**3,68,873 (100.0)**	**4,63,837 (100.0)**	**94,964**	**25.8**
i) Interest Income	3,08,482 (83.6)	3,88,816 (83.8)	80,334	26.0
of which: Interest on Advances	2,21,171	2,87,678	66,507	30.1
Income on Investments	77,952	92,096	14,144	18.1
ii) Other Income	60,391 (16.4)	75,021 (16.2)	14,630	24.2
of which: Commission & Brokerage	30,735	37,061	6,326	20.6
B. Expenditure (i+ii+iii)	**3,26,147 (100.0)**	**4,11,066 (100.0)**	**84,918**	**26.0**
i) Interest Expended	2,08,001 (63.8)	2,63,221 (64.0)	55,219	26.6
of which: Interest on Deposits	1,79,559	2,30,189	50,630	28.2
ii) Provisions and Contingencies	40,864 (12.5)	58,578 (14.3)	17,714	43.4
of which: Provision for NPAs	134	192	58	43.0
iii) Operating Expenses	77,283 (23.7)	89,268 (21.7)	11,985	15.5
of which : Wage Bill	39,954	47,660	7,705	19.3
C. Profit				
i) Operating Profit	**83,590**	**1,11,349**	**27,759**	**33.2**
ii) Net Profit	**42,726**	**52,771**	**10,046**	**23.5**
D. Net Interest Income/Margin	**1,00,481**	**1,25,596**	**25,114**	**25.0**
E. Total Assets	**43,26,166**	**52,41,331**	**9,15,165**	**21.2**

Note : Figures in parentheses are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table IV.17(B): Financial Performance of Public Sector Banks*

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**2,45,872 (100.00)**	**3,15,608 (100.00)**	**69,737**	**28.4**
i) Interest Income	2,13,075 (86.7)	2,73,428 (86.6)	60,353	28.3
of which: Interest on Advances	1,54,101	2,04,709	50,609	32.8
Income on Investments	53,119	63,080	9,961	18.8
ii) Other Income	32,797 (13.3)	42,180 (13.4)	9,383	28.6
of which: Commission & Brokerage	14,799	18,475	3,675	24.8
B. Expenditure (i+ii+iii)	**2,19,280 (100.00)**	**2,81,215 (100.00)**	**61,935**	**28.2**
i) Interest Expended	1,48,902 (67.9)	1,93,447 (68.8)	44,545	29.9
of which: Interest on Deposits	1,32,718	1,74,313	41,595	31.3
ii) Provisions and Contingencies	23,715 (10.8)	32,578 (11.6)	8,863	37.4
of which: Provision for NPAs	80	93	12	15.5
iii) Operating Expenses	46,663 (21.3)	55,190 (19.6)	8,527	18.3
of which: Wage Bill	28,660	34,250	5,590	19.5
C. Profit				
i) Operating Profit	**50,307**	**66,972**	**16,665**	**33.1**
ii) Net Profit	**26,592**	**34,394**	**7,802**	**29.3**
D. Net Interest Income/Margin	**64,172**	**79,981**	**15,809**	**24.6**
E. Total Assets	**30,21,924**	**37,66,716**	**7,44,793**	**24.7**

* : Includes IDBI Bank Ltd.

Note : Figures in parentheses are percentage shares to the respective total.

Source : Balance sheets of respective banks.

Appendix Table IV.17(C): Financial Performance of Nationalised Banks

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,54,004 (100.0)**	**1,97,318 (100.0)**	**43,315**	**28.1**
i) Interest Income	1,34,606 (87.4)	1,72,601 (87.5)	37,995	28.2
of which: Interest on Advances	96,218	1,29,550	33,333	34.6
Income on Investments	34,832	39,966	5,133	14.7
Interest on Recapitalisation Bonds	473	–	-473	-100.0
ii) Other Income	19,398 (12.6)	24,718 (12.5)	5,320	27.4
of which: Commission & Brokerage	6,525	8,011	1,486	22.8
B. Expenditure (i+ii+iii)	**1,37,147 (100.0)**	**1,75,679 (100.0)**	**38,532**	**28.1**
i) Interest Expended	93,729 (68.3)	1,21,371 (69.1)	27,642	29.5
of which: Interest on Deposits	87,329	1,12,731	25,402	29.1
ii) Provisions and Contingencies	14,707 (10.7)	20,544 (11.7)	5,837	39.7
of which: Provision for NPAs	5,512	6,182	670	12.2
iii) Operating Expenses	28,711 (20.9)	33,764 (19.2)	5,053	17.6
of which : Wage Bill	17,983	21,350	3,366	18.7
C. Profit				
i) Operating Profit	**31,563**	**42,184**	**10,620**	**33.7**
ii) Net Profit	**16,856**	**21,639**	**4,783**	**28.4**
D. Net Interest Income/Margin	**40,877**	**51,230**	**10,353**	**25.3**
E. Total Assets	**18,80,271**	**23,14,102**	**4,33,832**	**23.1**

Note : Figures in parentheses are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table IV.17(D): Financial Performance of State Bank Group

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**82,245 (100.00)**	**1,05,268 (100.00)**	**23,023**	**28.0**
i) Interest Income	70,428 (85.6)	89,196 (84.7)	18,768	26.7
of which: Interest on Advances	51,354	65,903	14,549	28.3
Income on Investments	16,916	21,030	4,114	24.3
ii) Other Income	11,818 (14.4)	16,073 (15.3)	4,255	36.0
of which: Commission & Brokerage	7,926	9,739	1,813	22.9
B. Expenditure (i+ii+iii)	**73,240 (100.00)**	**93,373 (100.00)**	**20,133**	**27.5**
i) Interest Expended	47,809 (65.3)	61,770 (66.2)	13,962	29.2
of which: Interest on Deposits	41,588	54,961	13,373	32.2
ii) Provisions and Contingencies	8,438 (11.5)	11,515 (12.3)	3,076	36.5
of which: Provision for NPAs	2,362	2,927	565	23.9
iii) Operating Expenses	16,993 (23.2)	20,088 (21.5)	3,095	18.2
of which: Wage Bill	10,294	12,331	2,037	19.8
C. Profit				
i) Operating Profit	**17,444**	**23,410**	**5,966**	**34.2**
ii) Net Profit	**9,006**	**11,896**	**2,890**	**32.1**
D. Net Interest Income/Margin	**22,619**	**27,425**	**4,806**	**21.3**
E. Total Assets	**10,10,959**	**12,80,212**	**2,69,253**	**26.6**

Note : Figures in parentheses are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table IV.17(E): Financial Performance of Old Private Sector Banks

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**16,798 (100.00)**	**21,572 (100.00)**	**4,774**	**28.4**
i) Interest Income	14,614 (87.0)	18,783 (87.1)	4,169	28.5
of which: Interest on Advances	10,706	14,194	3,488	32.6
Income on Investments	3,413	4,138	725	21.3
ii) Other Income	2,184 (13.0)	2,789 (12.9)	605	27.7
of which: Commission & Brokerage	842	965	124	14.7
B. Expenditure (i+ii+iii)	**14,821 (100.00)**	**19,163 (100.00)**	**4,342**	**29.3**
i) Interest Expended	9,960 (67.2)	12,834 (67.0)	2,874	28.9
of which: Interest on Deposits	9,474	12,277	2,803	29.6
ii) Provisions and Contingencies	1,626 (11.0)	2,390 (12.5)	764	47.0
of which: Provision for NPAs	353	621	268	76.0
iii) Operating Expenses	3,235 (21.8)	3,939 (20.6)	704	21.8
of which: Wage Bill	1,804	2,225	421	23.3
C. Profit				
i) Operating Profit	**3,604**	**4,799**	**1,195**	**33.2**
ii) Net Profit	**1,978**	**2,409**	**431**	**21.8**
D Net Interest Income/Margin	**4,654**	**5,949**	**1,295**	**27.8**
E. Total Assets	**1,94,544**	**2,32,001**	**37,456**	**19.3**

Note : Figures in parentheses are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table IV.17(F): Financial Performance of New Private Sector Banks

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**71,199 (100.00)**	**81,444 (100.00)**	**10,245**	**14.4**
i) Interest Income	56,377 (79.2)	66,283 (81.4)	9,906	17.6
of which: Interest on Advances	40,653	48,196	7,543	18.6
Income on Investments	14,404	16,130	1,726	12.0
ii) Other Income	14,822 (20.8)	15,160 (18.6)	338	2.3
of which: Commission & Brokerage	9,737	10,922	1,185	12.2
B. Expenditure (i+ii+iii)	**63,655 (100.00)**	**72,985 (100.00)**	**9,330**	**14.7**
i) Interest Expended	38,535 (60.5)	44,123 (60.5)	5,588	14.5
of which: Interest on Deposits	30,191	34,311	4,120	13.6
ii) Provisions and Contingencies	8,087 (12.7)	11,022 (15.1)	2,934	36.3
of which: Provision for NPAs	4,317	6,692	2,375	55.0
iii) Operating Expenses	17,032 (26.8)	17,840 (24.4)	808	4.7
of which: Wage Bill	5,310	6,301	991	18.7
C. Profit				
i) Operating Profit	**15,632**	**19,480**	**3,849**	**24.6**
ii) Net Profit	**7,544**	**8,459**	**914**	**12.1**
D. Net Interest Income/Margin	**17,842**	**22,160**	**4,318**	**24.2**
E. Total Assets	**7,45,599**	**7,95,464**	**49,865**	**6.7**

Note : Figures in parentheses are percentage shares to the respective total.

Source : Balance sheets of respective banks.

Appendix Table IV.17(G): Financial Performance of Foreign Banks in India

(Amount in Rs. crore)

Item	2007-08	2008-09	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**35,004 (100.00)**	**45,213 (100.00)**	**10,209**	**29.2**
i) Interest Income	24,417 (69.8)	30,322 (67.1)	5,906	24.2
of which: Interest on Advances	15,712	20,579	4,868	31.0
Income on Investments	7,017	8,748	1,731	24.7
ii) Other Income	10,588 (30.3)	14,891 (32.9)	4,303	40.6
of which: Commission & Brokerage	5,357	6,699	1,342	25.1
B. Expenditure (i+ii+iii)	**28,392 (100.00)**	**37,703 (100.00)**	**9,311**	**32.8**
i) Interest Expended	10,604 (37.4)	12,817 (34.0)	2,213	20.9
of which: Interest on Deposits	7,176	9,288	2,112	29.4
ii) Provisions and Contingencies	7,435 (26.2)	12,588 (33.4)	5,153	69.3
of which: Provision for NPAs	719	2,587	1,868	259.9
iii) Operating Expenses	10,353 (36.5)	12,299 (32.6)	1,946	18.8
of which: Wage Bill	4,180	4,884	704	16.8
C. Profit				
i) Operating Profit	**14,047**	**20,098**	**6,051**	**43.1**
ii) Net Profit	**6,612**	**7,510**	**898**	**13.6**
D. Net Interest Income/Margin	**13,813**	**17,506**	**3,693**	**26.7**
E. Total Assets	**3,64,099**	**4,47,149**	**83,051**	**22.8**

Note : Figures in parentheses are percentage shares to the respective total.
Source : Balance sheets of respective banks.

Appendix Table IV.18: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2009)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Public Sector Banks										
	Nationalised Banks										
1.	Allahabad Bank	8.0	5.1	13.1	0.7	8.7	1.3	2.2	0.9	706	4
2.	Andhra Bank	8.7	4.6	13.2	0.2	9.0	1.3	2.2	1.1	728	5
3.	Bank of Baroda	8.5	5.6	14.1	0.3	7.8	1.4	2.2	1.1	914	6
4.	Bank of India	8.9	4.1	13.0	0.4	8.1	1.5	2.7	1.5	833	7
5.	Bank of Maharashtra	6.1	5.9	12.1	0.8	8.3	1.0	1.5	0.7	636	3
6.	Canara Bank	8.0	6.1	14.1	1.1	8.7	1.2	2.0	1.1	780	5
7.	Central Bank of India	7.0	6.2	13.1	1.2	8.2	0.8	1.1	0.5	560	2
8.	Corporation Bank	8.9	4.7	13.6	0.3	8.4	1.5	2.5	1.2	1,049	8
9.	Dena Bank	6.8	5.3	12.1	1.1	8.3	1.0	1.8	1.0	714	4
10.	Indian Bank	11.9	2.1	14.0	0.2	8.9	1.4	2.9	1.6	617	6
11.	Indian Overseas Bank	7.9	5.3	13.2	1.3	9.7	1.6	2.6	1.2	690	5
12.	Oriental Bank of Commerce	9.1	3.9	13.0	0.7	8.6	1.0	1.6	0.9	1,142	6
13.	Punjab & Sind Bank	8.4	5.9	14.4	0.3	9.4	1.2	2.1	1.3	656	5
14.	Punjab National Bank	9.0	5.1	14.0	0.2	8.7	1.3	2.6	1.4	655	6
15.	Syndicate Bank	7.9	4.8	12.7	0.8	8.5	0.8	1.5	0.8	751	4
16.	UCO Bank	6.5	5.5	11.9	1.2	8.6	1.1	1.3	0.6	732	2
17.	Union Bank of India	8.2	5.1	13.3	0.3	8.8	1.1	2.3	1.3	694	6
18.	United Bank of India	7.6	5.7	13.3	1.5	8.0	0.9	1.3	0.3	585	1
19.	Vijaya Bank	7.7	5.4	13.2	0.8	8.9	1.2	1.5	0.6	756	2
	State Bank Group										
20.	State Bank of India	9.4	4.9	14.3	1.8	7.3	1.5	2.1	1.0	556	5
21.	State Bank of Bikaner & Jaipur	8.5	6.1	14.5	0.9	8.7	1.3	2.0	0.9	555	4
22.	State Bank of Hyderabad	7.1	4.4	11.5	0.4	8.4	1.1	1.9	0.9	840	5
23.	State Bank of Indore	7.9	5.6	13.5	0.9	8.6	1.1	2.0	0.9	702	4
24.	State Bank of Mysore	7.4	6.0	13.4	0.5	8.8	1.3	1.8	0.9	602	3
25.	State Bank of Patiala	6.9	5.7	12.6	0.6	9.3	1.0	1.5	0.8	910	5
26.	State Bank of Travancore	8.6	5.4	14.0	0.6	8.8	1.2	2.3	1.3	658	5
	Other Public Sector Bank										
27.	IDBI Bank Ltd.	6.8	4.8	11.6	0.9	8.2	1.0	1.0	0.6	2,030	8

Appendix Table IV.18: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2009)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee (Amount in Rs. lakh)	Profit per employee (Amount in Rs. lakh)
		Tier I	Tier II	Total							
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks										
	Old Private Sector Banks										
1.	Bank of Rajasthan Ltd.	6.2	5.3	11.5	0.7	8.7	0.8	1.2	0.7	533	3
2.	Catholic Syrian Bank Ltd.	8.8	3.5	12.3	2.4	8.5	1.5	1.2	0.6	374	1
3.	City Union Bank Ltd.	11.5	1.2	12.7	1.1	9.9	1.5	2.8	1.5	565	5
4.	Dhanalakshmi Bank Ltd.	13.8	1.6	15.4	0.9	8.6	1.7	1.9	1.2	586	4
5.	Federal Bank Ltd.	18.4	1.8	20.2	0.3	9.8	1.5	3.7	1.5	750	7
6.	ING Vysya Bank Ltd.	6.9	4.8	11.7	1.2	8.3	2.0	1.6	0.7	606	3
7.	Jammu & Kashmir Bank Ltd.	13.8	0.7	14.5	1.4	8.8	0.7	2.3	1.1	500	5
8.	Karnataka Bank Ltd.	10.6	2.9	13.5	1.0	9.0	1.7	2.3	1.3	649	5
9.	Karur Vysya Bank Ltd.	14.4	0.5	14.9	0.3	9.2	1.7	2.7	1.5	638	6
10.	Lakshmi Vilas Bank Ltd.	8.8	1.5	10.3	1.2	9.3	1.5	1.5	0.7	510	2
11.	Nainital Bank Ltd.	11.9	1.3	13.1	–	9.7	0.5	3.0	1.7	425	6
12.	Ratnakar Bank Ltd.	41.7	0.6	42.3	0.7	8.9	1.0	3.0	2.0	373	5
13.	SBI Commercial and International Bank Ltd.	21.5	-0.3	21.2	–	7.8	0.5	1.7	1.5	960	13
14.	South Indian Bank Ltd.	13.2	1.5	14.8	1.1	9.4	0.9	2.0	1.1	645	4
15.	Tamilnad Mercantile Bank Ltd.	15.4	0.7	16.1	0.3	9.8	1.4	2.7	1.5	679	6
	New Private Sector Banks										
16.	Axis Bank	9.3	4.4	13.7	0.4	8.6	2.3	3.0	1.4	1,060	10
17.	Development Credit Bank Ltd.	11.5	1.8	13.3	3.9	9.1	1.7	1.1	-1.3	379	-4
18.	HDFC Bank	10.6	5.1	15.7	0.6	9.3	1.9	2.9	1.3	446	4
19.	ICICI Bank	11.8	3.7	15.5	2.1	8.1	2.0	2.3	1.0	1,154	11
20.	IndusInd Bank Ltd.	7.5	4.8	12.3	1.1	9.1	1.8	1.5	0.6	836	3
21.	Kotak Mahindra Bank Ltd.	16.1	3.9	20.0	2.4	11.4	1.3	2.5	1.0	347	3
22.	Yes Bank Ltd.	9.5	7.1	16.6	0.3	10.6	2.3	2.8	1.6	988	11

Appendix Table IV.18: Select Financial Parameters of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2009)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India										
1.	AB Bank	50.0	0.7	50.7	6.5	5.6	9.4	8.7	8.3	217	25
2.	ABN-AMRO Bank N.V.	7.4	5.2	12.7	2.2	9.2	3.6	4.2	0.1	1,029	1
3.	Abu Dhabi Commercial Bank Ltd.	46.7	0.9	47.6	–	7.0	0.8	2.9	2.4	1,760	42
4.	American Express Banking Corp.	20.1	1.3	21.3	4.3	5.9	25.3	-3.4	-7.9	134	–
5.	Antwerp Diamond Bank	26.4	0.4	26.8	3.4	4.9	1.4	3.2	1.6	3,372	71
6.	BNP Paribas	8.4	4.0	12.4	0.9	8.0	3.0	5.2	2.1	2,035	49
7.	Bank Internasional Indonesia	501.3	–	501.3	–	–	–	–	–	–	–
8.	Bank of America NA	11.2	1.5	12.7	–	6.7	4.3	7.4	3.4	2,431	111
9.	Bank of Bahrain & Kuwait B.S.C.	24.4	1.1	25.6	0.1	9.0	2.8	4.0	3.1	617	14
10.	Bank of Ceylon	44.1	1.1	45.2	–	7.2	8.0	11.8	10.2	488	73
11.	Bank of Nova Scotia	10.4	3.0	13.4	–	7.3	2.3	3.8	2.0	3,891	78
12.	Bank of Tokyo-Mitsubishi UFJ	28.8	0.7	29.5	–	7.8	1.6	3.9	1.5	3,108	42
13.	Barclays Bank PLC	16.6	0.5	17.1	4.6	10.8	3.1	4.0	0.2	1,110	2
14.	Calyon Bank	9.8	3.4	13.2	–	9.0	6.6	8.6	4.1	2,105	130
15.	Chinatrust Commercial Bank	44.8	0.7	45.4	–	9.9	1.3	3.2	2.9	675	18
16.	Citibank N.A.	12.4	0.8	13.2	2.6	6.7	3.5	3.7	2.1	1,880	45
17.	DBS Bank	10.3	5.4	15.7	0.6	8.5	3.2	4.7	2.7	1,662	72
18.	Deutsche Bank AG	14.6	0.6	15.3	0.9	7.7	4.2	4.7	1.7	1,434	27
19.	HSBC Ltd.	14.1	1.2	15.3	1.4	6.7	2.8	4.4	1.5	962	16
20.	JPMorgan Chase Bank	15.4	0.5	15.9	1.3	7.3	10.1	12.2	4.2	1,825	254
21.	JSC VTB Bank	317.5	–	317.5	–	6.3	0.1	–	-0.3	73	–
22.	Krung Thai Bank Public Co. Ltd.	79.7	1.3	80.9	–	7.5	0.7	2.5	1.4	1,022	17
23.	Mashreqbank psc	75.6	1.3	76.8	–	4.3	8.4	7.7	4.4	310	34
24.	Mizuho Corporate Bank Ltd.	37.3	0.3	37.6	–	7.3	2.2	4.1	2.4	2,024	38
25.	Oman International Bank S.A.O.G.	23.3	1.9	25.2	–	6.0	1.1	0.7	1.2	480	8
26.	Shinhan Bank	36.4	0.5	36.8	–	8.7	1.1	4.6	1.9	2,445	39
27.	Societe Generale	22.1	0.4	22.5	–	8.0	3.6	4.0	2.1	1,017	34
28.	Sonali Bank	36.7	0.4	37.1	2.6	4.0	13.3	5.7	2.0	138	3
29.	Standard Chartered Bank	8.0	3.6	11.6	1.4	8.5	4.7	5.7	2.9	972	24
30.	State Bank of Mauritius Ltd.	35.5	2.5	38.0	–	8.7	0.6	2.1	0.9	2,327	20
31.	UBS AG	229.4	–	229.4	–	3.1	–	-7.3	-8.0	–	-110

– : 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 IV.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.4**	**2.7**	**2.2**	**2.0**	**1.9**	**1.9**	**2.1**
	Public Sector Banks	**2.3**	**2.7**	**2.2**	**1.9**	**1.7**	**1.7**	**1.8**
	Nationalised Banks	**2.3**	**2.7**	**2.2**	**1.8**	**1.8**	**1.7**	**1.8**
1	Allahabad Bank	1.8	2.5	2.1	1.9	1.6	1.8	1.9
2	Andhra Bank	3.1	3.4	3.0	1.7	2.0	1.9	1.9
3.	Bank of Baroda	2.3	2.9	2.4	1.7	1.7	1.6	1.9
4.	Bank of India	2.7	2.6	1.5	1.5	1.7	2.1	2.4
5.	Bank of Maharashtra	2.1	2.1	1.7	1.2	1.6	1.4	1.3
6.	Canara Bank	2.4	2.9	2.3	1.9	1.8	1.6	1.8
7.	Central Bank of India	1.6	2.4	2.4	1.6	1.4	1.0	1.0
8.	Corporation Bank	3.2	3.1	3.0	2.4	2.2	1.9	2.1
9	Dena Bank	2.5	3.2	1.6	2.3	2.0	1.8	1.5
10	Indian Bank	1.7	2.1	2.2	1.9	2.4	2.4	2.6
11	Indian Overseas Bank	1.9	2.8	3.0	2.3	1.9	2.0	2.1
12.	Oriental Bank of Commerce	3.4	3.7	2.3	2.0	1.8	1.3	1.5
13.	Punjab & Sind Bank	1.9	1.0	1.6	1.4	2.2	1.8	1.8
14.	Punjab National Bank	2.7	3.1	1.9	2.0	2.2	2.0	2.3
15.	Syndicate Bank	1.8	2.2	2.0	1.7	1.5	1.4	1.3
16.	UCO Bank	1.8	1.8	1.5	1.2	1.3	1.1	1.1
17.	Union Bank of India	2.6	2.5	2.2	1.6	1.9	2.1	1.9
18.	United Bank of India	2.3	2.4	2.4	1.9	1.7	0.9	1.1
19.	Vijaya Bank	2.3	3.6	2.7	2.0	1.6	1.2	1.4
	State Bank Group	**2.3**	**2.6**	**2.4**	**2.2**	**1.8**	**1.7**	**1.8**
20	State Bank of India	2.1	2.3	2.4	2.3	1.8	1.8	1.9
21.	State Bank of Bikaner & Jaipur	2.5	3.4	3.1	1.7	2.0	1.6	1.9
22.	State Bank of Hyderabad	2.9	3.3	2.0	1.8	2.0	1.6	1.7
23.	State Bank of Indore	3.7	4.1	2.1	1.9	1.6	1.5	1.9
24.	State Bank of Mysore	3.1	3.1	2.7	2.3	1.8	1.7	1.6
25.	State Bank of Patiala	3.5	3.7	2.7	1.8	1.7	1.3	1.4
26.	State Bank of Saurashtra	2.5	3.5	2.6	1.7	1.3	0.8	–
27.	State Bank of Travancore	2.4	2.9	2.8	2.1	1.9	1.6	2.1
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	0.4	0.9	0.9	1.0	0.8

Appendix Table IV.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**2.4**	**2.3**	**1.8**	**1.7**	**1.8**	**2.0**	**2.4**
	Old Private Sector Banks	**2.7**	**2.6**	**1.7**	**1.5**	**1.9**	**1.9**	**2.1**
1.	Bank of Rajasthan Ltd.	2.4	2.2	0.9	0.2	1.6	1.1	1.1
2.	Catholic Syrian Bank Ltd.	2.9	2.9	1.8	0.8	1.2	1.2	1.1
3.	City Union Bank Ltd.	3.1	3.7	2.3	2.6	2.5	2.5	2.5
4.	Dhanalakshmi Bank Ltd.	3.0	2.7	0.7	0.8	1.1	1.1	1.6
5.	Federal Bank Ltd.	2.9	2.9	2.4	2.2	2.4	2.4	3.2
6.	ING Vysya Bank Ltd.	2.1	2.0	0.7	0.6	1.2	1.2	1.3
7.	Jammu & Kashmir Bank Ltd.	3.3	3.0	1.5	1.6	1.9	2.0	2.1
8.	Karnataka Bank Ltd.	2.7	3.1	2.7	2.2	2.2	2.0	2.1
9.	Karur Vysya Bank Ltd.	3.2	3.0	2.5	2.5	2.5	2.1	2.5
10.	Lakshmi Vilas Bank Ltd.	2.5	2.3	1.4	0.8	1.3	1.4	1.3
11.	Nainital Bank Ltd.	1.5	2.4	2.0	2.1	2.2	2.5	2.6
12.	Ratnakar Bank Ltd.	2.7	1.7	1.1	1.3	0.6	2.3	2.7
13.	SBI Commercial & International Bank Ltd.	2.8	5.3	2.3	3.8	0.9	1.9	1.6
14.	South Indian Bank Ltd.	2.8	2.6	1.8	1.4	1.8	1.6	1.8
15.	Tamilnad Mercantile Bank Ltd.	2.9	3.3	3.1	3.2	3.3	2.5	2.4
	New Private Sector Banks	**2.3**	**2.1**	**1.9**	**1.8**	**1.8**	**2.1**	**2.4**
16.	Axis Bank	2.1	2.9	1.5	2.0	1.7	2.0	2.5
17.	Centurion Bank of Punjab Ltd.	0.6	0.3	0.7	1.5	1.5	1.3	–
18.	Development Credit Bank Ltd.	1.4	1.0	-0.1	-0.5	0.8	1.4	1.3
19.	HDFC Bank	2.3	2.4	2.6	2.7	2.8	2.8	2.8
20.	ICICI Bank	2.4	2.0	1.8	1.5	1.7	2.0	2.4
21.	IndusInd Bank Ltd.	3.3	3.0	2.6	1.1	0.8	0.8	1.3
22.	Kotak Mahindra Bank Ltd.	4.2	2.2	2.1	2.1	1.6	2.4	2.4
23.	Yes Bank Ltd.	–	–	-0.3	2.4	1.6	2.1	2.3

Appendix Table IV.19: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.2**	**3.7**	**3.0**	**3.3**	**3.5**	**3.9**	**4.5**
1.	AB Bank Ltd.	5.3	6.9	6.2	7.6	6.6	7.0	9.1
2.	ABN-AMRO Bank N.V.	3.1	3.4	2.9	2.5	3.6	2.5	4.4
3.	Abu Dhabi Commercial Bank Ltd.	0.7	0.7	0.3	0.6	1.4	3.1	3.0
4.	American Express Banking Corp.	3.4	2.9	2.6	2.9	4.0	–	-3.6
5.	Antwerp Diamond Bank	1.1	2.3	2.0	2.1	3.0	2.4	3.2
6.	Bank Internasional Indonesia	-2.9	–	-0.2	0.9	4.6	11.1	1.1
7.	Bank of America NA	2.7	2.3	2.9	4.8	5.6	6.5	6.8
8.	Bank of Bahrain & Kuwait B.S.C.	2.2	1.2	0.3	0.5	1.4	2.4	3.5
9.	Bank of Ceylon	2.6	3.0	3.6	4.2	4.2	5.5	12.0
10.	Bank of Nova Scotia	3.2	2.0	2.1	1.9	2.7	2.4	4.1
11.	Bank of Tokyo-Mitsubishi UFJ	3.2	8.1	5.7	2.3	3.6	4.3	3.6
12.	Barclays Bank PLC	8.4	15.2	12.6	11.7	5.0	1.4	3.6
13.	BNP Paribas	0.1	1.2	1.9	2.1	3.3	3.7	4.2
14.	Calyon Bank	1.2	-0.3	-0.6	4.2	4.4	5.6	5.0
15.	Chinatrust Commercial Bank	4.2	4.6	2.3	1.8	1.0	1.3	3.1
16.	Citibank N.A.	3.4	4.2	3.5	3.5	3.3	4.7	5.1
17.	DBS Bank	4.5	2.0	0.8	1.5	2.5	1.3	3.6
18.	Deutsche Bank AG	5.9	5.9	2.0	2.7	2.3	3.5	4.6
19.	HSBC Ltd.	2.3	3.0	3.4	3.4	3.5	3.9	4.4
20.	JPMorgan Chase Bank	5.2	3.7	6.8	4.6	4.1	6.2	8.2
21.	JSC VTB Bank	–	–	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	2.8	1.7	1.3	8.7	2.8	2.9	2.3
23.	Mashreqbank psc	4.0	1.8	1.3	5.4	8.3	9.9	8.6
24.	Mizuho Corporate Bank Ltd.	1.2	3.0	2.1	2.1	2.7	2.9	3.3
25.	Oman International Bank S.A.O.G.	-1.3	-0.2	-0.1	-0.7	-0.3	-0.7	0.5
26.	Shinhan Bank	7.4	4.7	3.7	2.4	2.6	3.7	3.3
27.	Societe Generale	0.6	2.6	1.3	1.9	1.5	1.2	3.5
28.	Sonali Bank	2.2	6.4	7.6	3.3	2.9	3.2	3.7
29.	Standard Chartered Bank	3.8	4.0	2.9	3.7	4.0	4.1	3.9
30.	State Bank of Mauritius Ltd.	4.1	5.2	2.4	2.7	2.3	2.3	1.7
31.	UBS AG	–	–	–	–	–	–	-6.1

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table IV.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.0**	**1.1**	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**
	Public Sector Banks	**1.0**	**1.1**	**0.9**	**0.8**	**0.8**	**0.9**	**0.9**
	Nationalised Banks	**1.0**	**1.2**	**0.9**	**0.8**	**0.8**	**0.9**	**0.9**
1.	Allahabad Bank	0.6	1.3	1.2	1.3	1.1	1.2	0.8
2.	Andhra Bank	1.6	1.7	1.6	1.2	1.1	1.0	1.0
3.	Bank of Baroda	1.0	1.1	0.7	0.7	0.7	0.8	1.0
4.	Bank of India	1.1	1.2	0.4	0.6	0.8	1.1	1.3
5.	Bank of Maharashtra	0.9	1.0	0.5	0.2	0.7	0.7	0.6
6.	Canara Bank	1.2	1.4	1.0	1.0	0.9	0.9	0.9
7.	Central Bank of India	0.5	1.0	0.5	0.3	0.5	0.4	0.4
8.	Corporation Bank	1.6	1.7	1.2	1.1	1.0	1.1	1.0
9.	Dena Bank	0.6	1.0	0.3	0.3	0.6	0.9	0.9
10.	Indian Bank	0.5	1.0	0.9	1.1	1.4	1.4	1.5
11.	Indian Overseas Bank	1.0	1.1	1.3	1.3	1.2	1.2	1.1
12.	Oriental Bank of Commerce	1.3	1.7	1.3	0.9	0.8	0.4	0.8
13.	Punjab & Sind Bank	–	0.1	-0.5	0.6	1.0	1.2	1.1
14.	Punjab National Bank	1.0	1.1	1.1	1.0	0.9	1.0	1.3
15.	Syndicate Bank	1.0	0.9	0.8	0.9	0.8	0.8	0.7
16.	UCO Bank	0.6	1.0	0.6	0.3	0.4	0.5	0.5
17.	Union Bank of India	1.1	1.2	1.0	0.8	0.8	1.1	1.1
18.	United Bank of India	1.3	1.2	1.0	0.6	0.6	0.6	0.3
19.	Vijaya Bank	1.0	1.7	1.3	0.4	0.8	0.6	0.4
	State Bank Group	**0.9**	**1.0**	**0.9**	**0.9**	**0.8**	**0.9**	**0.9**
20.	State Bank of India	0.8	0.9	0.9	0.9	0.8	0.9	0.9
21.	State Bank of Bikaner & Jaipur	1.1	1.5	0.9	0.5	0.9	0.8	0.9
22.	State Bank of Hyderabad	1.2	1.2	0.7	1.1	1.0	0.9	0.8
23.	State Bank of Indore	1.8	1.7	0.8	0.7	0.8	0.8	0.8
24.	State Bank of Mysore	1.0	1.3	1.3	1.1	0.9	1.0	0.8
25.	State Bank of Patiala	1.5	1.6	0.9	0.7	0.8	0.7	0.8
26.	State Bank of Saurashtra	0.8	1.4	0.3	0.4	0.5	0.2	–
27.	State Bank of Travancore	0.9	1.0	0.9	0.8	0.9	0.9	1.2
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	0.4	0.6	0.6	0.6	0.5

Appendix Table IV.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.0**	**1.0**	**0.8**	**0.9**	**0.9**	**1.0**	**1.1**
	Old Private Sector Banks	**1.2**	**1.2**	**0.3**	**0.6**	**0.7**	**1.0**	**1.0**
1.	Bank of Rajasthan Ltd.	1.1	0.8	0.4	0.2	0.9	0.7	0.7
2.	Catholic Syrian Bank Ltd.	1.2	1.3	0.2	0.1	0.4	0.6	0.5
3.	City Union Bank Ltd.	1.3	1.8	1.3	1.4	1.3	1.4	1.3
4.	Dhanalakshmi Bank Ltd.	0.7	0.7	-0.8	0.3	0.5	0.7	1.0
5.	Federal Bank Ltd.	0.9	0.9	0.5	1.1	1.2	1.1	1.3
6.	ING Vysya Bank Ltd.	0.8	0.5	-0.3	0.1	0.5	0.6	0.6
7.	Jammu & Kashmir Bank Ltd.	2.0	1.9	0.5	0.7	1.0	1.1	1.1
8.	Karnataka Bank Ltd.	1.2	1.3	1.2	1.2	1.1	1.2	1.2
9.	Karur Vysya Bank Ltd.	2.0	2.3	1.3	1.5	1.4	1.4	1.4
10.	Lakshmi Vilas Bank Ltd.	1.1	1.1	0.1	0.5	0.3	0.4	0.6
11.	Nainital Bank Ltd.	1.0	1.4	1.1	0.9	1.0	1.3	1.5
12.	Ratnakar Bank Ltd.	1.3	1.0	-1.1	0.1	0.3	1.2	1.8
13.	SBI Commercial & International Bank Ltd.	-1.5	3.7	-2.1	1.1	1.1	1.9	1.5
14.	South Indian Bank Ltd.	1.0	0.9	0.1	0.5	0.8	0.9	1.0
15.	Tamilnad Mercantile Bank Ltd.	1.4	1.6	1.5	1.7	1.5	1.4	1.4
	New Private Sector Banks	**0.9**	**0.8**	**1.1**	**1.0**	**0.9**	**1.0**	**1.1**
16.	Axis Bank Ltd.	1.0	1.2	0.9	1.0	0.9	1.0	1.2
17.	Centurion Bank of Punjab Ltd.	-0.8	-3.0	0.5	0.8	0.7	0.4	–
18.	Development Credit Bank Ltd.	0.8	0.3	-3.5	-2.3	0.1	0.5	-1.5
19.	HDFC Bank	1.3	1.2	1.3	1.2	1.3	1.2	1.2
20.	ICICI Bank	1.1	1.3	1.2	1.0	0.9	1.0	1.0
21.	IndusInd Bank Ltd.	0.9	1.7	1.4	0.2	0.3	0.3	0.5
22.	Kotak Mahindra Bank Ltd.	2.1	1.4	1.3	1.2	0.7	1.0	1.0
23.	Yes Bank Ltd.	–	–	-0.3	1.3	0.8	1.2	1.3

Appendix Table IV.20: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**1.6**	**1.7**	**1.3**	**1.5**	**1.7**	**1.8**	**1.7**
1.	AB Bank Ltd.	2.7	4.1	3.6	4.3	3.3	3.7	4.7
2.	ABN-AMRO Bank N.V.	1.6	1.8	1.3	1.0	1.4	0.8	0.1
3.	Abu Dhabi Commercial Bank Ltd.	0.2	0.5	-2.6	0.7	0.2	5.0	2.5
4.	American Express Banking Corp.	-0.9	-0.7	0.6	1.4	1.3	–	-8.6
5.	Antwerp Diamond Bank	0.4	1.2	1.0	1.2	1.7	1.4	1.6
6.	Bank Internasional Indonesia	2.1	-0.2	-0.7	-1.0	4.7	8.8	1.7
7.	Bank of America NA	1.7	1.3	1.5	2.4	3.1	3.8	3.4
8.	Bank of Bahrain & Kuwait B.S.C.	1.1	0.1	-3.8	-1.5	-1.7	3.6	2.9
9.	Bank of Ceylon	0.3	0.4	1.2	0.2	1.2	2.3	10.4
10.	Bank of Nova Scotia	0.8	0.6	-0.4	0.9	1.7	1.4	2.2
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	3.3	7.0	0.9	–	2.1	2.4	1.5
12.	Barclays Bank PLC	2.9	9.4	6.7	6.5	2.9	0.1	0.1
13.	BNP Paribas	-0.5	-0.4	0.5	0.5	1.5	1.7	1.7
14.	Calyon Bank	0.4	0.5	-0.8	4.1	2.7	2.8	2.4
15.	Chinatrust Commercial Bank	2.1	1.2	-7.7	-1.7	0.3	1.6	2.9
16.	Citibank N.A.	1.6	1.9	1.8	1.6	1.4	2.2	2.1
17.	DBS Bank	2.0	-1.3	0.6	0.5	1.2	0.7	2.1
18.	Deutsche Bank AG	2.9	3.2	0.7	1.0	1.2	1.6	1.7
19.	HSBC Ltd.	0.7	1.6	1.2	1.4	1.5	1.6	1.4
20.	JPMorgan Chase Bank	3.1	2.3	3.6	2.5	1.7	3.1	4.2
21.	JSC VTB Bank	–	–	–	–	–	–	-0.3
22.	Krung Thai Bank Public Co. Ltd.	-0.7	1.4	–	5.4	1.5	1.6	1.2
23.	Mashreqbank psc	3.3	1.8	1.1	4.2	9.4	7.8	5.0
24.	Mizuho Corporate Bank Ltd.	0.3	2.4	2.1	0.9	1.3	1.7	2.0
25.	Oman International Bank S.A.O.G.	-1.8	-0.4	-3.1	-0.9	-0.6	2.0	0.7
26.	Shinhan Bank	2.5	2.2	2.1	1.3	1.2	1.9	1.9
27.	Societe Generale	-1.6	2.0	1.7	1.0	0.8	1.3	1.8
28.	Sonali Bank	1.2	3.4	4.3	1.7	1.5	1.6	2.0
29.	Standard Chartered Bank	2.9	1.7	1.6	2.0	2.3	2.3	2.0
30.	State Bank of Mauritius Ltd.	1.1	1.3	1.2	0.7	1.5	1.1	0.9
31.	UBS AG	–	–	–	–	–	–	-6.6

– : Not Applicable

Source : Balance sheets of respective banks.

Appendix Table IV.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**8.3**	**7.3**	**6.6**	**6.7**	**6.7**	**7.1**	**7.4**
	Public Sector Banks	**8.3**	**7.5**	**6.8**	**6.8**	**6.7**	**7.1**	**7.3**
	Nationalised Banks	**8.4**	**7.4**	**6.9**	**6.7**	**6.8**	**7.2**	**7.5**
1.	Allahabad Bank	9.2	7.7	7.1	6.8	7.2	7.4	7.5
2.	Andhra Bank	8.9	8.3	7.0	6.6	7.0	7.4	7.8
3.	Bank of Baroda	8.0	7.2	6.8	6.2	6.3	6.6	6.6
4.	Bank of India	7.8	6.8	6.4	6.3	6.3	6.9	7.2
5.	Bank of Maharashtra	8.4	6.8	7.2	7.9	7.0	7.1	7.3
6.	Canara Bank	8.2	7.1	6.9	6.6	6.8	7.9	7.8
7.	Central Bank of India	8.9	8.0	7.6	7.2	6.7	6.4	7.1
8.	Corporation Bank	8.0	7.6	6.6	6.5	6.4	6.8	7.0
9.	Dena Bank	8.8	7.8	7.2	6.6	6.7	6.9	7.1
10.	Indian Bank	7.2	6.8	6.5	7.1	7.5	7.4	8.1
11.	Indian Overseas Bank	8.5	7.9	7.8	7.4	7.1	7.6	8.0
12.	Oriental Bank of Commerce	9.7	8.1	6.6	7.0	7.0	7.5	7.9
13.	Punjab & Sind Bank	8.9	8.5	7.9	6.8	7.9	7.2	7.9
14.	Punjab National Bank	8.7	7.6	6.7	6.6	6.9	7.2	7.8
15.	Syndicate Bank	8.4	6.5	7.2	6.6	6.8	7.4	7.4
16.	UCO Bank	8.0	7.1	6.5	7.0	7.0	7.2	7.3
17.	Union Bank of India	8.4	7.7	6.9	6.6	7.2	7.4	7.4
18.	United Bank of India	8.7	8.0	7.3	7.1	6.7	6.5	7.0
19.	Vijaya Bank	8.8	8.1	7.2	7.3	6.7	6.9	8.4
	State Bank Group	**8.3**	**7.5**	**7.0**	**7.1**	**6.6**	**7.0**	**7.0**
20.	State Bank of India	8.3	7.5	7.1	7.3	6.6	6.8	6.6
21.	State Bank of Bikaner & Jaipur	8.0	7.8	7.4	7.1	6.9	7.4	8.2
22.	State Bank of Hyderabad	7.9	7.2	6.7	6.8	6.9	7.1	7.4
23.	State Bank of Indore	8.7	8.0	6.6	6.4	6.8	7.6	8.2
24.	State Bank of Mysore	9.2	7.7	7.1	7.0	6.6	7.5	8.0
25.	State Bank of Patiala	8.3	7.0	6.8	6.0	6.5	7.3	8.3
26.	State Bank of Saurashtra	7.9	7.6	7.5	7.1	6.9	7.3	–
27.	State Bank of Travancore	8.3	7.3	7.0	7.2	7.1	7.8	8.3
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	3.3	6.1	6.1	6.2	6.8

Appendix Table IV.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**8.3**	**7.0**	**6.1**	**6.2**	**6.6**	**7.6**	**8.3**
	Old Private Sector Banks	**8.5**	**7.6**	**7.0**	**6.9**	**7.1**	**7.5**	**8.1**
1.	Bank of Rajasthan Ltd.	7.7	6.0	5.7	5.5	6.3	6.6	8.0
2.	Catholic Syrian Bank Ltd.	9.0	8.3	8.3	7.7	7.7	8.1	7.9
3.	City Union Bank Ltd.	8.9	8.7	8.3	7.9	7.5	8.1	8.7
4.	Dhanalakshmi Bank Ltd.	9.0	7.8	7.3	7.4	7.2	7.7	7.2
5.	Federal Bank Ltd.	9.1	7.9	7.1	7.0	7.2	7.7	8.5
6.	ING Vysya Bank Ltd.	7.9	7.0	6.4	7.3	6.6	6.6	7.0
7.	Jammu & Kashmir Bank Ltd.	8.5	7.2	6.3	6.5	6.6	7.4	7.9
8.	Karnataka Bank Ltd.	8.8	8.0	6.7	6.8	7.7	8.1	8.4
9.	Karur Vysya Bank Ltd.	8.4	9.1	7.5	7.2	7.8	7.6	8.5
10.	Lakshmi Vilas Bank Ltd.	8.5	7.5	7.4	6.5	7.2	7.8	7.9
11.	Nainital Bank Ltd.	8.8	8.2	7.0	7.0	7.2	8.2	8.6
12.	Ratnakar Bank Ltd.	8.8	8.0	7.5	7.2	6.7	7.3	8.1
13.	SBI Commercial & International Bank Ltd.	8.3	8.1	5.4	6.8	5.1	6.6	7.4
14.	South Indian Bank Ltd.	8.6	7.4	7.5	7.0	7.2	7.6	8.3
15.	Tamilnad Mercantile Bank Ltd.	10.0	10.6	9.1	9.0	9.0	8.6	8.9
	New Private Sector Banks	**8.1**	**6.7**	**5.8**	**5.9**	**6.5**	**7.6**	**8.3**
16.	Axis Bank Ltd.	7.5	6.6	5.1	5.8	6.1	6.4	7.3
17.	Centurion Bank of Punjab Ltd.	11.0	9.4	7.5	7.1	6.7	8.1	–
18.	Development Credit Bank Ltd.	8.1	6.5	6.5	7.4	6.6	7.4	10.9
19.	HDFC Bank	6.6	6.0	6.0	6.1	7.3	7.6	8.9
20.	ICICI Bank	8.8	7.2	5.6	5.7	6.4	7.7	8.2
21.	IndusInd Bank Ltd.	7.5	6.5	7.3	6.7	7.2	8.1	8.4
22.	Kotak Mahindra Bank Ltd.	8.4	5.0	6.5	7.1	6.6	9.0	10.7
23.	Yes Bank Ltd.	–	–	2.4	4.6	5.3	7.7	8.7

Appendix Table IV.21: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**7.7**	**6.7**	**6.0**	**6.2**	**6.5**	**6.7**	**6.8**
1.	A B Bank Ltd.	4.7	4.8	4.4	5.6	6.3	5.6	5.6
2.	ABN-AMRO Bank N.V.	7.9	7.2	5.9	5.9	7.7	8.3	9.7
3.	Abu Dhabi Commercial Bank Ltd.	9.7	8.5	7.7	16.2	5.9	11.2	7.3
4.	American Express Banking Corp.	10.1	9.0	8.9	7.1	7.2	–	6.4
5.	Antwerp Diamond Bank	4.6	4.1	4.0	5.7	6.7	5.2	4.8
6.	Bank Internasional Indonesia	4.5	3.6	2.9	3.4	4.7	2.7	0.3
7.	Bank of America NA	7.0	5.5	4.7	5.8	6.8	6.3	6.2
8.	Bank of Bahrain & Kuwait B.S.C.	8.1	5.8	5.7	6.5	6.4	6.6	8.0
9.	Bank of Ceylon	6.9	5.1	4.7	5.5	6.2	6.9	7.3
10.	Bank of Nova Scotia	9.7	4.5	4.8	5.0	5.8	5.0	7.8
11.	Bank of Tokyo-Mitsubishi UFJ	9.7	6.6	5.0	4.1	5.3	6.1	6.9
12.	Barclays Bank PLC	2.8	3.9	3.4	3.5	4.4	4.8	9.8
13.	BNP Paribas	9.1	5.9	6.0	6.0	7.2	6.1	6.5
14.	Calyon Bank	8.3	8.4	6.2	6.9	5.1	6.1	5.2
15.	Chinatrust Commercial Bank	11.2	10.0	7.8	5.2	6.2	6.9	9.6
16.	Citibank N.A.	7.8	7.7	6.5	6.7	6.6	7.1	6.5
17.	DBS Bank Ltd.	10.6	4.9	2.4	4.9	6.3	7.0	6.4
18.	Deutsche Bank AG	5.7	3.5	3.6	5.0	5.5	5.8	7.5
19.	HSBC Ltd.	7.1	6.1	5.8	5.9	6.4	6.6	6.7
20.	JPMorgan Chase Bank	4.8	5.4	3.1	4.4	4.5	5.6	4.9
21.	JSC VTB Bank	–	–	–	–	–	–	6.0
22.	Krung Thai Bank Public Co. Ltd.	6.9	5.8	4.9	5.8	6.3	6.1	6.8
23.	Mashreqbank psc	12.2	10.0	8.6	23.1	6.9	6.8	4.8
24.	Mizuho Corporate Bank Ltd.	8.4	6.8	3.8	4.4	4.8	6.1	5.9
25.	Oman International Bank S.A.O.G.	4.1	4.0	4.0	3.9	4.1	3.8	3.7
26.	Shinhan Bank	10.4	5.4	4.5	4.2	5.1	6.8	6.2
27.	Societe Generale	5.6	4.0	4.2	5.1	5.9	7.0	7.1
28.	Sonali Bank	4.0	3.9	4.4	4.4	3.4	3.8	2.6
29.	Standard Chartered Bank	7.8	7.4	6.7	6.7	6.9	6.6	5.8
30.	State Bank of Mauritius Ltd.	6.1	6.8	7.9	8.8	7.1	8.1	7.1
31.	UBS AG	–	–	–	–	–	–	2.5

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

Appendix Table IV.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**5.5**	**4.4**	**3.8**	**3.8**	**4.1**	**4.8**	**5.0**
	Public Sector Banks	**5.4**	**4.5**	**3.9**	**4.0**	**4.2**	**4.9**	**5.1**
	Nationalised Banks	**5.4**	**4.4**	**3.9**	**3.8**	**4.2**	**5.0**	**5.2**
1.	Allahabad Bank	5.9	4.6	4.0	4.0	4.6	5.4	5.3
2.	Andhra Bank	5.8	4.9	3.7	3.7	4.0	5.1	5.5
3.	Bank of Baroda	5.2	4.2	3.7	3.4	3.8	4.4	4.4
4.	Bank of India	5.1	4.2	4.0	3.9	3.9	4.5	4.8
5.	Bank of Maharashtra	5.6	4.4	4.5	4.8	4.2	4.8	5.1
6.	Canara Bank	5.4	4.4	4.0	3.9	4.4	5.9	5.6
7.	Central Bank of India	5.6	4.6	4.1	4.0	4.0	4.7	5.6
8.	Corporation Bank	5.0	4.2	3.3	3.5	3.9	4.6	5.0
9.	Dena Bank	6.0	5.2	4.3	3.9	4.0	4.7	4.9
10.	Indian Bank	4.8	4.0	3.6	3.9	4.3	4.5	5.0
11.	Indian Overseas Bank	5.5	4.6	4.1	3.9	4.0	5.2	5.6
12.	Oriental Bank of Commerce	6.2	4.5	3.8	4.3	4.7	5.7	6.1
13.	Punjab & Sind Bank	6.2	5.2	4.3	3.5	4.4	4.6	5.4
14.	Punjab National Bank	5.1	4.1	3.5	3.4	3.7	4.4	5.0
15.	Syndicate Bank	4.8	3.5	4.0	3.6	4.4	5.4	5.4
16.	UCO Bank	5.5	4.3	3.9	4.5	4.8	5.6	5.8
17.	Union Bank of India	5.5	4.8	4.0	3.9	4.5	5.1	5.0
18.	United Bank of India	5.8	5.0	4.2	4.0	4.0	4.9	5.1
19.	Vijaya Bank	5.4	4.6	3.8	4.2	4.1	5.4	6.6
	State Bank Group	**5.5**	**4.6**	**4.0**	**4.1**	**4.0**	**4.7**	**4.8**
20.	State Bank of India	5.6	4.7	4.0	4.1	3.9	4.4	4.4
21.	State Bank of Bikaner & Jaipur	4.9	4.3	3.7	3.5	4.2	5.1	5.8
22.	State Bank of Hyderabad	5.1	4.5	3.9	4.1	4.4	5.3	5.5
23.	State Bank of Indore	5.5	4.5	3.6	3.8	4.6	5.6	6.0
24.	State Bank of Mysore	5.7	4.4	3.8	3.8	4.1	5.2	6.0
25.	State Bank of Patiala	4.6	4.0	3.7	3.6	4.3	5.8	6.7
26.	State Bank of Saurashtra	5.1	4.5	4.2	4.2	4.7	5.6	–
27.	State Bank of Travancore	5.6	4.4	3.9	4.2	4.5	5.6	5.7
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	3.0	5.6	5.5	5.6	6.0

Appendix Table IV.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**6.3**	**4.8**	**3.8**	**3.8**	**4.4**	**5.2**	**5.5**
	Old Private Sector Banks	**6.0**	**5.0**	**4.3**	**4.2**	**4.4**	**5.1**	**5.5**
1.	Bank of Rajasthan Ltd.	4.8	3.7	3.4	3.2	3.6	4.7	5.8
2.	Catholic Syrian Bank Ltd.	6.7	5.5	5.0	4.6	4.7	5.3	5.6
3.	City Union Bank Ltd.	6.4	5.6	5.1	4.5	4.3	5.4	6.1
4.	Dhanalakshmi Bank Ltd.	6.5	5.0	4.5	4.5	4.3	5.3	5.1
5.	Federal Bank Ltd.	6.3	5.1	4.1	4.1	4.3	5.1	5.1
6.	ING Vysya Bank Ltd.	6.0	5.1	4.1	4.4	4.3	4.6	5.0
7.	Jammu & Kashmir Bank Ltd.	5.4	4.3	3.9	3.9	3.9	5.0	5.3
8.	Karnataka Bank Ltd.	7.1	6.0	4.2	4.4	5.2	5.7	6.3
9.	Karur Vysya Bank Ltd.	5.6	4.9	4.2	4.1	4.7	5.2	6.1
10.	Lakshmi Vilas Bank Ltd.	6.3	5.3	4.7	4.4	5.1	5.9	6.1
11.	Nainital Bank Ltd.	5.1	4.3	3.5	3.0	3.2	4.5	4.8
12.	Ratnakar Bank Ltd.	6.1	5.3	4.5	4.1	3.7	3.6	4.4
13.	SBI Commercial & International Bank Ltd.	6.2	5.3	3.5	3.6	3.4	5.4	4.9
14.	South Indian Bank Ltd.	6.3	5.2	4.8	4.2	4.5	5.4	5.7
15.	Tamilnad Mercantile Bank Ltd.	6.4	6.3	5.0	5.0	4.8	5.6	5.9
	New Private Sector Banks	**6.4**	**4.7**	**3.6**	**3.6**	**4.4**	**5.2**	**5.6**
16.	Axis Bank Ltd.	5.8	4.2	3.2	3.6	4.1	4.0	4.8
17.	Centurion Bank of Punjab Ltd.	8.0	5.7	3.7	3.6	3.8	5.5	–
18.	Development Credit Bank Ltd.	6.5	4.8	5.0	5.4	4.3	5.1	7.5
19.	HDFC Bank	3.9	2.9	2.6	2.6	3.5	3.7	4.9
20.	ICICI Bank	7.4	5.6	3.9	3.8	4.7	5.9	6.0
21.	IndusInd Bank Ltd.	5.6	4.4	4.6	5.0	5.9	6.8	6.7
22.	Kotak Mahindra Bank Ltd.	4.0	2.0	3.0	3.3	3.5	4.6	5.4
23.	Yes Bank Ltd.	–	–	0.9	2.5	3.7	5.7	6.5

Appendix Table IV.22: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**4.3**	**3.1**	**2.6**	**2.6**	**2.8**	**2.9**	**2.9**
1.	AB Bank	0.8	0.8	0.5	0.6	0.7	0.5	0.9
2.	ABN-AMRO Bank N.V.	4.0	2.9	2.2	2.8	3.6	4.0	4.5
3.	Abu Dhabi Commercial Bank Ltd.	8.8	7.5	7.1	14.7	4.1	4.6	3.1
4.	American Express Bank Ltd.	6.6	5.2	5.0	4.2	4.1	–	6.7
5.	Antwerp Diamond Bank	1.2	1.1	1.5	3.3	4.0	2.9	2.1
6.	Bank Internasional Indonesia	1.1	0.7	0.6	0.8	1.3	0.2	–
7.	Bank of America NA	4.5	3.2	2.3	2.5	2.7	2.0	1.5
8.	Bank of Bahrain & Kuwait B.S.C.	6.4	4.7	3.6	4.5	3.7	3.5	4.1
9.	Bank of Ceylon	3.8	3.1	2.9	2.3	2.4	1.9	1.7
10.	Bank of Nova Scotia	6.8	3.1	3.2	3.5	4.1	3.7	5.3
11.	Bank of Tokyo-Mitsubishi Ltd.	4.5	1.7	1.4	1.6	2.0	2.2	3.8
12.	Barclays Bank PLC	2.0	0.9	0.9	1.5	2.3	2.5	4.7
13.	BNP Paribas	6.3	3.3	3.1	3.0	4.1	3.3	2.8
14.	Calyon Bank	6.0	5.5	5.2	5.6	2.9	3.1	2.6
15.	Chinatrust Commercial Bank	4.2	3.2	2.8	1.7	3.7	4.0	3.3
16.	Citibank N.A.	4.1	3.1	2.2	2.2	2.6	2.8	2.3
17.	DBS Bank Ltd.	5.1	2.2	0.6	1.9	4.0	4.3	3.9
18.	Deutsche Bank AG	3.0	2.7	2.8	3.1	2.6	2.2	2.4
19.	HSBC Ltd.	4.2	2.9	2.3	2.2	2.2	2.7	2.8
20.	JPMorgan Chase Bank	1.3	1.3	1.2	1.8	2.0	2.5	2.2
21.	JSC VTB Bank	–	–	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	0.3	0.5	0.8	0.9	1.1	1.9	3.0
23.	Mashreqbank psc	8.8	7.6	7.3	20.9	0.6	0.2	0.1
24.	Mizuho Corporate Bank Ltd.	5.7	2.3	1.3	2.1	1.6	2.8	2.7
25.	Oman International Bank S.A.O.G.	5.8	4.4	3.4	3.2	3.2	3.1	2.3
26.	Shinhan Bank	3.2	1.1	1.0	1.8	1.2	2.1	2.5
27.	Societe Generale	3.7	2.2	2.4	2.9	4.1	5.3	3.7
28.	Sonali Bank	2.9	2.5	2.5	2.6	1.8	1.7	1.2
29.	Standard Chartered Bank	3.9	3.1	3.0	2.6	2.8	2.9	2.6
30.	State Bank of Mauritius Ltd.	3.6	3.8	5.0	5.5	4.8	5.7	4.9
31.	UBS AG	–	–	–	–	–	–	–

– : Nil/Negligible.

Source : Balance sheets of respective banks.

Appendix Table IV.23: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.8**	**2.9**	**2.8**	**2.8**	**2.6**	**2.3**	**2.4**
	Public Sector Banks	**2.9**	**3.0**	**2.9**	**2.8**	**2.6**	**2.1**	**2.1**
	Nationalised Banks	**3.0**	**3.1**	**3.0**	**2.9**	**2.7**	**2.2**	**2.2**
1.	Allahabad Bank	3.2	3.1	3.0	2.9	2.6	2.0	2.2
2.	Andhra Bank	3.1	3.4	3.3	2.9	3.0	2.4	2.4
3.	Bank of Baroda	2.8	3.0	3.2	2.8	2.5	2.2	2.3
4.	Bank of India	2.7	2.6	2.4	2.3	2.4	2.4	2.4
5.	Bank of Maharashtra	2.7	2.4	2.7	3.1	2.8	2.3	2.1
6.	Canara Bank	2.8	2.8	2.9	2.7	2.4	2.0	2.1
7.	Central Bank of India	3.3	3.4	3.5	3.2	2.7	1.7	1.5
8.	Corporation Bank	3.0	3.3	3.3	3.0	2.5	2.2	1.9
9.	Dena Bank	2.8	2.7	2.9	2.7	2.7	2.2	2.2
10.	Indian Bank	2.3	2.9	3.0	3.2	3.2	2.9	3.1
11.	Indian Overseas Bank	3.0	3.4	3.7	3.5	3.1	2.4	2.4
12.	Oriental Bank of Commerce	3.6	3.6	2.8	2.7	2.3	1.8	1.8
13.	Punjab & Sind Bank	2.7	3.3	3.6	3.3	3.5	2.5	2.4
14.	Punjab National Bank	3.6	3.5	3.2	3.2	3.2	2.8	2.8
15.	Syndicate Bank	3.5	3.0	3.3	3.1	2.4	1.9	2.0
16.	UCO Bank	2.5	2.7	2.6	2.5	2.1	1.7	1.5
17.	Union Bank of India	2.9	3.0	2.9	2.7	2.7	2.3	2.4
18.	United Bank of India	3.0	3.0	3.2	3.1	2.7	1.7	1.9
19.	Vijaya Bank	3.4	3.5	3.4	3.1	2.5	1.5	1.8
	State Bank Group	**2.8**	**2.8**	**3.1**	**3.1**	**2.6**	**2.2**	**2.1**
20.	State Bank of India	2.7	2.7	3.0	3.2	2.7	2.4	2.2
21.	State Bank of Bikaner & Jaipur	3.1	3.6	3.7	3.6	2.7	2.3	2.4
22.	State Bank of Hyderabad	2.9	2.8	2.8	2.7	2.5	1.8	1.9
23.	State Bank of Indore	3.2	3.5	3.0	2.6	2.2	2.0	2.2
24.	State Bank of Mysore	3.4	3.3	3.3	3.2	2.5	2.3	2.1
25.	State Bank of Patiala	3.7	3.1	3.1	2.4	2.1	1.5	1.6
26.	State Bank of Saurashtra	2.8	3.2	3.4	2.9	2.2	1.7	–
27.	State Bank of Travancore	2.8	2.9	3.1	3.0	2.6	2.2	2.6
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	0.2	0.4	0.6	0.5	0.8

Appendix Table IV.23: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**2.0**	**2.2**	**2.3**	**2.4**	**2.2**	**2.4**	**2.7**
	Old Private Sector Banks	**2.5**	**2.6**	**2.7**	**2.8**	**2.8**	**2.4**	**2.6**
1.	Bank of Rajasthan Ltd.	3.0	2.3	2.3	2.3	2.6	2.0	2.2
2.	Catholic Syrian Bank Ltd.	2.3	2.8	3.3	3.1	3.0	2.8	2.4
3.	City Union Bank Ltd.	2.5	3.0	3.2	3.4	3.1	2.7	2.6
4.	Dhanalakshmi Bank Ltd.	2.5	2.8	2.8	2.9	2.9	2.5	2.2
5.	Federal Bank Ltd.	2.8	2.8	3.0	2.9	2.9	2.7	3.4
6.	ING Vysya Bank Ltd.	1.9	1.9	2.3	2.9	2.3	2.0	2.0
7.	Jammu & Kashmir Bank Ltd.	3.1	2.9	2.4	2.5	2.7	2.5	2.7
8.	Karnataka Bank Ltd.	1.7	2.0	2.5	2.4	2.6	2.4	2.1
9.	Karur Vysya Bank Ltd.	2.7	4.2	3.3	3.1	3.1	2.3	2.4
10.	Lakshmi Vilas Bank Ltd.	2.1	2.2	2.6	2.1	2.0	1.9	1.8
11.	Nainital Bank Ltd.	3.7	3.9	3.5	3.9	4.0	3.7	3.8
12.	Ratnakar Bank Ltd.	2.7	2.7	3.1	3.1	3.0	3.7	3.7
13.	SBI Commercial & International Bank Ltd.	2.2	2.8	2.0	3.3	1.7	1.2	2.5
14.	South Indian Bank Ltd.	2.3	2.2	2.7	2.9	2.7	2.2	2.6
15.	Tamilnad Mercantile Bank Ltd.	3.6	4.2	4.1	4.0	4.2	3.0	3.1
	New Private Sector Banks	**1.7**	**2.0**	**2.2**	**2.3**	**2.1**	**2.4**	**2.8**
16.	Axis Bank Ltd.	1.6	2.4	1.9	2.2	2.0	2.4	2.5
17.	Centurion Bank of Punjab Ltd.	3.0	3.7	3.9	3.5	2.9	2.6	–
18.	Development Credit Bank Ltd.	1.6	1.8	1.5	2.0	2.3	2.3	3.3
19.	HDFC Bank Ltd.	2.7	3.2	3.5	3.5	3.8	3.9	4.0
20.	ICICI Bank Ltd.	1.3	1.6	1.7	1.9	1.6	1.8	2.2
21.	IndusInd Bank Ltd.	1.9	2.1	2.7	1.8	1.3	1.3	1.7
22.	Kotak Mahindra Bank Ltd.	4.4	2.9	3.5	3.7	3.1	4.3	5.3
23.	Yes Bank Ltd.	–	–	1.4	2.1	1.5	1.9	2.2

Appendix Table IV.23: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**3.4**	**3.6**	**3.3**	**3.6**	**3.8**	**3.8**	**3.9**
1.	A B Bank Ltd.	3.9	4.0	3.9	5.0	5.6	5.1	4.7
2.	ABN-AMRO Bank N.V.	3.9	4.2	3.7	3.0	4.0	4.3	5.2
3.	Abu Dhabi Commercial Bank Ltd.	0.9	1.0	0.6	1.5	1.8	6.6	4.2
4.	American Express Banking Corp.	3.4	3.7	3.9	2.9	3.0	–	-0.3
5.	Antwerp Diamond Bank	3.4	3.0	2.5	2.4	2.7	2.2	2.7
6.	Bank Internasional Indonesia	3.4	2.9	2.3	2.6	3.4	2.5	0.3
7.	Bank of America NA	2.5	2.3	2.4	3.4	4.1	4.3	4.6
8.	Bank of Bahrain & Kuwait B.S.C.	1.7	1.1	2.1	2.0	2.7	3.1	3.9
9.	Bank of Ceylon	3.1	2.0	1.8	3.2	3.8	5.0	5.6
10.	Bank of Nova Scotia	2.8	1.4	1.5	1.5	1.8	1.4	2.5
11.	Bank of Tokyo-Mitsubishi UFJ	5.3	4.8	3.6	2.6	3.3	3.9	3.1
12.	Barclays Bank PLC	0.8	3.0	2.4	2.0	2.1	2.3	5.1
13.	BNP Paribas	2.9	2.6	2.9	2.9	3.1	2.7	3.7
14.	Calyon Bank	2.3	2.9	1.0	1.3	2.2	2.9	2.6
15.	Chinatrust Commercial Bank	7.0	6.8	5.0	3.5	2.5	2.9	6.3
16.	Citibank N.A.	3.8	4.6	4.3	4.5	4.0	4.4	4.2
17.	DBS Bank Ltd.	5.5	2.6	1.8	3.0	2.3	2.6	2.5
18.	Deutsche Bank AG	2.7	0.8	0.8	2.0	2.8	3.7	5.2
19.	HSBC Ltd.	2.9	3.3	3.5	3.7	4.2	3.9	3.9
20.	JPMorgan Chase Bank	3.5	4.1	1.8	2.6	2.4	3.1	2.7
21.	JSC VTB Bank	–	–	–	–	–	–	6.0
22.	Krung Thai Bank Public Co. Ltd.	6.6	5.3	4.2	4.9	5.2	4.2	3.8
23.	Mashreqbank psc	3.4	2.4	1.3	2.2	6.3	6.6	4.7
24.	Mizuho Corporate Bank Ltd.	2.7	4.5	2.5	2.3	3.1	3.3	3.2
25.	Oman International Bank S.A.O.G.	-1.7	-0.4	0.7	0.7	0.9	0.7	1.3
26.	Shinhan Bank	7.2	4.3	3.5	2.4	3.8	4.7	3.7
27.	Societe Generale	2.0	1.9	1.7	2.3	1.8	1.8	3.4
28.	Sonali Bank	1.1	1.4	1.9	1.8	1.7	2.1	1.4
29.	Standard Chartered Bank	3.9	4.2	3.7	4.1	4.1	3.7	3.2
30.	State Bank of Mauritius Ltd.	2.5	3.0	3.0	3.3	2.3	2.5	2.2
31.	UBS AG	–	–	–	–	–	–	2.5

– : Nil/Negligible.

Source : Balance sheet of respective banks.

Appendix Table IV.24: Provisions & Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**1.4**	**1.5**	**1.3**	**1.1**	**1.0**	**0.9**	**1.1**
	Public Sector Banks	**1.4**	**1.6**	**1.3**	**1.1**	**0.9**	**0.8**	**0.9**
	Nationalised Banks	**1.4**	**1.5**	**1.3**	**1.0**	**0.9**	**0.8**	**0.9**
1.	Allahabad Bank	1.3	1.2	0.9	0.6	0.5	0.6	1.2
2.	Andhra Bank	1.4	1.7	1.4	0.5	0.8	0.9	0.9
3.	Bank of Baroda	1.2	1.8	1.7	1.0	1.0	0.8	0.9
4.	Bank of India	1.6	1.5	1.2	0.9	0.9	0.9	1.1
5.	Bank of Maharashtra	1.2	1.2	1.1	1.0	0.9	0.7	0.7
6.	Canara Bank	1.2	1.5	1.3	0.9	0.9	0.8	0.9
7.	Central Bank of India	1.1	1.4	1.8	1.3	0.8	0.6	0.6
8.	Corporation Bank	1.7	1.4	1.8	1.3	1.1	0.8	1.0
9.	Dena Bank	1.9	2.2	1.3	2.0	1.4	0.8	0.6
10.	Indian Bank	1.1	1.0	1.3	0.8	1.1	0.9	1.2
11.	Indian Overseas Bank	0.9	1.7	1.7	0.9	0.7	0.8	1.0
12.	Oriental Bank of Commerce	2.1	2.1	0.9	1.1	1.0	1.0	0.7
13.	Punjab & Sind Bank	1.9	0.9	2.1	0.8	1.2	0.5	0.7
14.	Punjab National Bank	1.7	2.0	0.8	1.0	1.3	1.0	1.1
15.	Syndicate Bank	0.8	1.2	1.2	0.8	0.7	0.6	0.6
16.	UCO Bank	1.2	0.8	0.9	0.9	0.8	0.6	0.6
17.	Union Bank of India	1.5	1.3	1.2	0.9	1.1	1.0	0.8
18.	United Bank of India	1.0	1.2	1.3	1.3	1.1	0.3	0.8
19.	Vijaya Bank	1.2	1.9	1.4	1.6	0.9	0.5	1.0
	State Bank Group	**1.4**	**1.6**	**1.5**	**1.3**	**1.0**	**0.8**	**0.9**
20.	State Bank of India	1.2	1.4	1.5	1.4	1.0	0.9	0.9
21.	State Bank of Bikaner & Jaipur	1.3	1.9	2.2	1.2	1.1	0.8	1.1
22.	State Bank of Hyderabad	1.8	2.1	1.3	0.8	1.0	0.7	0.9
23.	State Bank of Indore	1.9	2.4	1.3	1.2	0.8	0.7	1.0
24.	State Bank of Mysore	2.1	1.8	1.5	1.1	0.8	0.8	0.8
25.	State Bank of Patiala	2.0	2.1	1.8	1.0	0.9	0.6	0.6
26.	State Bank of Saurashtra	1.7	2.2	2.3	1.3	0.9	0.6	–
27.	State Bank of Travancore	1.5	1.9	1.9	1.3	1.0	0.7	0.9
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	0.1	0.3	0.3	0.4	0.3

Appendix Table IV.24: Provisions & Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**1.4**	**1.3**	**1.0**	**0.8**	**1.0**	**1.0**	**1.3**
	Old Private Sector Banks	**1.5**	**1.5**	**1.4**	**0.9**	**1.2**	**0.8**	**1.0**
1.	Bank of Rajasthan Ltd.	1.3	1.4	0.5	–	0.7	0.4	0.4
2.	Catholic Syrian Bank Ltd.	1.7	1.6	1.5	0.6	0.8	0.6	0.6
3.	City Union Bank Ltd.	1.8	1.9	1.0	1.3	1.1	1.1	1.1
4.	Dhanalakshmi Bank Ltd.	2.3	2.0	1.5	0.5	0.7	0.4	0.5
5.	Federal Bank Ltd.	2.0	2.0	1.8	1.1	1.3	1.3	2.0
6.	ING Vysya Bank Ltd.	1.4	1.5	0.9	0.6	0.7	0.6	0.7
7.	Jammu & Kashmir Bank Ltd.	1.3	1.1	1.0	1.0	1.0	0.9	1.0
8.	Karnataka Bank Ltd.	1.6	1.9	1.6	1.0	1.1	0.8	0.9
9.	Karur Vysya Bank Ltd.	1.2	0.8	1.2	1.0	1.0	0.7	1.1
10.	Lakshmi Vilas Bank Ltd.	1.4	1.2	1.3	0.4	1.0	1.0	0.7
11.	Nainital Bank Ltd.	0.5	1.0	0.9	1.2	1.2	1.2	1.2
12.	Ratnakar Bank Ltd.	1.4	0.7	2.2	1.3	0.3	1.1	0.9
13.	SBI Commercial & International Bank Ltd.	4.2	1.6	4.4	2.7	-0.3	-0.1	0.1
14.	South Indian Bank Ltd.	1.9	1.7	1.7	1.0	1.1	0.7	0.8
15.	Tamilnad Mercantile Bank Ltd.	1.5	1.8	1.6	1.5	1.8	1.1	1.1
	New Private Sector Banks	**1.4**	**1.3**	**0.8**	**0.8**	**0.9**	**1.1**	**1.4**
16.	Axis Bank Ltd.	1.1	1.7	0.6	1.0	0.8	1.1	1.3
17.	Centurion Bank of Punjab Ltd.	1.4	3.3	0.1	0.7	0.8	0.9	–
18.	Development Credit Bank Ltd.	0.6	0.7	3.4	1.8	0.6	0.9	2.7
19.	HDFC Bank	1.1	1.2	1.3	1.5	1.6	1.6	1.6
20.	ICICI Bank	1.3	0.7	0.6	0.5	0.8	1.0	1.4
21.	IndusInd Bank Ltd.	2.4	1.2	1.2	0.9	0.5	0.5	0.8
22.	Kotak Mahindra Bank Ltd.	2.1	0.8	0.8	0.9	0.9	1.3	1.4
23.	Yes Bank Ltd.	–	–	–	1.1	0.7	0.9	1.0

Appendix Table IV.24: Provisions & Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**1.6**	**2.0**	**1.7**	**1.8**	**1.8**	**2.0**	**2.8**
1.	A B Bank Ltd.	2.5	2.9	2.6	3.3	3.2	3.3	4.4
2.	ABN-AMRO Bank N.V.	1.6	1.5	1.6	1.4	2.3	1.7	4.3
3.	Abu Dhabi Commercial Bank Ltd.	0.5	0.2	2.8	-0.1	1.1	-1.9	0.5
4.	American Express Banking Corp.	4.3	3.6	2.0	1.5	2.7	–	5.0
5.	Antwerp Diamond Bank	0.7	1.1	1.0	0.8	1.2	1.1	1.6
6.	Bank Internasional Indonesia	-5.0	0.3	0.4	1.9	-0.1	2.4	-0.6
7.	Bank of America NA	1.0	1.1	1.4	2.4	2.5	2.8	3.4
8.	Bank of Bahrain & Kuwait B.S.C.	1.2	1.1	4.1	2.0	3.1	-1.2	0.7
9.	Bank of Ceylon	2.3	2.6	2.4	3.9	3.0	3.2	1.6
10.	Bank of Nova Scotia	2.4	1.4	2.4	1.0	1.0	1.0	1.9
11.	Bank of Tokyo-Mitsubishi UFJ	-0.1	1.1	4.8	2.2	1.5	1.8	2.1
12.	Barclays Bank PLC	5.6	5.8	5.9	5.2	2.1	1.3	3.5
13.	BNP Paribas	0.6	1.6	1.4	1.6	1.8	2.0	2.5
14.	Calyon Bank	0.9	-0.8	0.2	0.2	1.7	2.8	2.6
15.	Chinatrust Commercial Bank	2.1	3.4	10.0	3.5	0.7	-0.3	0.2
16.	Citibank N.A.	1.9	2.2	1.7	1.9	1.9	2.5	3.1
17.	DBS Bank Ltd.	2.4	3.3	0.2	0.9	1.3	0.6	1.5
18.	Deutsche Bank AG	3.0	2.7	1.3	1.6	1.1	2.0	2.9
19.	HSBC Ltd.	1.5	1.5	2.2	2.0	2.0	2.3	3.0
20.	JPMorgan Chase Bank	2.1	1.4	3.3	2.1	2.3	3.1	4.0
21.	JSC VTB Bank	–	–	–	–	–	–	0.3
22.	Krung Thai Bank Public Co. Ltd.	3.5	0.3	1.3	3.3	1.3	1.3	1.0
23.	Mashreqbank psc	0.8	0.1	0.2	1.2	-1.0	2.2	3.7
24.	Mizuho Corporate Bank Ltd.	0.9	0.5	–	1.2	1.4	1.2	1.4
25.	Oman International Bank S.A.O.G.	0.5	0.2	3.0	0.2	0.3	-2.7	-0.3
26.	Shinhan Bank	5.0	2.5	1.6	1.0	1.4	1.8	1.4
27.	Societe Generale	2.2	0.6	-0.4	1.0	0.7	-0.1	1.7
28.	Sonali Bank	0.9	3.0	3.3	1.6	1.4	1.6	1.7
29.	Standard Chartered Bank	0.9	2.3	1.3	1.8	1.7	1.8	1.9
30.	State Bank of Mauritius Ltd.	3.1	3.9	1.2	2.0	0.7	1.2	0.8
31.	UBS AG	–-	–	–	–	–	–	0.5

– : Nil/Negligible.
Source : Balance sheet of respective banks.

Appendix Table IV.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**2.2**	**2.2**	**2.1**	**2.1**	**1.9**	**1.8**	**1.7**
	Public Sector Banks	**2.3**	**2.2**	**2.1**	**2.1**	**1.8**	**1.5**	**1.5**
	Nationalised Banks	**2.3**	**2.2**	**2.2**	**2.0**	**1.7**	**1.5**	**1.5**
1.	Allahabad Bank	3.3	2.8	2.4	1.9	1.5	1.4	1.4
2.	Andhra Bank	2.4	2.4	2.5	2.1	2.0	1.6	1.6
3.	Bank of Baroda	2.2	2.1	2.1	2.1	1.8	1.7	1.6
4.	Bank of India	2.2	2.1	2.0	1.9	1.8	1.5	1.4
5.	Bank of Maharashtra	2.1	1.7	2.2	2.1	1.9	1.7	1.6
6.	Canara Bank	2.1	1.9	1.9	1.8	1.6	1.5	1.4
7.	Central Bank of India	2.7	2.5	2.5	2.3	1.8	1.4	1.3
8.	Corporation Bank	1.8	2.0	2.0	1.8	1.5	1.3	1.2
9.	Dena Bank	2.5	2.3	2.6	2.1	1.9	1.7	1.6
10.	Indian Bank	2.1	2.7	2.1	2.3	2.2	2.0	1.7
11.	Indian Overseas Bank	2.3	2.1	2.3	2.1	1.7	1.5	1.6
12.	Oriental Bank of Commerce	1.7	1.6	1.5	1.6	1.3	1.2	1.2
13.	Punjab & Sind Bank	2.9	4.0	3.6	2.5	2.4	1.8	1.7
14.	Punjab National Bank	2.4	2.3	2.6	2.1	2.0	1.8	1.7
15.	Syndicate Bank	3.2	2.5	2.4	2.3	1.6	1.4	1.3
16.	UCO Bank	2.5	2.3	2.0	1.9	1.6	1.5	1.3
17.	Union Bank of India	2.0	1.9	1.7	1.6	1.4	1.3	1.4
18.	United Bank of India	2.4	2.6	2.4	2.4	1.8	1.7	1.6
19.	Vijaya Bank	2.9	2.1	1.8	2.0	1.5	1.2	1.5
	State Bank Group	**2.1**	**2.2**	**2.1**	**2.3**	**2.0**	**1.7**	**1.6**
20.	State Bank of India	2.1	2.3	2.2	2.4	2.1	1.7	1.6
21.	State Bank of Bikaner & Jaipur	2.5	2.6	2.7	2.8	2.2	1.8	1.7
22.	State Bank of Hyderabad	1.7	1.7	1.9	2.0	1.6	1.3	1.2
23.	State Bank of Indore	2.2	2.2	1.9	1.9	1.7	1.5	1.4
24.	State Bank of Mysore	2.9	2.7	2.9	2.6	2.1	1.9	1.6
25.	State Bank of Patiala	1.9	1.7	1.5	1.5	1.4	1.2	1.1
26.	State Bank of Saurashtra	2.2	2.0	1.7	1.9	1.7	1.8	–
27.	State Bank of Travancore	1.9	1.9	1.7	2.0	1.7	1.6	1.6
	Other Public Sector Bank							
28.	IDBI Bank Ltd.	–	–	0.6	1.0	0.7	0.7	0.8

Appendix Table IV.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Private Sector Banks	**2.0**	**2.0**	**2.0**	**2.1**	**2.1**	**2.2**	**2.1**
	Old Private Sector Banks	**2.1**	**2.0**	**2.0**	**2.1**	**1.8**	**1.7**	**1.7**
1.	Bank of Rajasthan Ltd.	2.6	2.2	2.1	2.6	2.1	1.7	1.8
2.	Catholic Syrian Bank Ltd.	2.7	2.7	2.6	3.1	2.6	2.5	2.6
3.	City Union Bank Ltd.	1.5	1.4	1.8	1.7	1.7	1.5	1.5
4.	Dhanalakshmi Bank Ltd.	2.8	2.5	2.6	2.9	2.5	2.4	2.0
5.	Federal Bank Ltd.	1.8	1.9	1.9	1.8	1.6	1.4	1.5
6.	ING Vysya Bank Ltd.	2.9	2.6	2.5	3.1	2.6	2.4	2.4
7.	Jammu & Kashmir Bank Ltd.	1.6	1.4	1.3	1.3	1.3	1.2	1.2
8.	Karnataka Bank Ltd.	1.5	1.5	1.6	1.4	1.5	1.6	1.5
9.	Karur Vysya Bank Ltd.	1.7	2.2	2.2	1.9	1.7	1.5	1.5
10.	Lakshmi Vilas Bank Ltd.	2.3	2.2	2.2	2.0	1.8	1.8	1.8
12.	Nainital Bank Ltd.	2.8	3.0	2.4	2.8	2.0	1.6	1.6
13.	Ratnakar Bank Ltd.	2.6	2.5	2.6	2.4	2.8	2.0	1.9
15.	SBI Commercial & International Bank Ltd.	1.5	1.6	1.6	1.4	1.4	1.4	1.3
16.	South Indian Bank Ltd.	1.9	2.1	2.0	2.1	1.6	1.5	1.6
17.	Tamilnad Mercantile Bank Ltd.	2.0	2.3	2.2	2.1	2.1	1.9	1.9
	New Private Sector Banks	**2.0**	**2.0**	**2.1**	**2.1**	**2.1**	**2.3**	**2.2**
18.	Axis Bank Ltd.	1.7	1.7	1.5	1.6	1.7	2.0	1.9
19.	Centurion Bank of Punjab Ltd.	4.7	5.1	4.8	4.4	3.8	3.6	–
20.	Development Credit Bank Ltd.	2.2	2.4	3.5	4.0	3.3	3.1	4.1
21.	HDFC Bank	1.9	1.9	2.1	2.3	2.7	2.8	3.0
22.	ICICI Bank	1.9	2.1	2.0	2.0	1.9	2.0	1.9
23.	IndusInd Bank Ltd.	1.2	1.4	1.7	1.8	1.6	1.7	2.0
24.	Kotak Mahindra Bank Ltd.	3.6	2.4	3.5	3.8	3.1	3.6	4.2
25.	Yes Bank Ltd.	–	–	3.1	2.1	1.7	2.0	1.8

Appendix Table IV.25: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**2.8**	**2.8**	**2.9**	**2.9**	**2.8**	**2.8**	**2.8**
1.	A B Bank Ltd.	2.2	2.3	3.0	3.4	5.8	3.8	5.1
2.	ABN-AMRO Bank N.V.	3.5	4.4	3.7	3.2	3.4	3.6	4.7
3.	Abu Dhabi Commercial Bank Ltd.	0.8	0.6	2.4	2.0	2.4	4.6	2.0
4.	American Express Banking Corp.	6.3	7.3	9.7	8.2	8.4	–	30.8
5.	Antwerp Diamond Bank	2.6	1.4	1.1	1.1	0.9	0.8	0.9
6.	Bank Internasional Indonesia	7.3	3.0	2.3	2.3	2.5	5.7	0.7
7.	Bank of America NA	1.4	1.6	1.7	1.9	2.2	2.1	1.8
8.	Bank of Bahrain & Kuwait B.S.C.	1.7	1.9	2.2	2.6	2.3	2.3	2.8
9.	Bank of Ceylon	1.6	1.5	1.3	1.4	1.6	1.7	1.7
10.	Bank of Nova Scotia	1.4	1.0	1.0	0.9	0.9	0.6	0.8
11.	Bank of Tokyo-Mitsubishi UFJ	4.7	3.5	3.0	2.2	1.7	0.9	0.9
12.	Barclays Bank PLC	1.9	3.2	3.4	2.8	4.1	5.4	4.3
13.	BNP Paribas	4.0	2.9	3.3	2.8	3.1	2.4	2.0
14.	Calyon Bank	2.0	2.2	2.8	2.8	2.4	2.4	1.5
15.	Chinatrust Commercial Bank	3.7	3.3	3.9	2.2	2.2	2.4	4.4
16.	Citibank N.A.	3.3	3.4	3.6	3.4	2.8	2.6	2.5
17.	DBS Bank Ltd.	2.4	1.1	1.3	1.2	1.2	1.0	1.3
18.	Deutsche Bank AG	2.9	2.0	2.6	3.9	4.2	4.3	4.6
19.	HSBC Ltd.	2.9	2.5	2.5	2.7	2.9	2.8	2.3
20.	JPMorgan Chase Bank	2.7	3.4	2.1	1.5	1.1	1.6	1.3
21.	JSC VTB Bank	–	–	–	–	–	–	6.2
22.	Krung Thai Bank Public Co. Ltd.	4.3	3.9	3.2	4.2	2.8	2.0	2.1
23.	Mashreqbank psc	2.1	1.3	1.1	4.5	5.1	4.9	5.5
24.	Mizuho Corporate Bank Ltd.	2.7	2.6	1.8	1.7	1.8	2.1	1.7
25.	Oman International Bank S.A.O.G.	1.4	1.1	1.2	1.3	1.5	1.5	1.5
26.	Shinhan Bank	2.4	2.0	1.6	1.2	1.8	1.9	1.2
27.	Societe Generale	3.0	2.0	1.9	1.7	1.7	1.9	3.0
28.	Sonali Bank	6.1	7.2	9.2	11.0	7.6	9.2	6.3
29.	Standard Chartered Bank	2.0	2.3	2.3	2.6	2.4	2.8	2.6
30.	State Bank of Mauritius Ltd.	1.2	1.1	1.0	1.1	1.2	1.4	1.0
31.	UBS AG	–	–	–	–	–	–	8.6

– : Not Applicable

Source: Balance sheet of respective banks.

Appendix Table IV.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	
		2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10
1.	Allahabad Bank	1,480	1,901	975	769	1,467	1,901	962	769
2.	Andhra Bank	1,057	1,288	576	653	1,048	1,288	566	653
3.	Bank of Baroda	2,929	4,305	1,436	2,227	2,922	4,305	1,429	2,227
4.	Bank of India	3,701	5,457	2,009	3,007	3,683	5,457	1,991	3,007
5.	Bank of Maharashtra	673	794	328	375	658	794	314	375
6.	Canara Bank	2,959	3,964	1,565	2,072	2,941	3,964	1,546	2,072
7.	Central Bank of India	1,268	1,437	550	571	1,243	1,437	525	571
8.	Corporation Bank	1,251	1,797	735	893	1,249	1,797	732	893
9.	Dena Bank	686	726	360	423	681	726	354	423
10.	Indian Bank	1,659	2,229	1,009	1,245	1,497	2,229	846	1,245
11.	Indian Overseas Bank	2,002	2,524	1,202	1,326	1,988	2,524	1,188	1,326
12.	Oriental Bank of Commerce	1,219	1,685	353	905	1,216	1,685	350	905
13.	Punjab and Sind Bank	543	728	382	437	510	728	350	437
14.	Punjab National Bank	4,006	5,744	2,049	3,091	3,991	5,744	2,034	3,091
15.	Syndicate Bank	1,468	1,746	848	913	1,456	1,746	836	913
16.	UCO Bank	954	1,202	412	558	895	1,202	354	558
17.	Union Bank of India	2,580	3,082	1,387	1,727	2,575	3,082	1,381	1,727
18.	United Bank of India	467	677	319	185	425	677	277	185
19.	Vijaya Bank	661	899	361	262	646	899	347	262
	Total	**31,563**	**42,184**	**16,856**	**21,639**	**31,091**	**42,184**	**16,384**	**21,639**

+ : Adjusted for interest on recapitalisation bonds.

Note: 1. 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.

2. No interest paid during 2008-09 as all the bonds are converted to dated securities.

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**2.5**	**1.8**	**1.5**	**1.3**	**1.3**	**0.9**	**0.7**	**0.6**	**0.6**	**0.6**
	Public Sector Banks	**2.7**	**2.1**	**1.6**	**1.3**	**1.2**	**1.0**	**0.7**	**0.6**	**0.6**	**0.6**
	Nationalised Banks	**3.0**	**2.2**	**1.6**	**1.3**	**1.1**	**0.9**	**0.6**	**0.5**	**0.4**	**0.4**
1.	Allahabad Bank	2.8	2.1	1.6	1.2	1.1	0.6	0.4	0.7	0.5	0.4
2.	Andhra Bank	1.3	1.1	0.8	0.7	0.5	0.1	0.1	0.1	0.1	0.1
3.	Bank of Baroda	3.5	2.1	1.5	1.1	0.8	0.7	0.5	0.4	0.3	0.2
4.	Bank of India	3.3	2.2	1.5	1.1	1.1	1.6	0.9	0.4	0.3	0.3
5.	Bank of Maharashtra	2.9	3.0	2.1	1.6	1.4	0.9	1.1	0.7	0.5	0.5
6.	Canara Bank	2.1	1.3	0.9	0.7	1.0	1.0	0.7	0.6	0.5	0.7
7.	Central Bank of India	3.8	3.6	2.8	1.9	1.6	1.2	1.3	0.9	0.9	0.7
8.	Corporation Bank	1.9	1.5	1.2	0.9	0.6	0.6	0.4	0.3	0.2	0.2
9.	Dena Bank	4.8	3.6	2.4	1.5	1.3	2.5	1.6	1.2	0.6	0.6
10.	Indian Bank	1.7	1.4	1.0	0.7	0.5	0.6	0.4	0.2	0.1	0.1
11.	Indian Overseas Bank	2.7	2.1	1.4	1.0	1.6	0.6	0.4	0.3	0.4	0.8
12.	Oriental Bank of Commerce	4.6	3.6	2.0	1.4	0.9	0.6	0.3	0.3	0.6	0.4
13.	Punjab & Sind Bank	7.6	4.9	1.3	0.4	0.4	3.2	1.2	0.4	0.2	0.2
14.	Punjab National Bank	3.0	2.2	2.1	1.7	1.1	0.1	0.1	0.4	0.4	0.1
15.	Syndicate Bank	2.7	2.5	1.7	1.7	1.2	0.8	0.5	0.4	0.6	0.5
16.	UCO Bank	2.6	2.0	2.0	1.8	1.4	1.5	1.3	1.3	1.2	0.7
17.	Union Bank of India	2.8	2.4	1.8	1.3	1.2	1.5	0.9	0.6	0.1	0.2
18.	United Bank of India	2.5	2.2	1.9	1.4	1.6	1.0	0.9	0.8	0.6	0.8
19.	Vijaya Bank	1.5	1.7	1.3	0.9	1.1	0.3	0.5	0.3	0.3	0.5
	State Bank Group	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.0**	**0.9**	**0.8**	**0.8**	**0.8**
20.	State Bank of India	2.7	1.9	1.8	1.8	1.6	1.2	1.0	0.9	1.0	1.0
21.	State Bank of Bikaner & Jaipur	1.7	1.4	1.3	1.1	1.1	0.8	0.7	0.6	0.5	0.5
22.	State Bank of Hyderabad	1.6	1.1	0.7	0.5	0.6	0.3	0.2	0.1	0.1	0.2
23.	State Bank of Indore	1.8	1.8	1.2	0.9	0.9	0.5	1.0	0.6	0.5	0.6
24.	State Bank of Mysore	2.5	2.1	1.4	1.1	0.9	0.5	0.4	0.3	0.3	0.3
25.	State Bank of Patiala	2.1	1.3	1.1	0.9	0.8	0.6	0.5	0.5	0.4	0.4
26.	State Bank of Saurashtra	1.2	1.0	0.6	0.8	–	0.6	0.6	0.4	0.5	–
27.	State Bank of Travancore	2.3	1.9	1.4	1.3	1.1	0.9	0.9	0.7	0.6	0.4
	Other Public Sector Bank										
28.	IDBI Bank Ltd.	1.5	1.3	1.2	1.2	0.8	1.0	0.6	0.7	0.8	0.6

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**2.1**	**1.4**	**1.2**	**1.4**	**1.7**	**1.0**	**0.6**	**0.5**	**0.6**	**0.7**
	Old Private Sector Banks	**3.2**	**2.5**	**1.8**	**1.3**	**1.3**	**1.4**	**0.9**	**0.6**	**0.4**	**0.5**
1.	Bank of Rajasthan Ltd.	1.7	1.4	1.0	0.8	0.9	0.8	0.4	0.1	0.2	0.3
2.	Catholic Syrian Bank Ltd.	3.8	3.3	2.4	2.2	2.4	2.0	1.6	1.1	0.9	1.2
3.	City Union Bank Ltd.	3.5	2.7	1.6	1.1	1.1	1.9	1.2	0.7	0.6	0.7
4.	Dhanalakshmi Bank Ltd.	4.7	3.9	2.8	1.6	1.1	2.3	1.6	0.9	0.5	0.5
5.	Federal Bank Ltd.	4.0	2.7	1.8	1.4	1.5	1.2	0.5	0.3	0.1	0.2
6.	ING Vysya Bank Ltd.	1.3	1.1	0.7	0.5	0.7	1.3	1.1	0.6	0.4	0.6
7.	Jammu & Kashmir Bank Ltd.	1.3	1.4	1.8	1.5	1.5	0.7	0.5	0.7	0.6	0.8
8.	Karnataka Bank Ltd.	4.0	2.8	2.4	2.0	1.9	1.1	0.6	0.7	0.6	0.5
9.	Karur Vysya Bank Ltd.	3.1	2.5	1.8	1.3	1.2	1.0	0.5	0.1	0.1	0.2
10.	Lakshmi Vilas Bank Ltd.	4.6	2.5	2.3	2.1	1.7	2.8	1.1	1.0	0.9	0.8
11.	Nainital Bank Ltd.	0.9	0.9	0.9	0.9	0.8	–	–	–	–	–
12.	Ratnakar Bank Ltd.	5.3	4.0	3.3	2.5	1.0	2.7	1.3	0.9	0.4	0.3
13.	SBI Commercial & International Bank Ltd.	14.2	8.3	1.7	0.8	0.6	3.7	1.8	0.1	–	–
14.	South Indian Bank Ltd.	3.9	3.0	2.4	1.1	1.3	2.2	1.1	0.6	0.2	0.7
15.	Tamilnad Mercantile Bank Ltd.	5.7	3.8	2.7	1.4	1.1	1.4	1.1	0.6	0.2	0.2
	New Private Sector Banks	**1.6**	**1.0**	**1.1**	**1.4**	**1.8**	**0.8**	**0.4**	**0.5**	**0.7**	**0.8**
16.	Axis Bank Ltd.	0.8	0.8	0.6	0.5	0.6	0.6	0.4	0.4	0.2	0.2
17.	Centurion Bank of Punjab Ltd.	3.4	2.8	1.7	2.0	–	1.2	0.7	0.8	1.0	–
18.	Development Credit Bank Ltd.	6.7	8.4	2.8	0.8	5.1	3.1	2.2	0.8	0.4	2.1
19.	HDFC Bank	0.9	0.7	0.7	0.7	1.1	0.1	0.2	0.2	0.2	0.3
20.	ICICI Bank	1.7	0.9	1.2	1.9	2.5	0.9	0.4	0.6	0.9	1.2
21.	IndusInd Bank Ltd.	2.1	1.5	1.6	1.7	0.9	1.6	1.1	1.3	1.3	0.6
22.	Kotak Mahindra Bank Ltd.	0.4	0.4	1.4	1.6	2.5	0.2	0.1	1.1	1.0	1.4
23.	Yes Bank	–	–	–	0.1	0.4	–	–	–	–	0.2

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**1.4**	**1.0**	**0.8**	**0.8**	**1.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.7**
1.	AB Bank Ltd.	0.1	–	–	3.4	3.3	0.1	–	–	3.0	2.4
2.	ABN-AMRO Bank N.V.	1.5	0.2	0.4	0.8	2.6	0.2	0.1	0.1	0.5	1.1
3.	Abu Dhabi Commercial Bank Ltd.	2.1	9.2	5.0	3.4	2.2	0.6	2.7	0.2	–	–
4.	American Express Banking Corp.	0.8	0.6	0.5	–	3.7	0.5	0.3	0.3	–	2.5
5.	Antwerp Diamond Bank	–	–	–	–	2.7	–	–	–	–	–
6.	Bank Internasional Indonesia	28.5	0.2	–	–	–	1.7	–	–	–	–
7.	Bank of America NA	0.3	0.1	–	–	–	–	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	10.9	10.1	7.9	4.8	1.9	2.4	0.5	–	0.8	–
9.	Bank of Ceylon	14.2	18.5	17.5	10.3	2.5	4.5	6.5	3.7	1.0	–
10.	Bank of Nova Scotia	2.9	1.9	0.4	–	–	1.9	0.7	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	0.7	0.4	0.3	0.2	0.2	–	0.1	–	–	–
12.	Barclays Bank PLC	–	–	–	0.4	5.1	–	–	–	0.3	2.3
13.	BNP Paribas	2.1	1.1	0.9	0.4	0.8	0.3	–	–	–	0.3
14.	Calyon Bank	1.6	0.5	0.1	–	–	0.1	0.1	–	–	–
15.	Chinatrust Commercial Bank	15.2	2.1	1.6	0.6	–	3.0	1.1	0.2	–	–
16.	Citibank N.A.	1.1	0.9	0.8	0.9	1.7	0.5	0.5	0.5	0.6	1.0
17.	DBS Bank Ltd.	–	–	–	0.1	0.3	–	–	–	–	0.1
18.	Deutsche Bank AG	0.1	0.1	0.1	0.2	1.0	–	–	–	0.1	0.3
19.	HSBC Ltd.	1.5	0.9	0.7	0.9	1.6	0.2	0.3	0.2	0.2	0.4
20.	JPMorgan Chase Bank	–	–	1.0	1.5	0.6	–	–	0.3	0.3	0.1
21.	JSC VTB Bank	–	–	–	–	–	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–
23.	Mashreqbank psc	3.7	13.8	–	–	–	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	5.3	1.3	0.7	0.5	0.3	–	0.1	0.1	–	–
25.	Oman International Bank S.A.O.G.	29.9	33.0	39.2	–	–	1.6	0.7	–	–	–
26.	Shinhan Bank	–	–	–	–	–	–	–	–	–	–
27.	Societe Generale	1.3	0.3	0.1	–	–	–	–	–	–	–
28.	Sonali Bank	1.5	3.1	1.9	2.4	2.3	0.4	0.1	–	–	0.5
29.	Standard Chartered Bank	1.5	1.5	1.4	1.0	1.1	0.6	0.8	0.7	0.5	0.5
30.	State Bank of Mauritius Ltd.	3.9	2.4	–	–	–	–	1.0	–	–	–
31.	UBS AG	–	–	–	–	–	–	–	–	–	–

– : Nil/Negligible.

Source : 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Scheduled Commercial Banks	**5.2**	**3.3**	**2.5**	**2.3**	**2.3**	**2.0**	**1.2**	**1.0**	**1.0**	**1.1**
	Public Sector Banks	**5.5**	**3.6**	**2.7**	**2.2**	**2.0**	**2.1**	**1.3**	**1.1**	**0.8**	**0.7**
	Nationalised Banks	**5.8**	**3.8**	**2.7**	**2.1**	**1.8**	**1.9**	**1.2**	**0.9**	**0.7**	**0.7**
1.	Allahabad Bank	5.8	3.9	2.6	2.0	1.8	1.3	0.8	1.1	0.8	0.7
2.	Andhra Bank	2.5	1.9	1.4	1.1	0.8	0.3	0.2	0.2	0.2	0.2
3.	Bank of Baroda	7.3	3.9	2.5	1.8	1.3	1.5	0.9	0.6	0.5	0.3
4.	Bank of India	5.5	3.7	2.4	1.7	1.7	2.8	1.5	1.0	0.5	0.4
5.	Bank of Maharashtra	7.0	5.5	3.5	2.6	2.3	2.2	2.0	1.2	0.9	0.8
6.	Canara Bank	3.9	2.3	1.5	1.2	1.6	1.9	1.1	0.9	0.8	1.1
7.	Central Bank of India	9.5	6.9	4.8	3.2	2.7	3.0	2.6	1.7	1.5	1.2
8.	Corporation Bank	3.4	2.6	2.1	1.5	1.1	1.1	0.6	0.5	0.3	0.3
9.	Dena Bank	9.7	6.4	4.1	2.4	2.1	5.2	3.0	2.0	0.9	1.1
10.	Indian Bank	4.2	2.9	1.9	1.2	0.9	1.4	0.8	0.4	0.2	0.2
11.	Indian Overseas Bank	5.3	3.4	2.3	1.6	2.5	1.3	0.7	0.5	0.6	1.3
12.	Oriental Bank of Commerce	9.1	6.0	3.2	2.3	1.5	1.3	0.5	0.5	1.0	0.7
13.	Punjab and Sind Bank	17.2	9.6	2.4	0.7	0.7	8.1	2.4	0.7	0.4	0.3
14.	Punjab National Bank	6.0	4.1	3.5	2.7	1.8	0.2	0.3	0.8	0.6	0.2
15.	Syndicate Bank	5.2	4.0	3.0	2.7	1.9	1.6	0.9	0.8	1.0	0.8
16.	UCO Bank	5.0	3.3	3.2	3.0	2.2	2.9	2.1	2.1	2.0	1.2
17.	Union Bank of India	5.0	3.8	2.9	2.2	2.0	2.6	1.6	1.0	0.2	0.3
18.	United Bank of India	6.1	4.7	3.6	2.7	2.9	2.4	2.0	1.5	1.1	1.5
19.	Vijaya Bank	2.9	3.2	2.3	1.6	1.9	0.6	0.9	0.6	0.6	0.8
	State Bank Group	**5.3**	**3.3**	**2.6**	**2.6**	**2.5**	**2.2**	**1.6**	**1.3**	**1.4**	**1.5**
20.	State Bank of India	6.0	3.6	2.9	3.0	2.8	2.7	1.9	1.6	1.8	1.8
21.	State Bank of Bikaner and Jaipur	3.3	2.4	2.2	1.7	1.6	1.6	1.2	1.1	0.8	0.9
22.	State Bank of Hyderabad	3.5	2.1	1.2	0.9	1.1	0.6	0.4	0.2	0.2	0.4
23.	State Bank of Indore	3.3	3.0	1.9	1.4	1.4	1.0	1.8	1.0	0.7	0.9
24.	State Bank of Mysore	4.6	3.3	2.3	1.7	1.4	0.9	0.7	0.5	0.4	0.5
25.	State Bank of Patiala	4.1	2.4	1.8	1.4	1.3	1.2	1.0	0.8	0.6	0.6
26.	State Bank of Saurashtra	2.7	1.9	1.1	1.4	–	1.4	1.2	0.7	0.9	–
27.	State Bank of Travancore	4.3	3.2	2.2	2.0	1.7	1.8	1.5	1.1	0.9	0.6
	Other Public Sector Bank										
28.	IDBI Bank Ltd.	2.9	2.0	1.9	1.9	1.4	1.7	1.1	1.1	1.3	0.9

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**3.8**	**2.5**	**2.2**	**2.5**	**2.9**	**1.9**	**1.0**	**1.0**	**1.2**	**1.5**
	Old Private Sector Banks	**6.0**	**4.4**	**3.0**	**2.3**	**2.3**	**2.7**	**1.7**	**0.9**	**0.7**	**0.9**
1.	Bank of Rajasthan Ltd.	5.3	3.3	2.1	1.7	2.0	2.5	1.0	0.2	0.4	0.7
2.	Catholic Syrian Bank Ltd.	7.2	5.8	4.2	3.9	4.6	3.8	2.8	2.0	1.6	2.4
3.	City Union Bank Ltd.	5.9	4.3	2.6	1.8	1.8	3.4	2.0	1.1	1.0	1.1
4.	Dhanalakshmi Bank Ltd.	8.5	6.7	5.1	2.9	2.0	3.9	2.8	1.8	0.9	0.9
5.	Federal Bank Ltd.	7.3	4.6	3.0	2.4	2.6	2.2	1.0	0.4	0.2	0.3
6.	ING Vysya Bank Ltd.	2.1	1.8	1.1	0.8	1.2	2.1	1.8	0.7	0.7	1.2
7.	Jammu and Kashmir Bank Ltd.	2.7	2.5	2.9	2.5	2.6	1.4	0.9	1.1	1.1	1.4
8.	Karnataka Bank Ltd.	7.6	5.1	3.9	3.4	3.7	2.3	1.2	1.2	1.0	1.0
9.	Karur Vysya Bank Ltd.	5.1	3.9	2.8	2.0	1.9	1.7	0.8	0.2	0.2	0.3
10.	Lakshmi Vilas Bank Ltd.	7.9	4.1	3.6	3.5	2.7	5.0	1.9	1.6	1.6	1.2
11.	Nainital Bank Ltd.	2.6	1.9	2.0	1.8	1.7	–	–	–	–	–
12.	Ratnakar Bank Ltd.	10.3	7.6	6.8	6.0	2.1	5.5	2.6	1.9	1.0	0.7
13.	SBI Commercial & International Bank Ltd.	24.1	15.2	3.3	1.4	1.5	7.7	3.8	–	–	–
14.	South Indian Bank Ltd.	6.6	5.0	3.9	1.8	2.2	3.8	1.9	1.0	0.3	1.1
15.	Tamilnad Mercantile Bank Ltd.	11.3	7.0	4.5	2.2	–	3.0	2.2	1.0	0.4	0.3
	New Private Sector Banks	**3.6**	**1.7**	**1.9**	**2.4**	**2.8**	**1.9**	**0.8**	**1.0**	**1.1**	**1.3**
16.	Axis Bank	2.0	1.7	1.1	0.8	1.1	1.4	1.0	0.7	0.4	0.4
17.	Centurion Bank of Punjab Ltd.	6.8	4.7	2.8	3.3	–	2.5	1.1	1.3	1.7	–
18.	Development Credit Bank Ltd.	14.2	15.0	5.1	1.5	8.8	6.3	4.5	1.6	0.7	3.9
19.	HDFC Bank	1.7	1.4	1.4	1.4	2.0	0.2	0.4	0.4	0.5	0.6
20.	ICICI Bank	4.3	1.5	2.1	3.3	4.3	1.7	0.7	1.0	1.6	2.1
21.	IndusInd Bank Ltd.	3.5	2.9	3.1	3.0	1.6	2.7	2.1	2.5	2.3	1.1
22.	Kotak Mahindra Bank Ltd.	0.7	0.6	2.5	2.9	4.3	0.4	0.2	2.0	1.8	2.4
23.	Yes Bank	–	–	–	0.1	0.7	–	–	–	0.1	0.3

Appendix Table IV.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				
		2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India	**2.8**	**2.0**	**1.8**	**1.8**	**4.0**	**0.9**	**0.8**	**1.0**	**0.9**	**1.7**
1.	AB Bank Ltd.	0.3	–	–	10.2	9.5	0.2	–	–	9.3	6.5
2.	ABN-AMRO Bank N.V.	2.3	0.3	0.5	1.4	4.9	0.4	0.1	0.1	0.9	2.2
3.	Abu Dhabi Commercial Bank Ltd.	34.4	38.8	16.4	10.7	9.3	12.7	16.0	0.6	–	–
4.	American Express Banking Corp.	1.6	1.0	1.4	–	6.3	1.0	0.6	0.8	–	4.3
5.	Antwerp Diamond Bank	–	–	–	–	3.8	–	–	–	–	3.4
6.	Bank Internasional Indonesia	66.5	3.2	–	–	–	10.5	–	–	–	–
7.	Bank of America NA	0.6	0.0	0.0	0.0	0.0	–	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	20.8	21.2	17.9	8.4	3.9	5.5	1.3	0.1	1.5	0.1
9.	Bank of Ceylon	33.4	46.9	45.6	29.5	9.5	13.8	23.7	15.0	4.0	–
10.	Bank of Nova Scotia	4.7	2.8	0.6	0.0	0.0	3.1	1.0	–	–	–
11.	Bank of Tokyo-Mitsubishi UFJ Ltd.	1.4	0.8	0.5	0.3	0.3	0.0	0.1	–	–	–
12.	Barclays Bank PLC	–	–	–	0.7	9.3	–	–	–	0.4	4.6
13.	BNP Paribas	3.5	2.2	1.6	0.9	2.0	–	–	–	–	0.9
14.	Calyon Bank	4.2	0.9	0.3	0.1	0.1	0.3	0.2	–	–	–
15.	Chinatrust Commercial Bank	24.3	3.5	2.5	1.0	0.0	6.0	1.8	0.3	–	–
16.	Citibank N.A.	2.0	1.6	1.6	2.0	4.4	1.0	1.0	1.0	1.2	2.6
17.	DBS Bank Ltd.	–	–	–	0.2	1.3	–	–	–	0.1	0.6
18.	Deutsche Bank AG	0.3	0.3	0.2	0.6	2.7	–	–	0.0	0.2	0.9
19.	HSBC Ltd.	3.2	1.9	1.7	2.3	5.4	0.5	0.6	0.4	0.6	1.4
20.	JPMorgan Chase Bank	–	–	7.3	10.5	8.1	–	–	2.2	2.1	1.3
21.	JSC VTB Bank	–	–	–	–	–	–	–	–	–	–
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–
23.	Mashreqbank psc	39.5	28.5	–	–	–	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	8.2	2.1	1.0	0.8	0.6	–	0.2	–	–	–
25.	Oman International Bank S.A.O.G.	95.9	96.9	98.9	–	–	55.1	40.5	–	–	–
26.	Shinhan Bank	–	–	–	–	–	–	–	–	–	–
27.	Societe Generale	6.9	1.9	0.9	–	–	–	–	–	–	–
28.	Sonali Bank	7.9	23.5	17.8	10.0	10.5	1.8	0.8	–	–	2.6
29.	Standard Chartered Bank	2.7	2.8	2.6	2.1	2.8	1.1	1.6	1.4	1.0	1.4
30.	State Bank of Mauritius Ltd.	7.7	4.6	–	–	–	4.1	1.9	–	–	–
31.	UBS AG	–	–	–	–	–	–	–	–	–	–

– : Nil/Negligible.

Source : 1. Balance sheets of respective banks.
2. Off-site returns (domestic).

Appendix Table IV.29(A): Non-Performing Assets of Public Sector Banks – Sector-wise
(As at end-March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Public Sector Banks	**5,708**	**13.0**	**6,984**	**15.9**	**11,626**	**26.4**	**24,318**	**55.2**	**474**	**1.1**	**19,251**	**43.7**	**44,042**
	Nationalised Banks	**3,707**	**14.2**	**4,958**	**18.9**	**7,206**	**27.5**	**15,871**	**60.6**	**297**	**1.1**	**10,001**	**38.2**	**26,169**
1.	Allahabad Bank	203	18.8	185	17.2	283	26.3	671	62.3	17	1.6	389	36.1	1,077
2.	Andhra Bank	17	4.5	61	16.6	80	21.6	157	42.7	2	0.5	209	56.8	368
3.	Bank of Baroda	225	13.5	307	18.5	287	17.3	820	49.2	2	0.1	843	50.7	1,664
4.	Bank of India	336	15.3	594	27.1	634	29.0	1,564	71.4	–	–	626	28.6	2,190
5.	Bank of Maharashtra	112	14.0	80	10.0	335	42.0	527	66.1	22	2.7	249	31.2	798
6.	Canara Bank	287	13.4	180	8.4	465	21.8	932	43.6	–	–	1,207	56.4	2,139
7.	Central Bank of India	417	18.0	659	28.4	512	22.1	1,587	68.4	59	2.5	675	29.1	2,320
8.	Corporation Bank	79	14.2	83	14.9	210	37.6	373	66.7	–	–	186	33.3	559
9.	Dena Bank	55	8.8	132	21.3	226	36.4	413	66.5	–	–	208	33.5	621
10.	Indian Bank	27	6.4	77	18.0	119	27.8	223	52.2	–	–	204	47.8	426
11.	Indian Overseas Bank	156	8.6	339	18.7	278	15.3	773	42.7	30	1.7	1,007	55.7	1,810
12.	Oriental Bank of Commerce	133	12.6	182	17.2	295	27.9	610	57.6	1	–	448	42.3	1,058
13.	Punjab and Sind Bank	18	11.3	59	36.6	16	10.0	93	58.0	–	–	68	42.0	161
14.	Punjab National Bank	537	19.4	1,000	36.2	899	32.5	2,436	88.0	1	–	331	12.0	2,767
15.	Syndicate Bank	166	10.5	177	11.1	457	28.7	801	50.3	27	1.7	764	48.0	1,592
16.	UCO Bank	285	18.5	180	11.7	541	35.2	1,007	65.4	14	0.9	519	33.7	1,540
17.	Union Bank of India	270	14.0	198	10.3	804	41.8	1,272	66.1	124	6.5	527	27.4	1,923
18.	United Bank of India	191	18.7	231	22.6	295	28.9	717	70.3	–	–	303	29.7	1,020
19.	Vijaya Bank	75	10.7	164	23.5	247	35.3	486	69.5	–	–	213	30.5	699
	Other Public Sector Bank													
20	IDBI Bank Ltd.	118	8.2	69	4.8	223	15.5	410	28.6	–	–	1,026	71.4	1,436
	State Bank Group	**2,001**	**11.2**	**2,026**	**11.3**	**4,420**	**24.7**	**8,447**	**47.3**	**177**	**1.0**	**9,250**	**51.8**	**17,874**
21.	State Bank of Bikaner and Jaipur	7	1.4	38	7.7	135	27.5	180	36.6	–	–	311	63.4	490
22.	State Bank of Hyderabad	23	4.7	56	11.5	135	27.7	214	43.9	–	–	272	56.1	486
23.	State Bank of India	1,789	11.8	1,712	11.3	3,509	23.2	7,010	46.4	163	1.1	7,932	52.5	15,105
24.	State Bank of Indore	18	5.9	19	6.5	82	27.4	120	39.7	10	3.4	171	56.9	301
25.	State Bank of Mysore	25	6.8	62	16.8	116	31.5	203	55.1	–	–	165	44.9	368
26.	State Bank of Patiala	110	19.1	61	10.7	166	28.9	336	58.6	–	–	238	41.4	574
27.	State Bank of Travancore	29	5.3	78	14.2	277	50.5	384	70.0	3	0.6	161	29.4	549

Appendix Table IV.29(B): Non-Performing Assets of Private Sector Banks – Sector-wise

(As at end-March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Private Sector Banks	**1441**	**8.5**	**670**	**4.0**	**1529**	**9.1**	**3640**	**21.6**	**75**	**0.4**	**13172**	**78.0**	**16887**
	Old Private Sector Banks	**263**	**8.6**	**307**	**10.0**	**663**	**21.6**	**1233**	**40.1**	**–**	**–**	**1839**	**59.9**	**3072**
1.	Bank of Rajasthan Ltd.	4	2.3	20	12.4	24	14.7	47	29.4	–	–	114	70.6	161
2.	Catholic Syrian Bank Ltd.	16	9.6	26	14.9	56	32.4	98	56.8	–	–	74	43.2	172
3.	City Union Bank Ltd.	4	3.5	5	4.7	16	15.8	24	24.0	–	–	78	76.0	102
4.	Dhanalakshmi Bank Ltd.	4	5.6	6	9.0	20	31.3	30	45.9	–	–	35	54.1	64
5.	Federal Bank Ltd.	68	11.5	20	3.4	193	32.8	281	47.7	–	–	308	52.3	590
6.	ING Vysya Bank Ltd.	32	15.5	26	12.3	6	2.7	64	30.4	–	–	146	69.6	209
7.	Jammu and Kashmir Bank Ltd.	30	5.3	46	8.3	156	28.0	232	41.6	–	–	327	58.4	559
8.	Karnataka Bank Ltd.	49	11.1	56	12.6	62	14.0	167	37.7	–	–	276	62.3	443
9.	Karur Vysya Bank Ltd.	5	2.4	40	19.2	18	8.5	62	30.2	–	–	144	69.8	206
10.	Lakshmi Vilas Bank Ltd.	10	6.7	10	6.7	12	8.6	32	22.0	–	–	112	78.0	144
11.	Nainital Bank Ltd.	4	21.0	3	15.0	8	40.5	15	76.6	–	–	4	23.4	19
12.	Ratnakar Bank Ltd.	2	11.9	5	31.2	6	34.6	13	77.7	–	–	4	22.3	17
13.	SBI Commercial and International Bank Ltd.	–	–	–	–	2	35.5	2	35.5	–	–	3	64.5	5
14.	South Indian Bank Ltd.	15	5.7	25	9.6	63	24.3	103	39.6	–	–	157	60.4	261
15.	Tamilnad Mercantile Bank Ltd.	21	17.5	20	17.1	21	17.9	63	52.5	–	–	57	47.5	120
	New Private Sector Banks	**1178**	**8.5**	**363**	**2.6**	**866**	**6.3**	**2407**	**17.4**	**75**	**0.5**	**11334**	**82.0**	**13815**
16.	Axis Bank Ltd.	123	13.8	9	1.0	166	18.6	297	33.4	75	8.4	519	58.2	890
17.	Development Credit Bank Ltd.	9	3.0	28	9.3	2	0.7	40	13.1	–	–	266	86.9	306
18.	HDFC Bank Ltd.	101	5.1	211	10.6	67	3.4	380	19.1	–	–	1604	80.9	1984
19.	ICICI Bank Ltd.	874	9.1	15	0.2	560	5.9	1449	15.1	–	–	8116	84.9	9565
20.	IndusInd Bank Ltd.	34	13.2	1	0.3	64	25.2	99	38.7	–	–	156	61.3	255
21.	Kotak Mahindra Bank Ltd.	37	5.1	99	13.5	6	0.8	143	19.5	–	–	588	80.5	731
22.	Yes Bank Ltd.	–	–	–	–	–	–	–	–	–	–	85	100.0	85

Appendix Table IV.29(C): Non-Performing Assets of Foreign Banks – Sector-wise
(As at end-March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Foreign Banks	**–**	**–**	**220**	**3.1**	**429**	**6.0**	**649**	**9.1**	**–**	**–**	**6506**	**90.9**	**7155**
1.	AB Bank Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
2.	ABN-AMRO Bank N.V.	–	–	–	–	11	1.5	11	1.5	–	–	697	98.5	707
3.	Abu Dhabi Commercial Bank Ltd.	–	–	5	34.9	–	–	5	34.9	–	–	9	65.1	14
4.	American Express Banking Corp.	–	–	–	–	–	–	–	–	–	–	45	100.0	45
5.	Antwerp Diamond Bank NV	–	–	26	100.0	–	–	26	100.0	–	–	–	–	26
6.	BNP Paribas	–	–	–	–	–	0.6	–	0.6	–	–	75	99.4	75
7.	Bank of America N.T. & S.A.	–	–	–	–	–	–	–	–	–	–	1	100.0	1
8.	Bank of Bahrain & Kuwait B.S.C.	–	–	–	–	10	86.8	10	86.8	–	–	2	13.2	12
9.	Bank of Ceylon	–	–	–	7.9	3	65.0	3	72.9	–	–	1	27.1	5
10.	Bank of Nova Scotia	–	–	–	–	–	–	–	–	–	–	2	100.0	2
11.	Barclays Bank PLC	–	–	8	0.6	38	3.0	46	3.7	–	–	1189	96.3	1235
12.	Calyon Bank	–	–	–	–	–	–	–	–	–	–	1	100.0	1
13.	Chinatrust Commercial Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
14.	Citibank N.A.	–	–	–	–	153	7.3	153	7.3	–	–	1934	92.7	2087
15.	Deutsche Bank (Asia)	–	–	–	–	7	2.7	7	2.7	–	–	237	97.3	243
16.	DBS Bank Ltd.	–	–	–	–	–	–	–	–	–	–	34	100.0	34
17.	HSBC Ltd.	–	–	140	9.1	117	7.6	257	16.7	–	–	1283	83.3	1540
18.	JPMorgan Chase Bank	–	–	–	–	–	–	–	–	–	–	61	100.0	61
19.	JSC VTB Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
20.	Krung Thai Bank Public Co. Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
21.	Mashreqbank PSC	–	–	–	12.5	–	75.0	–	87.5	–	–	–	12.5	–
22.	Mizuho Corporate Bank Ltd.	–	–	–	–	6	100.0	6	100.0	–	–	–	–	6
23.	Oman International Bank S.A.O.G.	–	–	–	–	–	–	–	–	–	–	–	–	–
24.	Shinhan Bank	–	–	–	–	–	–	–	–	–	–	–	–	–
25.	Societe Generale	–	–	–	–	–	–	–	–	–	–	–	–	–
26.	Sonali Bank	–	–	–	–	–	–	–	–	–	–	1	100.0	1
27.	Standard Chartered Bank	–	–	40	3.8	84	7.9	124	11.7	–	–	934	88.3	1058
28.	State Bank of Mauritius Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
29.	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	–	–	–	–	–	–	–	–	–	–	–	–	–
30.	UBS AG	–	–	–	–	–	–	–	–	–	–	–	–	–

– : 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. Priority sector data includes export trade also

Source : Off-site returns (domestic).

Appendix Table IV.30(A) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Public Sector Banks

(As at end-March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Public Sector Banks	**1,22,894**	**5,074**	**4.1**
	Nationalised Banks	**85,923**	**3,784**	**4.4**
1.	Allahabad Bank	5,010	165	3.3
2.	Andhra Bank	4,891	20	0.4
3.	Bank of Baroda	4,805	174	3.6
4.	Bank of India	10,400	1,400	13.5
5.	Bank of Maharashtra	1,921	136	7.1
6.	Canara Bank	10,809	205	1.9
7.	Central Bank of India	2,037	344	16.9
8.	Corporation Bank	2,118	51	2.4
9.	Dena Bank	1,250	69	5.5
10.	Indian Bank	1,508	41	2.7
11.	Indian Overseas Bank	6,238	15	0.2
12.	Oriental Bank of Commerce	3,019	54	1.8
13.	Punjab and Sind Bank	1,670	22	1.3
14.	Punjab National Bank	10,627	400	3.8
15.	Syndicate Bank	5,663	37	0.7
16.	UCO Bank	5,973	219	3.7
17.	Union Bank of India	2,250	198	8.8
18.	United Bank of India	2,613	175	6.7
19.	Vijaya Bank	3,045	59	1.9
	State Bank Group	**36,971**	**1,290**	**3.5**
20.	State Bank of Bikaner and Jaipur	2,801	47	1.7
21.	State Bank of Hyderabad	4,602	99	2.2
22.	State Bank of India	22,990	1,032	4.5
23.	State Bank of Indore	2,164	34	1.6
24.	State Bank of Mysore	1,203	13	1.1
25.	State Bank of Patiala	408	16	3.8
26.	State Bank of Travancore	2,803	50	1.8
	Other Public Sector Bank			
27.	IDBI Bank Ltd.	77	1	1.4

– : Nil/Negligible.

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

Appendix Table IV.30(B) : Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Private Sector Banks

(As at end March 2009)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Private Sector Banks	**15,052**	**91**	**0.6**
	Old Private Sector Banks	**5,538**	**77**	**1.4**
1.	Bank of Rajasthan Ltd.	106	7	6.8
2.	Catholic Syrian Bank Ltd.	48	11	23.6
3.	City Union Bank Ltd.	211	–	0.2
4.	Dhanalakshmi Bank Ltd.	221	3	1.5
5.	Federal Bank Ltd.	905	–	–
6.	ING Vysya Bank Ltd.	358	4	1.0
7.	Jammu and Kashmir Bank Ltd.	2,031	17	0.8
8.	Karnataka Bank Ltd.	150	5	3.0
9.	Karur Vysya Bank Ltd.	534	21	4.0
10.	Lakshmi Vilas Bank Ltd.	329	–	0.1
11.	Nainital Bank Ltd.	–	–	–
12.	Ratnakar Bank Ltd.	–	–	–
13.	SBI Commercial and International Bank Ltd.	–	–	–
14.	South Indian Bank Ltd.	272	8	2.9
15.	Tamilnad Mercantile Bank Ltd.	372	–	0.1
	New Private Sector Banks	**9,514**	**14**	**0.1**
16.	Axis Bank Ltd.	3,671	–	–
17.	Development Credit Bank Ltd.	210	–	–
18.	HDFC Bank Ltd.	1,108	5	0.4
19.	ICICI Bank Ltd.	2,065	–	–
20.	IndusInd Bank Ltd.	1,275	–	–
21.	Kotak Mahindra Bank Ltd.	536	10	1.8
22.	Yes Bank Ltd.	649	–	–

– : Nil/Negligible.

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

Appendix Table IV.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2004-05	2005-06	2006-07	Basel-I 2007-08	Basel-I 2008-09	Basel-II 2007-08	Basel-II 2008-09
1	2	3	4	5	6	7	8	9
	Scheduled Commercial Banks	**12.8**	**12.3**	**12.3**				
	Public Sector Banks	**12.9**	**12.2**	**12.4**				
	Nationalised Banks	**13.2**	**12.3**	**12.4**				
1.	Allahabad Bank	12.5	13.4	12.5	NA	NA	12.0	13.1
2.	Andhra Bank	12.1	14.0	11.3	11.6	12.4	NA	13.2
3.	Bank of Baroda	12.6	13.7	11.8	12.9	12.9	12.9	14.1
4.	Bank of India	11.5	10.8	11.8	13.0	13.2	12.0	13.0
5.	Bank of Maharashtra	12.7	11.3	12.1	10.9	10.8	NA	12.1
6.	Canara Bank	12.8	11.2	13.5	NA	NA	13.3	14.1
7.	Central Bank of India	12.2	11.0	10.4	10.4	11.8	9.4	13.1
8.	Corporation Bank	16.2	13.9	12.8	12.1	13.7	NA	13.6
9.	Dena Bank	11.9	10.6	11.5	11.1	10.7	NA	12.1
10.	Indian Bank	14.1	13.2	14.1	12.7	13.3	NA	14.0
11.	Indian Overseas Bank	14.2	13.0	13.3	11.9	12.7	NA	13.2
12.	Oriental Bank of Commerce	9.2	11.0	12.5	12.1	12.0	NA	13.0
13.	Punjab & Sind Bank	9.5	12.8	12.9	11.6	11.9	NA	14.4
14.	Punjab National Bank	14.8	12.0	12.3	13.0	12.6	13.5	14.0
15.	Syndicate Bank	10.7	11.7	11.7	11.2	11.4	11.8	12.7
16.	UCO Bank	11.3	11.1	11.6	10.1	9.8	11.0	11.9
17.	Union Bank of India	12.1	11.4	12.8	12.5	12.0	NA	13.3
18.	United Bank of India	18.2	13.1	12.0	NA	NA	11.2	13.3
19.	Vijaya Bank	12.9	11.9	11.2	11.2	13.1	NA	13.2
	State Bank Group	**12.4**	**12.0**	**12.3**				
20.	State Bank of India	12.5	11.9	12.3	13.5	13.0	NA	14.3
21.	State Bank of Bikaner & Jaipur	12.6	12.1	12.9	13.5	13.2	12.5	14.5
22.	State Bank of Hyderabad	11.7	12.1	12.5	12.4	10.6	12.0	11.5
23.	State Bank of Indore	11.6	11.4	11.8	11.3	11.8	11.3	13.5
24.	State Bank of Mysore	12.1	11.4	11.5	12.3	12.4	11.7	13.4
25.	State Bank of Patiala	14.2	13.7	12.4	12.5	11.4	13.6	12.6
26.	State Bank of Travancore	11.1	11.2	11.7	12.7	12.1	13.5	14.0
	Other Public Sector Bank							
27.	IDBI Bank Ltd.	15.5	14.8	13.7	12.0	11.2	NA	11.6

Appendix Table IV.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2004-05	2005-06	2006-07	Basel-I 2007-08	Basel-I 2008-09	Basel-II 2007-08	Basel-II 2008-09
1	2	3	4	5	6	7	8	9
	Old Private Sector Banks	**12.5**	**11.7**	**12.1**				
1.	Bank of Rajasthan Ltd.	12.8	10.6	11.3	11.9	12.0	NA	11.5
2.	Catholic Syrian Bank Ltd.	11.4	11.3	9.6	NA	NA	11.2	12.3
3.	City Union Bank Ltd.	12.2	12.3	12.6	12.5	12.5	NA	12.7
4.	Dhanalakshmi Bank Ltd.	10.2	9.8	9.8	9.2	14.4	NA	15.4
5.	Federal Bank Ltd.	11.3	13.8	13.4	22.5	20.1	NA	20.2
6.	ING Vysya Bank Ltd.	9.1	10.7	10.6	10.2	11.7	NA	11.7
7.	Jammu & Kashmir Bank Ltd.	15.2	13.5	13.2	12.8	13.5	NA	14.5
8.	Karnataka Bank Ltd.	14.2	11.8	11.0	12.2	13.5	NA	13.5
9.	Karur Vysya Bank Ltd.	16.1	14.8	14.5	12.6	13.1	NA	14.9
10.	Lakshmi Vilas Bank Ltd.	11.3	10.8	12.4	12.7	10.1	NA	10.3
11.	Nainital Bank Ltd.	14.9	13.9	12.9	12.3	13.9	NA	13.1
12.	Ratnakar Bank Ltd.	12.0	10.8	34.3	49.2	44.9	NA	42.3
13.	SBI Commercial and International Bank Ltd.	23.6	22.3	20.9	25.1	23.8	23.5	21.2
14.	South Indian Bank Ltd.	9.9	13.0	11.1	13.8	13.9	NA	14.8
15.	Tamilnad Mercantile Bank Ltd.	19.7	18.3	16.8	15.4	14.5	NA	16.1
	New Private Sector Banks	**12.1**	**12.6**	**12.0**				
16.	Axis Bank	12.7	11.1	11.6	13.7	NA	NA	13.7
17.	Development Credit Bank Ltd.	9.9	9.7	11.3	13.4	13.4	NA	13.3
18.	HDFC Bank	12.2	11.4	13.1	13.6	15.1	NA	15.7
19.	ICICI Bank	11.8	13.4	11.7	14.9	15.9	14.0	15.5
20.	IndusInd Bank Ltd.	11.6	10.5	12.5	11.9	12.3	NA	12.6
21.	Kotak Mahindra Bank Ltd.	12.8	11.3	13.5	18.7	19.9	NA	20.0
22.	Yes Bank Ltd.	18.8	16.4	13.6	13.6	14.5	NA	16.6

Appendix Table IV.31: Capital Adequacy Ratio – Scheduled Commercial Banks *(Concluded)*

(As at end-March)

(Per cent)

Sr. No.	Name of the Bank	2004-05	2005-06	2006-07	Basel-I 2007-08	Basel-I 2008-09	Basel-II 2007-08	Basel-II 2008-09
1	2	3	4	5	6	7	8	9
	Foreign Banks in India	**14.0**	**13.0**	**12.4**				
1.	A B Bank Ltd.	109.4	86.2	100.0	109.4	136.6	43.1	50.7
2.	ABN-AMRO Bank N.V.	10.6	10.4	11.3	NA	NA	12.9	12.7
3.	Abu Dhabi Commercial Bank Ltd.	14.4	37.0	27.7	55.7	54.3	51.7	47.6
4.	American Express Banking Corp.	10.9	10.3	13.0	NA	NA	16.6	21.3
5.	Antwerp Diamond Bank	40.0	39.7	46.5	41.9	29.0	37.1	26.8
6.	Bank Internasional Indonesia	92.3	108.9	141.2	235.8	501.3	NA	NA
7.	Bank of America NA	30.1	23.4	13.3	12.1	13.8	13.5	12.7
8.	Bank of Bahrain and Kuwait B.S.C.	11.7	20.0	22.0	24.6	30.5	21.6	25.6
9.	Bank of Ceylon	49.4	56.4	63.2	56.0	63.7	56.0	45.2
10.	Bank of Nova Scotia	15.3	13.7	23.3	20.2	19.3	NA	13.4
11.	Bank of Tokyo-Mitsubishi Ltd. UFJ	32.1	33.4	30.7	NA	NA	26.9	29.5
12.	Barclays Bank PLC	20.9	22.9	13.7	21.1	NA	NA	17.1
13.	BNP Paribas	9.4	11.6	10.8	11.8	12.6	12.7	12.4
14.	Calyon Bank	14.4	19.8	15.1	NA	NA	9.7	13.2
15.	Chinatrust Commercial Bank	59.9	38.0	22.1	NA	NA	22.7	45.4
16.	Citibank N.A.	10.8	11.3	11.1	12.1	14.8	12.0	13.2
17.	DBS Bank Ltd.	35.1	31.3	29.2	21.3	18.4	18.2	15.7
18.	Deutsche Bank AG	16.2	12.7	10.6	13.6	15.4	15.1	15.3
19.	HSBC Ltd.	14.0	10.6	11.1	10.6	14.1	NA	15.3
20.	JPMorgan Chase Bank	10.2	11.8	16.1	17.7	16.8	NA	15.9
21.	JSC VTB Bank	–	–	–	NA	NA	NA	371.5
22.	Krung Thai Bank Public Co. Ltd.	99.6	133.5	121.7	125.9	110.5	109.0	80.9
23.	Mashreqbank psc	60.1	136.9	97.1	161.6	175.5	52.8	76.8
24.	Mizuho Corporate Bank Ltd.	28.8	65.8	34.4	27.8	37.2	29.7	37.6
25.	Oman International Bank S.A.O.G.	13.5	9.6	11.0	25.1	27.5	23.1	25.2
26.	Shinhan Bank	55.3	81.7	89.3	62.6	51.7	48.7	36.8
27.	Societe Generale	64.8	37.4	31.8	28.0	32.5	20.8	22.5
28.	Sonali Bank	105.8	93.8	71.4	41.3	37.1	NA	NA
29.	Standard Chartered Bank	10.5	9.9	10.4	NA	NA	10.6	11.6
30.	State Bank of Mauritius Ltd.	31.1	35.4	39.0	41.1	34.6	41.7	38.0
31.	UBS AG	–	–	–	NA	NA	NA	229.4

– : Not Applicable
N.A.: Not Available
Source : 1. Balance sheets of respective banks.
2. Off-site Returns (domestic)

Appendix Table IV.32 : Share Prices and Price/ Earning Ratios of Bank Stocks at BSE

(Per cent)

Sr. No.	Name of the Bank	End-March Closing Prices (Rs.)			Per cent variation (2008-09 over 2007-08)	P/E Ratio (End-March)		
		2006-07	2007-08	2008-09		2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9
	Public Sector Banks							
1.	Allahabad Bank	80	77	39	-49.3	4.3	3.4	2.2
2.	Andhra Bank	81	74	45	-38.6	6.9	6.1	3.3
3.	Bank of Baroda	238	284	235	-17.4	7.6	6.7	3.6
4.	Bank of India	151	253	220	-13.1	7.3	6.4	3.7
5.	Bank of Maharashtra	32	50	21	-58.9	6.2	6.6	2.4
6.	Canara Bank	242	225	166	-26.3	5.6	5.1	3.3
7.	Corporation Bank	317	282	181	-36.0	7.7	5.4	2.9
8.	Dena Bank	32	51	32	-36.2	5.0	4.0	2.2
9.	Indian Overseas Bank	101	135	46	-66.4	5.6	6.1	1.9
10.	Oriental Bank of Commerce	212	177	110	-37.8	5.7	5.3	3
11.	Punjab National Bank	455	508	411	-19.1	9.7	7.3	4.1
12.	Syndicate Bank	73	75	48	-35.8	4.7	4.6	2.7
13.	Union Bank of India	114	141	147	4.4	6.2	5.1	4.3
14.	Vijaya Bank	47	49	NA		6.3	NA	NA
15.	State Bank of India	997	1,599	1,067	-33.3	11.5	10.1	6.2
16.	State Bank of Bikaner and Jaipur	3,465	500	196	-60.7	5.5	7.9	2.4
17.	State Bank of Mysore	5,392	750	331	-55.9	7.4	8.5	3.5
18.	State Bank of Travancore	3,576	478	212	-55.5	4.6	6.2	1.7
19.	UCO Bank	21	37	24	-34.7	5.4	7.1	3.2
	Other Public Sector Banks							
20.	IDBI Ltd.	75	89	45	-49.0	8.9	8.6	4.3
	Private Sector Banks							
21.	Axis Bank	395	781	415	-46.9	21.0	24.7	8.2
22.	Bank of Rajasthan Ltd.	38	83	37	-55.3	3.8	11.6	5.2
23.	City Union Bank Ltd.	129	28	12	-56.9	5.7	8.9	3.2
24.	Centurion Bank of Punjab Ltd.	27	–	–	–	48.5	–	–
25.	Dhanalakshmi Bank	38	63	50	-20.0	11.6	7.1	5.6
26.	Federal Bank Ltd.	205	217	138	-36.3	6.3	6.8	4.9
27.	ING Vysya Bank	145	335	128	-61.7	17.9	17.9	6.9
28.	Indusind Bank Ltd.	45	79	32	-59.0	19.7	33.5	7.6
29.	Jammu and Kashmir Bank Ltd.	494	679	315	-53.6	11.4	9.1	3.7
30.	Karnataka Bank Ltd.	122	200	66	-67.2	11.7	10.1.	2.9
31.	Karur Vysya Bank Ltd.	229	334	200	-40.1	8.7	8.7	4.6
32.	Kotak Mahindra Bank Ltd.	347	629	283	-55.0	110.7	21.2	14.9
33.	South Indian Bank Ltd.	74	112	51	-54.2	6.7	9.3	2.9
34.	United Western Bank #	29	–	–		–	–	–
35.	HDFC Bank Ltd.	911	1,320	968	-26.7	26.6	28.5	18.3
36.	ICICI Bank Ltd.	711	770	333	-56.8	28.8	23.9	10.4
37.	Yes Bank	109	169	50	-70.4	41.8	24.0	4.9

#: United Western Bank Ltd. was merged with IDBI Ltd. on September 30, 2006.
– : Not Available.
N.A – Not Applicable.

Appendix Table IV.33: Shareholding Pattern of Scheduled Commercial Banks *(Continued)*

(As at end-March 2009)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI-Resident	Financial Institutions-Resident	Financial Institutions-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total – Resident	Total – Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks									
1.	Allahabad Bank	55.2	14.4	10.3	4.1	–	15.9	0.1	89.7	10.3
2.	Andhra Bank	51.6	16.9	14.6	2.6	–	14.3	0.1	85.3	14.7
3.	Bank of Baroda	53.8	22.1	–	3.1	13.5	6.8	0.6	85.8	14.2
4.	Bank of India	64.5	12.8	14.3	1.2	0.1	6.6	0.5	85.1	14.9
5.	Bank of Maharashtra	76.8	4.6	4.3	2.4	–	11.7	0.2	95.4	4.6
6.	Canara Bank	73.2	8.6	11.2	1.0	–	5.9	0.1	88.7	11.3
7.	Central Bank of India	80.2	5.0	1.8	4.5	–	8.4	0.1	98.1	1.9
8.	Corporation Bank	57.2	34.4	3.6	1.9	–	2.7	0.3	96.1	3.9
9.	Dena Bank	51.2	7.9	9.2	6.7	–	24.0	1.1	89.7	10.3
10.	IDBI Bank Ltd.	52.7	21.8	–	9.2	–	16.3	–	100.0	–
11.	Indian Bank	80.0	3.4	12.2	1.0	–	3.2	0.1	87.7	12.3
12.	Indian Overseas Bank	61.2	15.3	7.8	1.8	–	13.2	0.7	91.5	8.5
13.	Oriental Bank of Commerce	51.1	30.9	9.6	2.4	–	5.9	0.1	90.3	9.7
14.	Punjab & Sind Bank	100.0	–	–	–	–	–	–	100.0	–
15.	Punjab National Bank	57.8	21.1	14.9	1.6	–	4.7	–	85.1	14.9
16.	Syndicate Bank	66.5	10.6	–	6.5	3.5	12.9	–	96.5	3.5
17.	UCO Bank	63.6	8.3	–	4.2	1.5	21.9	0.5	98.0	2.0
18.	Union Bank of India	55.4	15.9	14.1	3.6	–	10.9	–	85.9	14.1
19.	United Bank of India	100.0	–	–	–	–	–	–	100.0	–
20.	Vijaya Bank	53.9	1.8	1.2	7.6	–	34.8	0.7	98.1	1.9
	State Bank Group									
21.	State Bank of Bikaner & Jaipur	–	77.5	–	4.4	2.4	12.8	3.0	94.7	5.4
22.	State Bank of Hyderabad	–	100.0	–	–	–	–	–	100.0	–
23.	State Bank of India	59.4	16.0	12.3	5.5	–	6.7	0.1	87.7	12.3
24.	State Bank of Indore	–	98.1	–	0.7	–	1.2	–	100.0	–
25.	State Bank of Mysore	–	94.5	–	0.3	–	5.2	–	100.0	–
26.	State Bank of Patiala	–	100.0	–	–	–	–	–	100.0	–
27.	State Bank of Travancore	1.1	76.0	2.7	3.5	–	13.2	3.5	93.8	6.2

Appendix Table IV.33: Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2009)

(Per cent)

Sr. No.	Name of the Bank	Total Government and RBI-Resident	Financial Institutions-Resident	Financial Institutions-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total – Resident	Total – Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Old Private Sector Banks									
1.	Bank of Rajasthan Ltd.	–	3.8	13.3	67.6	–	15.0	0.2	86.5	13.5
2.	Catholic Syrian Bank Ltd.	–	–	–	9.5	14.9	46.1	29.5	55.6	44.4
3.	City Union Bank Ltd.	–	8.2	12.7	18.7	8.6	51.3	0.6	78.2	21.8
4.	Dhanalakshmi Bank Ltd.	–	6.8	23.0	19.9	–	44.9	5.4	71.6	28.4
5.	Federal Bank Ltd.	–	19.3	38.9	10.0	5.0	21.5	5.3	50.8	49.2
6.	ING Vysya Bank Ltd.	–	13.5	24.7	3.2	43.8	10.3	4.5	27.0	73.0
7.	Jammu & Kashmir Bank Ltd.	53.2	2.8	31.0	2.2	–	10.3	0.5	68.5	31.5
8.	Karnataka Bank Ltd.	–	39.8	–	14.2	–	45.7	0.3	99.7	0.3
9.	Karur Vysya Bank Ltd.	–	5.0	21.4	14.1	–	54.6	4.8	73.7	26.3
10.	Lakshmi Vilas Bank Ltd.	–	15.9	–	22.4	2.7	58.9	0.2	97.1	2.9
11.	Nainital Bank Ltd.	–	98.4	–	–	–	1.6	–	100.0	–
12.	Ratnakar Bank Ltd.	–	2.1	–	15.5	19.9	55.0	7.4	72.7	27.3
13.	SBI Commercial & International Bank Ltd	–	100.0	–	–	–	–	–	100.0	–
14.	South Indian Bank Ltd.	–	12.1	35.9	12.2	–	36.5	3.4	60.7	39.3
15.	Tamilnad Mercantile Bank Ltd.	–	0.1	–	9.3	16.5	73.8	0.4	83.1	16.9
	New Private Sector Banks									
16.	Axis Bank Ltd.	–	53.7	31.2	7.5	1.5	6.0	0.2	67.1	32.9
17.	Development Credit Bank Ltd	–	2.8	–	18.4	39.8	37.9	1.1	59.1	40.9
18.	HDFC Bank Ltd.	–	13.9	–	28.2	46.2	11.2	0.6	53.2	46.8
19.	ICICI Bank Ltd.	–	19.6	63.2	8.7	–	8.0	0.5	36.2	63.8
20.	IndusInd Bank Ltd.	–	3.6	18.7	14.7	44.3	15.7	3.0	34.0	66.0
21.	Kotak Mahindra Bank Ltd.	–	3.3	28.4	7.2	0.6	59.7	0.7	70.3	29.7
22.	Yes Bank Ltd	–	2.0	36.5	18.2	13.5	29.3	0.6	49.5	50.5

– : Nil/Negligible.

Source: Off-site Returns (unaudited and provisional).

Appendix IV.34: 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 2009	Expenditure incurred between September 1999 and March 2009
1	2	3	4
	Public Sector Banks	**1,671**	**17,897**
	Nationalised Banks	**1,258**	**11,802**
1.	Allahabad Bank	18	218
2.	Andhra Bank	203	733
3.	Bank of Baroda	56	1,378
4.	Bank of India	214	1,473
5.	Bank of Maharashtra	16	352
6.	Canara Bank	37	1,019
7.	Central Bank of India	20	449
8.	Corporation Bank	21	413
9.	Dena Bank	5	184
10.	Indian Bank	54	560
11.	Indian Overseas Bank	45	396
12.	Oriental Bank of Commerce	38	456
13.	Punjab and Sind Bank	7	69
14.	Punjab National Bank	208	1,375
15.	Syndicate Bank	26	506
16.	UCO Bank	29	541
17.	Union Bank of India	122	739
18.	United Bank of India	109	375
19.	Vijaya Bank	29	568
	State Bank Group	**413**	**6,095**
20.	State Bank of India	270	4,290
21.	State Bank of Bikaner and Jaipur	54	413
22.	State Bank of Hyderabad	19	314
23.	State Bank of Indore	8	145
24.	State Bank of Mysore	20	220
25.	State Bank of Patiala	5	259
26.	State Bank of Saurashtra	28	210
27.	State Bank of Travancore	9	244

Appendix Table IV.35: Computerisation in Public Sector Banks

(As on March 31, 2009)

(Per cent)

Sr. No.	Name of the Bank	Branches Under Core Banking Solution	Branches Already Fully Computerised#	Fully Computerised Branches (3+4)	Branches Partially Computerised
1	2	3	4	5	6
	Public Sector Banks	**81.4**	**14.3**	**95.7**	**4.3**
	Nationalised Bank	**73.4**	**20.4**	**93.8**	**6.1**
1.	Allahabad Bank	40.1	59.6	99.7	0.3
2.	Andhra Bank	100.0	0.0	100.0	-
3.	Bank of Baroda	65.8	34.2	100.0	-
4.	Bank of India	85.8	14.2	100.0	-
5.	Bank of Maharashtra	54.4	45.6	100.0	-
6.	Canara Bank	38.6	61.4	100.0	-
7.	Central Bank of India	34.2	52.7	86.9	13.1
8.	Corporation Bank	100.0	-	100.0	-
9.	Dena Bank	51.2	48.6	99.8	0.1
10.	Indian Bank	100.0	-	100.0	-
11.	Indian Overseas Bank	95.3	3.1	98.4	1.6
12.	Oriental Bank of Commerce	100.0	-	100.0	-
13.	Punjab National Bank	100.0	100.0	100.0	-
14.	Punjab and Sind Bank	-	11.8	12.9	87.1
15.	Syndicate Bank	100.0	0.0	100.0	0.0
16.	UCO Bank	49.8	1.5	51.3	48.7
17.	Union Bank of India	100.0	-	100.0	-
18.	United Bank of India	69.3	22.2	91.5	8.5
19.	Vijaya Bank	100.0	0.0	100.0	-
	State Bank Group	**100.0**	**0.0**	**100.0**	**-**
20.	State Bank of India	100.0	0.0	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 IV.36: Branches and ATMs of Scheduled Commercial Banks *(Continued)*
(As at end-March 2009)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Per cent of 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	12
	Scheduled Commercial Banks	**20,058**	**16,146**	**14,761**	**13,643**	**64,608**	**24,645**	**19,006**	**43,651**	**43.5**	**67.6**
	Public Sector Banks	**18,941**	**13,504**	**11,994**	**10,999**	**55,438**	**17,379**	**9,898**	**27,277**	**36.3**	**49.2**
	Nationalised Banks	**13,381**	**8,669**	**8,951**	**8,375**	**39,376**	**9,861**	**5,177**	**15,038**	**34.4**	**38.2**
1.	Allahabad Bank	952	398	466	401	2,217	121	90	211	42.7	9.5
2.	Andhra Bank	393	394	376	262	1,425	248	477	725	65.8	50.9
3.	Bank of Baroda	1,099	651	536	629	2,915	691	488	1,179	41.4	40.4
4.	Bank of India	1,231	603	542	559	2,935	300	200	500	40.0	17.0
5.	Bank of Maharashtra	518	262	270	357	1,407	258	87	345	25.2	24.5
6.	Canara Bank	726	694	678	642	2,740	1,218	788	2,006	39.3	73.2
7.	Central Bank of India	1,351	897	686	599	3,533	302	98	400	24.5	11.3
8.	Corporation Bank	190	219	309	317	1,035	522	510	1,032	49.4	99.7
9.	Dena Bank	352	225	219	297	1,093	289	102	391	26.1	35.8
10.	Indian Bank	474	410	407	321	1,612	547	208	755	27.5	46.8
11.	Indian Overseas Bank	544	450	497	436	1,927	445	131	576	22.7	29.9
12.	Oriental Bank of Commerce	275	325	453	369	1,422	576	269	845	31.8	59.4
13.	Punjab and Sind Bank	283	127	226	222	858	43	–	43	–	5.0
14.	Punjab National Bank	1,881	895	849	702	4,327	1,541	609	2,150	28.3	49.7
15.	Syndicate Bank	657	530	557	502	2,246	911	179	1,090	16.4	48.5
16.	UCO Bank	769	410	451	428	2,058	304	110	414	26.6	20.1
17.	Union Bank of India	760	619	608	583	2,570	1,099	691	1,790	38.6	69.6
18.	United Bank of India	615	235	314	281	1,445	156	66	222	29.7	15.4
19.	Vijaya Bank	257	229	336	279	1,101	290	74	364	20.3	33.1
	Other Public Sector Bank										
20.	IDBI Bank Ltd.	54	96	171	189	510	372	528	900	58.7	176.5
	State Bank Group	**5,560**	**4,835**	**3,043**	**2,624**	**16,062**	**7,146**	**4,193**	**11,339**	**37.0**	**70.6**
21.	State Bank of India	4,366	3,311	2,022	1,773	11,472	5,229	3,319	8,548	38.8	74.5
22.	State Bank of Bikaner and Jaipur	292	240	157	168	857	294	201	495	40.6	57.8
23.	State Bank of Hyderabad	262	318	249	193	1,022	452	158	610	25.9	59.7
24.	State Bank of Indore	119	138	87	125	469	204	146	350	41.7	74.6
25.	State Bank of Mysore	210	138	148	168	664	294	87	381	22.8	57.4
26.	State Bank of Patiala	263	229	222	134	848	372	123	495	24.8	58.4
27.	State Bank of Travancore	48	461	158	63	730	301	159	460	34.6	63.0

– : Nil/Negligible.

Appendix Table IV.36: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2009)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Percent ATMs of Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Private Sector Banks	**1,113**	**2,638**	**2,715**	**2,411**	**8,877**	**6,996**	**8,324**	**15,320**	**54.3**	**172.6**
	Old Private Sector Banks	**842**	**1,554**	**1,344**	**933**	**4,673**	**1,830**	**844**	**2,674**	**31.6**	**57.2**
1.	Bank of Rajasthan Ltd.	99	92	142	125	458	84	27	111	24.3	24.2
2.	Catholic Syrian Bank Ltd.	19	194	100	47	360	87	51	138	37.0	38.3
3.	City Union Bank Ltd.	36	61	72	40	209	117	5	122	4.1	58.4
4.	Dhanalakshmi Bank Ltd.	21	80	52	28	181	59	13	72	18.1	39.8
5.	Federal Bank Ltd.	39	321	152	99	611	345	271	616	44.0	100.8
6.	ING Vysya Bank	83	83	147	131	444	172	179	351	51.0	79.1
7.	Jammu and Kashmir Bank Ltd.	220	83	124	64	491	182	68	250	27.2	50.9
8.	Karnataka Bank Ltd.	90	94	138	129	451	133	37	170	21.8	37.7
9.	Karur Vysya Bank Ltd.	33	95	113	69	310	263	61	324	18.8	104.5
10.	Lakshmi Vilas Bank Ltd.	36	86	81	44	247	88	16	104	15.4	42.1
11.	Nainital Bank Ltd.	24	24	22	22	92	–	–	–	–	–
12.	Ratnakar Bank Ltd.	24	26	17	17	84	9	–	9	–	10.7
13.	SBI Commercial and International Bank Ltd.	–	–	–	2	2	2	–	2	–	100.0
14.	South Indian Bank Ltd.	68	236	130	85	519	212	68	280	24.3	53.9
15.	Tamilnad Mercantile Bank Ltd.	50	79	54	31	214	77	48	125	38.4	58.4
	New Private Sector Banks	**271**	**1,084**	**1,371**	**1,478**	**4,204**	**5,166**	**7,480**	**12,646**	**59.1**	**300.8**
16.	Axis Bank Ltd.	30	189	314	253	786	1,004	2,591	3,595	72.1	457.4
17.	Development Credit Bank Ltd.	4	14	13	50	81	73	43	116	37.1	143.2
18.	HDFC Bank Ltd.	67	325	468	548	1,408	1,749	1,546	3,295	46.9	234.0
19.	ICICI Bank Ltd.	138	461	400	410	1,409	1,863	2,850	4,713	60.5	334.5
20.	IndusInd Bank Ltd.	5	36	88	53	182	174	182	356	51.1	195.6
21.	Kotak Mahindra Ltd.	14	37	48	121	220	212	175	387	45.2	175.9
22.	Yes Bank Ltd.	13	22	40	43	118	91	93	184	50.5	155.9

– : Nil/Negligible.

Appendix Table IV.36: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2009)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site to total ATMs	Perceent ATMs of Branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total		
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks	**4**	**4**	**52**	**233**	**293**	**270**	**784**	**1,054**	**74.4**	**359.7**
1.	AB Bank Ltd.	–	–	–	1	1	–	–	–	–	–
2.	ABN-AMRO Bank N.V.	2	–	9	19	30	34	88	122	72.1	406.7
3.	Abu Dhabi Commercial Bank Ltd.	–	–	–	2	2	–	–	–	–	–
4.	American Express Banking Corp.	–	–	–	1	1	–	–	–	–	–
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	5	11	45.5	220.0
13.	BNP Paribas	–	–	–	9	9	–	–	–	–	–
14.	Calyon Bank	–	–	–	6	6	–	–	–	–	–
15.	Chinatrust Commercial Bank	–	–	–	1	1	–	–	–	–	–
16.	Citibank N.A.	–	1	11	29	41	54	415	469	88.5	1143.9
17.	DBS Bank Ltd.	2	2	–	6	10	–	–	–	–	–
18.	Deutsche Bank AG	–	–	6	7	13	12	20	32	62.5	246.2
19.	HSBC Ltd.	–	–	9	38	47	71	107	178	60.1	378.7
20.	JPMorgan Chase Bank	–	–	–	1	1	–	–	–	–	–
21.	JSC VTB Bank Ltd.	–	–	–	1	1					
22.	Krung Thai Bank Public Co. Ltd.	–	–	–	1	1	–	–	–	–	–
23.	Mashreqbank psc	–	–	–	2	2	–	–	–	–	–
24.	Mizuho Corporate Bank Ltd.	–	–	–	2	2	–	–	–	–	–
25.	Oman International Bank S.A.O.G.	–	–	1	1	2	–	–	–	–	–
26.	Shinhan Bank	–	–	–	2	2	1	–	1	–	–
27.	Societe Generale	–	–	–	2	2	–	–	–	–	–
28.	Sonali Bank	–	–	1	1	2	–	–	–	–	–
29.	Standard Chartered Bank	–	–	12	78	90	92	149	241	61.8	267.8
30.	State Bank of Mauritius Ltd.	–	–	–	3	3	–	–	–	–	–
31.	UBS AG	–	–	–	1	1					

– : Nil/Negligible.

Source : Master office file (latest updated version) on commercial Banks.

Appendix Table IV.37: 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, 2008@					As on June 30, 2009@				
		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	7	5,399 (35.1)	4,620 (30.0)	2,879 (18.7)	2,492 (16.2)	15,390 (100.0)	5,609 (34.5)	4,907 (30.2)	3,094 (19.0)	2,650 (16.3)	16,260 (100.0)
2. Nationalised Banks	19	13,176 (35.1)	8,118 (21.6)	8,362 (22.3)	7,889 (21.0)	37,545 (100.0)	13,363 (34.2)	8,646 (22.1)	8,842 (22.6)	8,244 (21.1)	39,095 (100.0)
3. Other Public Sector Banks	1	54 (10.8)	95 (18.9)	164 (32.7)	189 (37.6)	502 (100.0)	56 (9.9)	112 (19.8)	196 (34.6)	202 (35.7)	566 (100.0)
4. Old Private Sector Bank	15	819 (18.1)	1,509 (33.4)	1,298 (28.7)	891 (19.7)	4,517 (100.0)	846 (18.0)	1,564 (33.3)	1,354 (28.8)	937 (19.9)	4,701 (100.0)
5. New Private Sector Banks	7	237 (6.3)	974 (25.7)	1,220 (32.2)	1,359 (35.9)	3,790 (100.0)	275 (6.4)	1,116 (26.2)	1,389 (32.6)	1,484 (34.8)	4,264 (100.0)
6. Foreign Banks in India	32	– (–)	2 (0.7)	50 (17.9)	227 (81.4)	279 (100.0)	4 (1.4)	4 (1.4)	53 (18.0)	234 (79.3)	295 (100.0)
7. Regional Rural Banks	86	11,501 (77.6)	2,641 (17.8)	616 (4.2)	66 (0.4)	14,824 (100.0)	11,632 (76.8)	2,750 (18.2)	671 (4.4)	91 (0.6)	15,144 (100.0)
8. Non-Scheduled Commercial Banks (Local Area Banks)	4	11 (25.0)	20 (45.5)	13 (29.5)	– (–)	44 (100.0)	11 (25.0)	20 (45.5)	13 (29.5)	– (–)	44 (100.0)
Total	**171**	**31,197** **(40.6)**	**17,979** **(23.4)**	**14,602** **(19.0)**	**13,113** **(17.1)**	**76,891** **(100.0)**	**31,796** **(39.6)**	**19,119** **(23.8)**	**15,612** **(19.4)**	**13,842** **(17.2)**	**80,369** **(100.0)**

: As on June 30, 2009.

@ : Population group wise classification of branches is based on 2001 Census.

Note : 1. Number of branches data exclude administrative offices.

2. Data for June 2008 are revised and that for June 2009 are provisional.

3. Figures in parentheses are percentage to the total in each group.

Source: Master office file (latest updated version) on commercial banks, BSD, DSIM.

Appendix Table IV.38: Distribution of Commercial Bank Branches – Region/State/Union Territory-wise@

Sr. No.	Region/State/ Union Territory	Number of branches as on June 30,		Number of branches opened during				Average population (in '000) per bank branch as at end-June	
		2008	2009	July 2007 to June 2008	*of which:* at unbanked centres	July 2008 to June 2009	*of which:* at unbanked centres	2008	2009
1	2	3	4	5	6	7	8	9	10
	ALL INDIA	**76,891**	**80,369**	**4,349**	**203**	**3,649**	**212**	**15**	**15**
1	**NORTHERN REGION**	**13,175**	**13,800**	**811**	**31**	**677**	**35**	**12**	**11**
	Chandigarh	246	261	23	–	16	–	4	4
	Delhi	2,072	2,186	176	–	127	1	8	8
	Haryana	2,044	2,183	150	8	142	13	12	11
	Himachal Pradesh	907	954	37	6	47	5	7	7
	Jammu and Kashmir	957	976	42	2	21	4	13	13
	Punjab	3,147	3,318	177	9	186	10	8	8
	Rajasthan	3,802	3,922	206	6	138	2	17	17
2	**NORTH-EARSTERN REGION**	**2,051**	**2,133**	**83**	**5**	**84**	**8**	**21**	**21**
	Arunachal Pradesh	73	76	1	–	3		16	16
	Assam	1,331	1,382	47	1	53	**3**	23	22
	Manipur	77	80	2	–	3	**1**	34	33
	Meghalaya	190	201	4	–	11	**2**	13	13
	Mizoram	91	93	7	**1**	2	**1**	11	11
	Nagaland	82	86	4	**1**	4	**1**	27	26
	Tripura	207	215	18	2	8	–	17	17
3	**EASTERN REGION**	**13,017**	**13,406**	**545**	**28**	**409**	**18**	**19**	**19**
	Andaman and Nicobar Islands	37	37	–	–	–	–	11	11
	Bihar	3,735	3,835	96	12	102	6	25	25
	Jharkhand	1,646	1,717	92	2	73	4	18	18
	Orissa	2,600	2,708	146	9	113	6	15	15
	Sikkim	71	72	3	–	1	–	8	8
	West Bengal	4,928	5,037	208	5	120	2	18	18
4	**CENTRAL REGION**	**15,328**	**16,027**	**938**	**54**	**724**	**46**	**19**	**19**
	Chhatisgarh	1,158	1,225	71	4	70	2	21	20
	Madhya Pradesh	3,785	3,991	210	**7**	211	8	18	18
	Uttar Pradesh	9,340	9,723	556	32	400	35	21	20
	Uttarakhand	1,045	1,088	101	11	43	1	9	9
5	**WESTERN REGION**	**11,839**	**12,440**	**674**	**20**	**635**	**29**	**14**	**14**
	Dadra and Nagar Haveli	21	24	–	–	3	–	13	11
	Daman and Diu	18	19	–	–	1	–	11	10
	Goa	395	410	28	1	17	–	4	4
	Gujarat	4,203	4,374	250	11	182	11	13	13
	Maharashtra	7,202	7,613	396	8	432	18	15	14
6	**SOUTHERN REGION**	**21,481**	**22,563**	**1,298**	**65**	**1,120**	**76**	**11**	**11**
	Andhra Pradesh	6,244	6,601	402	27	367	33	13	13
	Karnataka	5,566	5,803	302	11	245	9	10	10
	Kerala	3,952	4,086	194	9	141	8	9	8
	Lakshadweep	10	11	–	–	1	–	7	6
	Puducherry	109	125	11	–	16	3	10	9
	Tamil Nadu	5,600	5,937	389	18	350	23	12	11

– : 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 2008 are revised.
4. Data for June 2009 are provisional.

Source: Master Office File on commercial banks (latest updated version), BSD, DSIM.

Appendix Table IV.39: 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@				Investment *plus* Credit plus RIDF-Deposit Ratio @			
		March 2007		March 2008		March 2009	March 2007		March 2008		March 2007		March 2008	
		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	As per Sanction	As per Utilisation
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	ALL INDIA	**75.0**	**75.0**	**74.4**	**74.4**	**72.6**	**79.8**	**79.8**	**79.2**	**79.2**	**80.5**	**80.5**	**80.2**	**80.2**
1	**NORTHERN REGION**	**69.6**	**71.2**	**67.7**	**70.1**	**68.5**	**73.0**	**74.6**	**71.4**	**73.8**	**73.6**	**75.2**	**72.7**	**75.1**
	Haryana	56.9	68.4	60.1	67.2	61.5	61.7	73.2	63.6	70.7	62.9	74.3	64.7	71.8
	Himachal Pradesh	42.8	51.1	43.4	51.3	38.5	58.1	66.5	62.7	70.6	60.9	69.2	65.9	73.8
	Jammu & Kashmir	62.5	60.9	56.4	56.3	46.3	69.9	68.3	68.3	68.3	73.0	71.4	71.6	71.5
	Punjab	65.6	65.3	67.2	76.1	65.5	71.8	71.5	75.4	84.3	73.0	72.7	76.6	85.6
	Rajasthan	82.9	90.9	82.4	100.0	80.2	96.4	104.5	95.9	113.6	97.9	106.0	97.8	115.5
	Chandigarh	95.9	101.1	96.2	95.8	114.1	95.9	101.1	96.2	95.8	95.9	101.1	96.2	95.8
	Delhi	70.8	69.6	66.9	64.4	68.5	70.8	69.6	66.9	64.4	70.8	69.6	68.0	65.4
2	**NORTH-EASTERN REGION**	**40.7**	**48.6**	**40.7**	**48.3**	**35.8**	**51.7**	**59.7**	**50.3**	**58.0**	**53.7**	**61.7**	**52.5**	**60.1**
	Arunachal Pradesh	28.0	46.0	31.7	57.7	24.8	36.6	54.7	40.3	66.3	46.2	64.2	48.2	74.2
	Assam	42.8	52.5	42.4	49.8	38.3	51.7	61.5	50.3	57.8	53.1	62.9	51.9	59.4
	Manipur	55.1	55.6	48.4	50.3	38.7	76.8	77.4	65.0	66.8	77.5	78.0	65.8	67.6
	Meghalaya	35.7	41.2	33.2	41.1	27.6	46.6	52.1	42.9	50.8	48.3	53.8	44.8	52.7
	Mizoram	53.8	58.4	62.9	65.5	58.7	74.7	79.3	83.2	85.9	78.7	83.3	87.3	90.0
	Nagaland	29.1	31.9	34.0	43.9	30.7	53.7	56.5	56.4	66.3	57.8	60.6	60.6	70.5
	Tripura	35.3	36.2	36.1	36.8	29.8	45.9	46.8	44.2	45.0	47.7	48.6	46.2	47.0
3	**EASTERN REGION**	**54.1**	**60.6**	**51.5**	**58.2**	**48.9**	**61.8**	**68.3**	**59.1**	**65.7**	**62.8**	**69.3**	**60.1**	**66.7**
	Bihar	32.4	49.0	28.2	45.0	27.3	41.3	57.9	36.0	52.8	41.9	58.5	37.0	53.8
	Jharkhand	32.8	33.3	35.3	40.2	32.0	36.8	37.3	38.8	43.6	38.4	38.9	40.2	45.0
	Orissa	64.6	72.6	56.3	62.4	50.8	74.4	82.4	62.4	68.5	75.8	83.8	63.8	69.9
	Sikkim	52.8	51.2	46.8	53.7	42.4	62.5	61.0	56.7	63.7	64.0	62.5	58.4	65.4
	West Bengal	64.7	68.4	62.4	65.8	60.8	72.3	76.0	71.1	74.5	73.1	76.9	71.9	75.3
	Andaman & Nicobar Islands	27.7	56.6	30.7	75.0	32.2	27.7	56.6	30.7	75.0	27.7	56.6	30.7	75.0
4	**CENTRAL REGION**	**47.4**	**52.3**	**46.1**	**54.6**	**44.8**	**56.0**	**61.0**	**53.8**	**62.2**	**57.3**	**62.3**	**55.1**	**63.6**
	Chhattisgarh	50.0	58.3	49.8	66.0	53.3	54.2	62.6	53.1	69.3	56.6	64.9	55.0	71.2
	Madhya Pradesh	61.8	64.6	60.1	65.9	57.4	71.5	74.4	67.5	73.3	73.8	76.6	69.9	75.7
	Uttar Pradesh	45.1	50.4	43.7	52.6	42.1	54.2	59.4	52.1	61.0	55.1	60.3	53.0	61.9
	Uttaranchal	26.7	32.1	26.2	31.6	25.6	33.8	39.2	33.6	38.9	35.5	40.8	35.2	40.6
5	**WESTERN REGION**	**90.1**	**77.3**	**88.6**	**76.0**	**85.2**	**92.5**	**79.7**	**91.4**	**78.8**	**92.9**	**80.1**	**91.9**	**79.3**
	Goa	26.2	30.0	29.4	33.6	26.5	29.9	33.7	34.3	38.4	30.0	33.8	34.3	38.5
	Gujarat	63.7	88.4	66.5	97.8	63.2	69.6	94.3	74.3	105.6	71.8	96.5	76.4	107.7
	Maharashtra	96.8	76.5	93.9	73.1	90.8	98.5	78.2	95.8	75.0	98.6	78.3	95.9	75.2
	Dadra & Nagar Haveli	20.6	116.4	23.9	121.9	20.8	20.6	116.4	23.9	122.0	20.6	116.4	23.9	122.0
	Daman & Diu	15.6	57.1	15.0	58.2	18.9	15.6	57.1	15.0	58.2	15.6	57.1	15.0	58.2
6	**SOUTHERN REGION**	**87.0**	**96.6**	**89.1**	**96.8**	**88.4**	**92.7**	**102.3**	**95.1**	**102.8**	**93.6**	**103.2**	**96.1**	**103.8**
	Andhra Pradesh	87.3	91.2	90.4	97.2	97.6	95.5	99.3	99.0	105.7	97.1	101.0	100.8	107.6
	Karnataka	76.3	99.8	78.1	94.3	76.6	79.9	103.4	81.2	97.3	80.4	103.9	81.7	97.9
	Kerala	60.9	63.8	63.4	66.4	60.4	67.7	70.7	71.4	74.4	68.3	71.3	72.1	75.0
	Tamil Nadu	114.5	118.6	114.7	117.0	108.9	119.6	123.7	120.4	122.8	120.5	124.6	121.5	123.9
	Lakshadweep	10.2	24.7	7.5	14.9	5.4	10.2	24.7	7.5	14.9	10.2	24.7	7.5	14.9
	Puducherry	47.9	51.5	49.7	50.1	51.9	47.9	51.5	57.1	57.5	47.9	51.5	57.1	57.5

@ : 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 2007 and 2008 are based on BSR-1 and 2 Surveys as on March 31.

2. Deposits and credit data (as per sanction) for 2009 are based on BSR 7 as on March 31,2009.

3. The investment figures are based on BSR-5 survey as on March 31,2007 and March 31,2008.

4. RIDF outstanding data are based on information provided by NABARD.

Appendix Table IV.40: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2008-09)

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 / debit card accounts@	Number of Complaints per Branch #	Category-wise break up complaints: Deposit Account	Remitt-ances	Credit Cards	Loans/Advances: General	Loans/Advances: Housing Loans	Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents/ Reco-very Agents	Notes and Coins	Others
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Scheduled Commercial Banks															
	Public Sector Banks															
	Nationalised Banks															
1.	Allahabad Bank	838	0.1	1.9	0.4	105	99	25	139	4	30	33	229	59	4	111
2.	Andhra Bank	619	0.0	0.2	0.5	62	67	141	46	5	10	48	181	7	0	52
3.	Bank of Baroda	1450	0.1	0.4	0.5	157	171	164	235	32	140	45	303	82	3	118
4.	Bank of India	1018	0.0	0.3	0.3	141	118	106	161	25	43	63	219	41	0	101
5.	Bank of Maharashtra	308	0.0	0.3	0.2	50	48	14	28	2	21	27	63	24	1	30
6.	Canara Bank	1443	0.1	0.3	0.5	215	163	145	188	5	50	101	319	113	2	142
7.	Central Bank of India	1163	0.1	2.2	0.3	124	157	30	224	11	59	80	281	38	1	158
8.	Corporation Bank	277	0.0	0.1	0.3	55	42	23	42	3	15	4	54	8	1	30
9.	Dena Bank	334	0.1	0.4	0.3	23	46	17	34	5	38	50	47	17	2	55
10.	Indian Bank	558	0.0	0.2	0.4	64	28	24	158	4	26	30	179	18	1	26
11.	Indian Overseas Bank	549	0.0	0.5	0.3	50	41	32	134	2	20	29	191	13	2	35
12.	Oriental Bank of Commerce	497	0.1	0.4	0.4	136	64	24	70	8	42	10	84	19	1	39
13.	Punjab National Bank	2210	0.1	139.9	0.5	305	282	188	341	28	146	181	420	80	6	233
14.	Punjab and Sind Bank	186	0.0	0.0	0.2	33	22	0	21	8	8	10	46	11	1	26
15.	Syndicate Bank	782	0.0	0.2	0.3	100	59	60	130	10	44	31	196	44	0	108
16.	UCO Bank	605	0.1	1.4	0.3	58	88	28	93	10	35	31	139	56	1	66
17.	Union Bank of India	1110	0.1	0.3	0.5	106	116	140	192	11	73	48	255	58	4	107
18.	United Bank of India	245	0.0	0.4	0.2	50	30	5	19	0	7	12	56	51	0	15
19.	Vijaya Bank	232	0.0	0.3	0.2	23	24	16	40	15	12	5	51	10	1	35
20.	IDBI Bank	550	0.2	0.2	1.1	84	57	38	38	15	79	4	121	31	3	80
	State Bank Group															
21.	State Bank of India	15306	0.2	0.3	1.5	1195	1454	4295	1079	112	697	1785	2631	578	27	1453
22.	State Bank of Bikaner and Jaipur	979	0.1	0.4	1.1	43	130	159	212	1	143	99	78	5	3	106
23.	State Bank of Hyderabad	355	0.0	0.1	0.3	18	49	82	28	1	25	23	93	3	0	33
24.	State Bank of Indore	360	0.1	0.3	0.8	26	56	36	31	1	28	26	105	17	0	34
25.	State Bank of Mysore	222	0.1	0.2	0.3	16	43	29	11	0	7	21	43	2	0	50
26.	State Bank of Patiala	321	0.1	0.2	0.4	77	31	37	30	12	17	29	58	6	0	24
27.	State Bank of Saurashtra	46	0.0	0.0	0.1	1	1	8	10	4	12	2	4	2	0	2
28.	State Bank of Travancore	578	0.1	0.2	0.8	36	37	50	133	0	71	35	114	17	0	85

Appendix Table IV.40: Statement of Complaints Received at Banking Ombudsman Office *(Continued)*

(For the period 2008-09)

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 / debit card accounts@	Number of Complaints per Branch #	Category-wise break up complaints										
						Deposit Account	Remitt-ances	Credit Cards	Loans/Advances		Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents/ Reco-very Agents	Notes and Coins	Others
									General	Housing Loans						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Private Sector Banks															
	Old Private Sector Banks															
1.	Bank of Rajasthan Ltd.	163	0.1	0.5	0.3	14	27	18	17	0	45	4	21	4	3	10
2.	Catholic Syrian Bank Ltd.	57	0.0	0.4	0.2	3	4	0	12	0	4	0	27	2	0	5
3.	City Union Bank Ltd.	30	0.0	0.3	0.2	1	1	2	8	0	2	0	14	0	0	2
4.	Dhanalakshmi Bank Ltd.	31	0.0	0.1	0.2	1	3	1	7	0	3	0	7	2	0	7
5.	Federal Bank Ltd.	209	0.1	0.1	0.3	13	10	5	39	3	27	0	69	17	1	25
6.	ING Vysya Bank Ltd.	274	0.2	0.3	0.7	27	17	29	25	6	22	0	77	12	0	59
7.	Jammu and Kashmir Bank Ltd.	43	0.0	0.1	0.1	14	7	0	10	1	0	0	9	0	0	2
8.	Karnataka Bank Ltd.	38	0.0	0.1	0.1	6	4	0	2	0	3	0	6	11	0	6
9.	Karur Vysya Bank Ltd.	80	0.0	0.1	0.3	9	5	6	11	1	4	2	31	2	0	9
10.	Laxmi Vilas Bank Ltd.	46	0.1	0.0	0.2	2	1	3	18	0	1	0	18	1	0	2
11.	Lord Krishna Bank Ltd.	3	0.0	0.0	0.0	0	2	0	0	0	0	0	0	0	0	1
12.	Nainital Bank Ltd.	19	0.1	0.0	0.2	2	5	0	4	0	2	0	1	2	0	3
13.	Ratnakar Bank Ltd.	3	0.0	0.0	0.0	0	0	0	1	0	0	0	0	0	0	2
14.	SBI Commercial and International Bank Ltd.	1	0.1	0.9	0.3	0	0	0	0	0	1	0	0	0	0	0
15.	South Indian Bank Ltd.	126	0.1	0.2	0.2	29	7	7	20	2	14	0	31	4	0	12
16.	Tamilnad Mercantile Bank Ltd.	54	0.0	21.5	0.2	5	1	2	17	0	4	0	15	1	0	9
	New Private Sector Banks															
17.	Axis Bank	1733	0.2	0.2	2.7	200	137	329	57	33	400	3	260	88	2	224
18.	Centurian Bank of Punjab Ltd.	31	0.0	0.0	0.1	8	1	4	4	2	3	0	5	1	0	3
19.	Development Credit Bank Ltd.	93	0.2	0.1	0.9	5	9	5	15	3	10	0	15	8	0	23
20.	HDFC Bank Ltd.	6584	0.6	0.5	8.9	820	356	1869	625	101	558	10	1039	393	14	799
21.	ICICI Bank Ltd.	11453	0.4	0.5	10.2	1183	725	3560	1288	215	864	13	1914	403	15	1273
22.	Indus Ind Bank Ltd.	281	0.2	0.7	1.5	56	29	6	18	1	59	0	72	11	0	29
23.	Kotak Mahindra Bank Ltd.	602	0.8	0.7	3.4	69	32	101	91	7	49	1	99	54	0	99
24.	Yes Bank Ltd.	28	0.1	0.3	0.6	3	3	3	2	0	5	0	6	0	0	6

Appendix Table IV.40: Statement of Complaints Received at Banking Ombudsman Office *(Concluded)*

(For the period 2008-09)

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 / debit card accounts@	Number of Complaints per Branch #	Category-wise break up complaints										
						Deposit Account	Remitt-ances	Credit Cards	Loans/Advances		Charges without Prior Notice	Pension	Failure on Commit-ments Made	Direct Selling Agents/ Reco-very Agents	Notes and Coins	Others
									General	Housing Loans						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Foreign Banks															
1.	ABN Amro Bank Ltd	1844	2.1	1.3	65.9	111	32	942	131	21	93	3	199	56	2	254
2.	Abu Dhabi Commercial Bank Ltd.	5	0.5	0.0	2.5	0	0	1	0	0	0	0	0	4	0	0
3.	American Express Bank Ltd.	98	0.0	0.2	98.0	6	3	60	4	0	4	0	9	2	0	10
4.	Antwerp Bank Ltd.	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
5.	Arab Bangladesh Bank Ltd.	1	2.4	0.0	1.0	0	0	0	0	0	0	0	0	0	0	1
6.	Bank of America NA	3	0.5	0.0	0.8	0	0	1	0	0	0	0	0	0	0	2
7.	Bank of International Indonesia	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
8.	Bank of Bahrain & Kuwait B.S.C.	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
9.	Bank of Ceylon	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
10.	Bank of Nova Scotia	1	0.2	0.0	0.2	0	0	1	0	0	0	0	0	0	0	0
11.	Bank of Tokyo-Mitsubishi UFJ Ltd	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
12.	Barclays Bank PLC	1925	2.9	2.9	385.0	46	63	1065	149	7	167	2	153	39	2	232
13.	BNP Paribas	7	0.1	0.0	0.8	3	0	0	3	0	0	0	0	0	0	1
14.	Calyon Bank	2	2.3	0.0	0.3	0	0	0	0	0	0	0	2	0	0	0
15.	Chinatrust Commercial Bank	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
16.	Citibank N.A.	2563	0.6	0.5	94.9	184	77	1145	244	26	126	0	200	167	3	391
17.	Development Bank of Singapore Ltd	3	0.1	0.0	1.5	1	0	2	0	0	0	0	0	0	0	0
18.	Deutsche Bank AG	417	1.0	0.5	41.7	28	7	196	45	3	21	3	41	9	1	63
19.	HSBC Ltd.	2838	0.7	1.1	60.4	204	55	1418	189	19	212	3	322	68	2	346
20.	J P Morgan Chase Bank	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
21.	Krung Thai Bank Public Co. Ltd.	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
22.	Mashreqbank PSC	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
23.	Mauritious Bank	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
24.	Mizuhho Corporate Bank Ltd.	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
25.	Oman International Bank S.A.O.G.	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
26.	Shinhan Bank	0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0
27.	Societe Generale	1	0.1	0.0	0.5	0	0	0	1	0	0	0	0	0	0	0
28.	Sonali Bank	1	0.5	0.0	0.5	0	0	1	0	0	0	0	0	0	0	0
29.	Standard Chartered Bank Ltd.	1991	0.6	1.0	21.9	144	64	905	116	38	139	1	224	183	1	176

* : The number of accounts as on March 31, 2008.
@ : The number of credit card accounts as on June 30, 2009.
\# : The number of branches as on March 31, 2008.
– : Nil/Negligible.
N.A.: Not Available.

Appendix Table V.1: Select Financial Parameters of Scheduled UCBs
(At end-March 2009)

Sr. No.	Bank Name	CRAR (%)	Net Interest Income to Working Funds (%)	Non Interest Income to Working Funds (%)	Operating Profit to Working Funds (%)	Return on Assets	Average Cost of Deposits	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.	21.8	3.5	1.2	3.6	2.4	4.4	6.1	300
2.	Ahmedabad Mercantile Co-op Bank Ltd.	47.6	4.7	0.4	2.9	2.7	5.2	7.0	204
3.	Amanath Co-operative Bank Ltd. Bangalore	-52.0	2.2	0.9	0.8	0.6	5.3	1.2	149
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	31.7	4.6	0.3	2.0	1.3	6.6	2.4	231
5.	Bassein Catholic Co-operative Bank Ltd.	20.6	3.6	0.2	2.8	2.8	5.8	14.4	661
6.	Bharat Co-operative Bank (Mumbai) Ltd.	16.6	3.8	0.3	1.8	1.1	6.4	4.4	539
7.	Bharati Sahakari Bank Limited	13.9	4.2	0.5	1.4	1.3	6.0	2.3	245
8.	Bombay Mercantile Co-operative Bank Limited	-1.2	2.3	6.7	4.4	2.8	5.5	4.8	131
9.	Charminar Coop.Urban Bank Ltd.	-308.5	–	–	–	-2.3	6.9	–	–
10.	Citizen Credit Co-operative Bank Ltd., Dadar	16.1	2.8	0.2	2.2	1.5	4.6	5.2	434
11.	Cosmos Co-operative Urban Bank Ltd.	12.3	2.6	0.5	1.6	1.1	6.5	4.9	576
12.	Dombivli Nagari Sahakari Bank Ltd.	12.9	3.3	1.0	1.3	1.2	5.3	4.0	475
13.	Goa Urban Co-operative Bank Limited	17.2	2.8	0.1	0.5	0.4	6.5	1.0	300
14.	Greater Bombay Co-operative Bank Limited	16.0	2.2	0.9	0.8	0.8	7.0	2.2	404
15.	Indian Mercantile Co-operative Bank Ltd.,Lucknow	22.7	–	–	–	0.0	0.0	–	–
16.	Jalgaon Janata Sahakari Bank Ltd.	13.3	28.0	9.9	-5.3	-0.4	7.1	-0.6	203
17.	Janakalyan Sahakari Bank Ltd., Bombay	-0.5	2.5	0.6	0.6	0.5	6.5	1.6	425
18.	Janalaxmi Co-operative Bank Ltd.	14.2	2.6	1.9	3.8	3.0	1.9	3.8	120
19.	Janata Sahakari Bank Ltd., Pune	4.1	2.3	1.4	0.8	0.8	6.6	2.5	437
20.	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	10.9	3.0	0.3	0.3	0.3	6.4	0.5	246
21.	Kalupur Commercial Coop.Bank Ltd.	43.2	–	–	–	2.2	4.1	–	–
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan	15.1	3.8	0.6	1.4	1.0	5.6	2.8	398
23.	Karad Urban Co-operative Bank Ltd.	10.3	2.8	0.4	0.5	0.3	6.6	0.5	242
24.	Madhavpura Mercantile Co-op Bank Ltd.	-896.5	-0.3	2.7	2.0	1.6	3.9	104.3	6584
25.	Mahanagar Co-operative Bank Ltd., Mumbai	14.8	–	–	–	0.0	0.0	–	–
26.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	-16.0	-7.1	14.0	2.0	1.5	9.0	2.2	168
27.	Mehsana Urban Co-op Bank Ltd.	13.4	3.0	0.3	1.5	0.9	6.7	3.5	540
28.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	14.9	3.5	0.4	0.9	0.5	6.3	1.1	258
29.	Nagpur Nagrik Sahakari Bank Ltd.	12.1	2.4	1.1	0.4	0.3	6.5	0.5	189
30.	Nasik Merchant's Co-operative Bank Ltd.	36.9	5.0	0.4	2.2	2.0	5.5	2.7	135
31.	New India Co-operative Bank Ltd., Bombay	28.3	3.6	0.5	1.3	0.9	7.1	–	–
32.	NKGSB Co-operative Bank Ltd., Mumbai	12.4	3.0	0.9	1.8	1.3	6.8	4.6	496
33.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	27.6	2.5	1.5	1.0	0.8	6.5	2.1	318
34.	Parsik Janata Sahakari Bank Ltd., Thane	20.5	4.8	0.4	2.4	1.5	4.0	4.3	368
35.	Pravara Sahakari Bank Ltd.	12.3	0.0	0.1	-0.9	-0.8	3.6	-1.3	203
36.	Punjab & Maharashtra Co-operative Bank Ltd.	13.3	3.7	0.4	1.7	1.4	6.5	4.6	447
37.	Rajkot Nagrik Sahakari Bank Ltd.	20.3	2.7	0.4	1.4	0.8	6.7	3.7	410
38.	Rupee Co-operative Bank Ltd.	-69.7	0.3	0.4	-1.2	-0.7	6.7	-1.8	225
39.	Sangli Urban Co-operative Bank Ltd.	11.1	1.3	0.4	0.9	0.8	1.7	0.6	91
40.	Saraswat Co-operative Bank Ltd., Bombay	10.9	1.7	1.0	1.9	1.2	7.0	7.4	730
41.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	28.5	4.5	0.6	1.5	0.7	4.8	1.7	262
42.	Shamrao Vithal Co-operative Bank Ltd.	13.3	3.2	1.0	1.4	0.9	7.1	4.2	623
43.	Shikshak Sahakari Bank Ltd., Nagpur	0.2	2.0	0.8	0.3	0.2	6.9	0.4	172
44.	Solapur Janata Sahakari Bank Ltd.	9.2	3.2	0.4	1.0	0.6	7.3	1.1	254
45.	Surat Peoples Coop Bank Ltd.	21.1	3.8	0.3	1.3	0.9	6.6	2.8	370
46.	Thane Bharat Sahakari Bank Ltd.	10.0	2.8	0.5	0.8	0.5	7.0	1.2	326
47.	Thane Janata Sahakari Bank Ltd.	14.7	3.5	0.5	1.4	0.9	6.5	4.1	608
48.	The Akola Janata Commercial Co-operative Bank Ltd., Akola.	11.0	1.9	0.5	0.7	0.4	7.5	0.7	234
49.	The Akola Urban Co-operative Bank Ltd., Akola.	7.7	1.7	1.4	0.7	0.3	7.6	0.8	370
50.	The Kapole Co-operative Bank Ltd., Bombay	10.8	2.7	0.9	0.8	0.8	5.5	1.6	282
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	9.2	–	0.5	0.1	0.1	7.3	0.1	159
52.	Vasavi Coop Urban Bank Limited	14.6	7.7	14.7	14.6	7.1	7.8	10.4	72
53.	Zoroastrian Co-operative Bank Ltd., Bombay	14.1	2.8	0.3	1.8	1.7	6.5	7.9	606

Note: Data are provisional.
Source: OSS returns.

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Profit		Net Profit after Taxes		Interest Income	
		2007-08	2008-09P	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5	6	7	8
1.	Abhyudaya Co-operative Bank Ltd.	1.8	3.5	0.9	2.4	6.0	6.7
2.	Ahmedabad Mercantile Co-op Bank Ltd.	3.0	2.7	0.7	2.7	7.4	7.5
3.	Amanath Co-operative Bank Ltd., Bangalore	2.5	0.6	2.5	0.6	4.2	4.4
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	2.8	1.9	1.5	1.3	9.8	9.9
5.	Bassein Catholic Co-operative Bank Ltd.	1.9	2.8	1.9	2.8	5.8	8.2
6.	Bharat Co-operative Bank (Mumbai) Ltd.	0.7	1.7	1.3	1.1	7.1	9.1
7.	Bharati Sahakari Bank Limited	1.6	1.3	0.7	1.3	7.9	8.7
8.	Bombay Mercantile Co-operative Bank Limited	0.0	2.8	0.1	2.8	3.7	4.5
9.	Charminar Coop.Urban Bank Ltd.	0.0	-2.3	0.0	-2.3	0.0	2.0
10.	Citizen Credit Co-operative Bank Ltd., Dadar	1.5	2.1	1.0	1.5	5.4	6.4
11.	Cosmos Co-operative Urban Bank Ltd.	1.5	1.5	1.1	1.1	7.5	8.0
12.	Dombivli Nagari Sahakari Bank Ltd.	2.4	1.3	0.9	1.2	7.2	7.7
13.	Goa Urban Co-operative Bank Limited	0.7	0.4	0.4	0.4	7.4	8.1
14.	Greater Bombay Co-operative Bank Limited	1.6	0.8	0.8	0.8	7.0	8.1
15.	Indian Mercantile Co-operative Bank Ltd.,Lucknow	1.3	0.0	0.4	0.0	7.1	0.0
16.	Jalgaon Janata Sahakari Bank Ltd.	0.2	-0.3	-0.6	-0.4	2.0	7.4
17.	Janakalyan Sahakari Bank Ltd., Bombay	-0.2	0.5	0.3	0.5	6.8	7.9
18.	Janalaxmi Co-operative Bank Ltd.	2.7	3.0	0.1	3.0	6.0	3.1
19.	Janata Sahakari Bank Ltd., Pune.	0.7	0.8	0.2	0.8	7.5	8.3
20.	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	0.6	0.3	0.3	0.3	8.0	7.9
21.	Kalupur Commercial Coop. Bank Ltd.	2.1	2.2	1.2	2.2	6.5	5.5
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan	1.3	1.3	0.8	1.0	5.2	8.2
23.	Karad Urban Co-operative Bank Ltd.	1.0	0.4	0.2	0.3	7.8	8.5
24.	Madhavpura Mercantile Co-op Bank Ltd.	6.4	1.6	6.4	1.6	2.0	1.3
25.	Mahanagar Co-operative Bank Ltd., Mumbai	0.2	0.0	-0.2	0.0	2.2	0.0
26.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	1.9	1.5	2.7	1.5	1.8	1.6
27.	Mehsana Urban Co-op Bank Ltd.	1.7	1.5	0.8	0.9	8.3	8.7
28.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	1.0	0.8	0.5	0.5	7.9	7.9
29.	Nagpur Nagrik Sahakari Bank Ltd.	0.8	0.4	0.3	0.3	7.1	7.9
30.	Nasik Merchant's Co-operative Bank Ltd.	2.9	2.0	1.0	2.0	7.8	7.8
31.	New India Co-operative Bank Ltd., Bombay	1.1	1.3	0.8	0.9	7.1	8.7
32.	NKGSB Co-operative Bank Ltd., Mumbai	1.3	1.8	0.7	1.3	6.1	8.9
33.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	0.7	1.0	0.7	0.8	7.3	7.7
34.	Parsik Janata Sahakari Bank Ltd., Thane	2.8	2.4	1.5	1.5	7.0	7.9
35.	Pravara Sahakari Bank Ltd.	1.0	-0.8	1.0	-0.8	5.0	3.1
36.	Punjab & Maharashtra Co-operative Bank Ltd.	2.6	1.6	1.6	1.4	8.8	8.6
37.	Rajkot Nagrik Sahakari Bank Ltd.	1.2	1.0	0.7	0.8	5.6	5.7
38.	Rupee Co-operative Bank Ltd.	0.1	-0.7	-0.2	-0.7	4.5	3.9
39.	Sangli Urban Co-operative Bank Ltd.	0.7	0.8	0.7	0.8	2.3	2.5
40.	Saraswat Co-operative Bank Ltd., Bombay	1.8	1.7	1.1	1.2	5.8	6.7
41.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	1.9	1.3	0.6	0.7	6.7	7.0
42.	Shamrao Vithal Co-operative Bank Ltd.	1.4	1.3	0.8	0.9	8.3	8.8
43.	Shikshak Sahakari Bank Ltd., Nagpur	0.0	0.2	0.0	0.2	0.0	6.1
44.	Solapur Janata Sahakari Bank Ltd.	2.2	0.9	0.9	0.6	11.5	9.0
45.	Surat Peoples Coop Bank Ltd.	2.3	1.3	0.8	0.9	8.2	8.6
46.	Thane Bharat Sahakari Bank Ltd.	1.1	0.7	0.4	0.5	7.8	8.3
47.	Thane Janata Sahakari Bank Ltd.	2.0	1.4	1.1	0.9	7.4	8.5
48.	The Akola Janata Commercial Co-operative Bank Ltd., Akola	1.3	0.6	0.4	0.4	7.9	8.1
49.	The Akola Urban Co-operative Bank Ltd., Akola.	1.0	0.7	0.2	0.3	8.3	8.1
50.	The Kapole Co-operative Bank Ltd., Bombay	1.0	0.8	0.3	0.8	7.7	7.6
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	0.0	0.1	-2.3	0.1	7.5	8.1
52.	Vasavi Coop Urban Bank Limited	3.4	7.1	2.7	7.1	5.9	5.5
53.	Zoroastrian Co-operative Bank Ltd., Bombay	1.6	1.7	1.4	1.7	8.2	8.4

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Interest Expended		Provisions & Contingencies	
		2007-08	2008-09P	2007-08	2008-09P
1	2	9	10	11	12
1.	Abhyudaya Co-operative Bank Ltd.	2.6	3.3	0.0	1.1
2.	Ahmedabad Mercantile Co-op Bank Ltd.	2.9	3.0	1.4	0.0
3.	Amanath Co-operative Bank Ltd., Bangalore	2.7	2.7	0.0	0.0
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	4.8	5.4	0.5	0.6
5.	Bassein Catholic Co-operative Bank Ltd.	3.4	4.6	0.0	0.0
6.	Bharat Co-operative Bank (Mumbai) Ltd.	4.2	5.4	0.0	0.6
7.	Bharati Sahakari Bank Limited	4.7	4.8	0.8	0.0
8.	Bombay Mercantile Co-operative Bank Limited	2.5	2.9	0.1	0.0
9.	Charminar Coop.Urban Bank Ltd.	0.0	3.1	0.0	0.0
10.	Citizen Credit Co-operative Bank Ltd., Dadar	2.9	3.7	0.1	0.6
11.	Cosmos Co-operative Urban Bank Ltd.	5.1	5.5	0.4	0.4
12.	Dombivli Nagari Sahakari Bank Ltd.	4.0	4.5	0.9	0.2
13.	Goa Urban Co-operative Bank Limited	4.6	5.4	0.2	0.0
14.	Greater Bombay Co-operative Bank Limited	5.0	5.9	0.7	0.0
15.	Indian Mercantile Co-operative Bank Ltd.,Lucknow	5.2	0.0	0.9	0.0
16.	Jalgaon Janata Sahakari Bank Ltd.	1.4	5.5	0.8	0.0
17.	Janakalyan Sahakari Bank Ltd., Bombay	5.1	5.6	0.1	0.0
18.	Janalaxmi Co-operative Bank Ltd.	4.0	1.1	2.6	0.0
19.	Janata Sahakari Bank Ltd., Pune.	5.5	5.9	0.2	0.0
20.	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	5.5	5.5	0.3	0.0
21.	Kalupur Commercial Coop. Bank Ltd.	3.7	2.6	0.4	0.0
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan	3.0	4.5	0.0	0.4
23.	Karad Urban Co-operative Bank Ltd.	5.1	5.8	0.5	0.2
24.	Madhavpura Mercantile Co-op Bank Ltd.	1.7	1.5	0.0	0.0
25.	Mahanagar Co-operative Bank Ltd., Mumbai	1.3	0.0	0.4	0.0
26.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	1.4	7.2	0.0	0.0
27.	Mehsana Urban Co-op Bank Ltd.	5.2	5.7	0.3	0.6
28.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	5.2	4.7	0.3	0.3
29.	Nagpur Nagrik Sahakari Bank Ltd.	4.6	5.5	0.5	0.1
30.	Nasik Merchant's Co-operative Bank Ltd.	3.3	3.4	1.2	0.0
31.	New India Co-operative Bank Ltd., Bombay	3.9	5.0	0.1	0.3
32.	NKGSB Co-operative Bank Ltd., Mumbai	4.0	5.9	0.1	0.5
33.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	4.4	5.2	0.0	0.2
34.	Parsik Janata Sahakari Bank Ltd., Thane	2.8	3.2	0.5	0.9
35.	Pravara Sahakari Bank Ltd.	2.9	3.1	0.0	0.0
36.	Punjab & Maharashtra Co-operative Bank Ltd.	5.5	5.1	0.3	0.2
37.	Rajkot Nagrik Sahakari Bank Ltd.	3.6	3.7	0.5	0.2
38.	Rupee Co-operative Bank Ltd.	3.5	3.8	0.3	0.0
39.	Sangli Urban Co-operative Bank Ltd.	1.3	1.3	0.0	0.0
40.	Saraswat Co-operative Bank Ltd., Bombay	4.4	5.2	0.3	0.4
41.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	2.9	3.0	0.9	0.6
42.	Shamrao Vithal Co-operative Bank Ltd.	5.3	5.8	0.3	0.4
43.	Shikshak Sahakari Bank Ltd., Nagpur	0.0	4.5	0.0	0.0
44.	Solapur Janata Sahakari Bank Ltd.	6.0	5.9	1.1	0.3
45.	Surat Peoples Coop Bank Ltd.	4.1	4.8	0.8	0.4
46.	Thane Bharat Sahakari Bank Ltd.	5.1	5.7	0.4	0.3
47.	Thane Janata Sahakari Bank Ltd.	4.3	5.1	0.3	0.5
48.	The Akola Janata Commercial Co-operative Bank Ltd., Akola	5.7	6.3	0.4	0.2
49.	The Akola Urban Co-operative Bank Ltd., Akola.	6.4	6.5	0.5	0.4
50.	The Kapole Co-operative Bank Ltd., Bombay	4.7	4.9	0.7	0.0
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	6.0	5.6	2.3	0.0
52.	Vasavi Coop Urban Bank Limited	1.4	1.8	0.0	0.0
53.	Zoroastrian Co-operative Bank Ltd., Bombay	5.6	5.6	0.3	0.0

Appendix Table V.2: Major Indicators of Financial Performance of Scheduled UCBs *(Concluded)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Expenses		Spread	
		2007-08	2008-09P	2007-08	2008-09P
1	2	13	14	15	16
1.	Abhyudaya Co-operative Bank Ltd.	4.2	4.9	3.3	3.4
2.	Ahmedabad Mercantile Co-op Bank Ltd.	4.7	5.2	4.5	4.5
3.	Amanath Co-operative Bank Ltd., Bangalore	4.4	4.4	1.5	1.7
4.	Andhra Pradesh Mahesh Co-op Urban Bank Ltd.	7.5	7.9	5.0	4.6
5.	Bassein Catholic Co-operative Bank Ltd.	4.3	5.8	2.4	3.6
6.	Bharat Co-operative Bank (Mumbai) Ltd.	6.1	7.9	2.9	3.7
7.	Bharati Sahakari Bank Limited	6.8	6.9	3.1	3.9
8.	Bombay Mercantile Co-operative Bank Limited	4.1	4.8	1.2	1.5
9.	Charminar Coop.Urban Bank Ltd.	0.0	4.3	0.0	-1.1
10.	Citizen Credit Co-operative Bank Ltd., Dadar	4.2	4.9	2.5	2.7
11.	Cosmos Co-operative Urban Bank Ltd.	6.5	6.8	2.4	2.5
12.	Dombivli Nagari Sahakari Bank Ltd.	5.6	6.2	3.3	3.2
13.	Goa Urban Co-operative Bank Limited	6.8	7.9	2.8	2.7
14.	Greater Bombay Co-operative Bank Limited	7.2	8.3	2.1	2.1
15.	Indian Mercantile Co-operative Bank Ltd.,Lucknow	6.4	0.0	1.9	0.0
16.	Jalgaon Janata Sahakari Bank Ltd.	2.0	7.5	0.7	1.8
17.	Janakalyan Sahakari Bank Ltd., Bombay	7.6	8.0	1.6	2.3
18.	Janalaxmi Co-operative Bank Ltd.	5.3	1.6	2.0	2.0
19.	Janata Sahakari Bank Ltd., Pune.	7.3	7.7	1.9	2.4
20.	Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd.	7.7	7.6	2.5	2.4
21.	Kalupur Commercial Coop. Bank Ltd.	4.9	3.7	2.8	2.8
22.	Kalyan Janata Sahakari Bank Ltd., Kalyan	4.4	6.6	2.2	3.7
23.	Karad Urban Co-operative Bank Ltd.	7.2	7.8	2.7	2.7
24.	Madhavpura Mercantile Co-op Bank Ltd.	2.1	1.8	0.2	-0.2
25.	Mahanagar Co-operative Bank Ltd., Mumbai	2.2	0.0	0.9	0.0
26.	Mapusa Urban Co-operative Bank of Goa Ltd., Mapusa	2.6	10.3	0.3	-5.6
27.	Mehsana Urban Co-op Bank Ltd.	6.6	7.0	3.1	3.1
28.	Nagar Urban Co-operative Bank Ltd., Ahmednagar	7.5	7.1	2.8	3.3
29.	Nagpur Nagrik Sahakari Bank Ltd.	7.1	8.7	2.5	2.4
30.	Nasik Merchant's Co-operative Bank Ltd.	5.3	6.2	4.5	4.4
31.	New India Co-operative Bank Ltd., Bombay	6.7	8.1	3.3	3.6
32.	NKGSB Co-operative Bank Ltd., Mumbai	5.1	7.8	2.1	2.9
33.	Nutan Nagarik Sahakari Bank Ltd., Ahmedabad	7.2	8.0	2.9	2.5
34.	Parsik Janata Sahakari Bank Ltd., Thane	4.5	5.2	4.2	4.7
35.	Pravara Sahakari Bank Ltd.	4.3	4.0	2.1	0.0
36.	Punjab & Maharashtra Co-operative Bank Ltd.	8.1	7.8	3.3	3.5
37.	Rajkot Nagrik Sahakari Bank Ltd.	4.8	4.7	2.0	2.0
38.	Rupee Co-operative Bank Ltd.	4.6	4.9	1.1	0.2
39.	Sangli Urban Co-operative Bank Ltd.	2.0	2.0	1.0	1.2
40.	Saraswat Co-operative Bank Ltd., Bombay	5.8	6.8	1.5	1.5
41.	Sardar Bhiladwala Pardi Peoples Coop Bank Ltd.	5.1	5.1	3.9	4.0
42.	Shamrao Vithal Co-operative Bank Ltd.	7.3	7.8	3.0	3.0
43.	Shikshak Sahakari Bank Ltd., Nagpur	0.0	6.5	0.0	1.6
44.	Solapur Janata Sahakari Bank Ltd.	9.7	8.4	5.4	3.1
45.	Surat Peoples Coop Bank Ltd.	6.3	6.9	4.1	3.8
46.	Thane Bharat Sahakari Bank Ltd.	7.4	8.1	2.7	2.6
47.	Thane Janata Sahakari Bank Ltd.	5.9	6.7	3.1	3.4
48.	The Akola Janata Commercial Co-operative Bank Ltd., Akola	7.4	7.9	2.2	1.8
49.	The Akola Urban Co-operative Bank Ltd., Akola.	7.8	8.0	1.9	1.6
50.	The Kapole Co-operative Bank Ltd., Bombay	7.8	7.8	3.0	2.7
51.	The Khamgaon Urban Co-operative Bank Ltd., Khamgaon	7.9	7.5	1.6	2.5
52.	Vasavi Coop Urban Bank Limited	3.2	4.3	4.5	3.7
53.	Zoroastrian Co-operative Bank Ltd., Bombay	6.9	7.0	2.6	2.8

P : Provisional

Source: OSS returns.

Appendix Table V.3: Working Results of State Cooperative Banks - State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Region/State	Amount of Profit/Loss		Total NPAs		NPAs as Percentage of Loans Outstanding		Recovery (Per cent)	
		2007	2008P	2007	2008P	2007	2008P	2007	2008P
1	2	3	4	5	6	7	8	9	10
	NORTHERN REGION	**113**	**72**	**302**	**322**	**3.1**	**2.9**	**98.2**	**97.8**
1.	Chandigarh	4	9	5	6	22.7	11.5	67.4	63.7
2.	Delhi	9	31	37	48	13.1	14.7	89.7	88.5
3.	Haryana	26	5	5	3	0.2	0.1	99.9	99.8
4.	Himachal Pradesh	29	–	124	124	11.5	11.5	76.1	76.1
5.	Jammu & Kashmir	–	–	19	20	24.1	23.2	36.6	43.4
6.	Punjab	24	10	55	53	1.6	1.3	98.3	99.0
7.	Rajasthan	21	17	57	68	2.8	3.0	98.1	96.1
	NORTH-EASTERN REGION	**-4**	**-20**	**417**	**423**	**43.3**	**40.4**	**43.0**	**42.6**
8.	Arunachal Pradesh	-4	-13	131	128	93.3	97.5	14.4	10.6
9.	Assam	3	-12	130	121	48.8	41.8	46.7	55.1
10.	Manipur	–	–	31	31	32.4	32.4	29.0	29.0
11.	Meghalaya	1	2	31	34	21.0	17.5	45.3	41.3
12.	Mizoram	6	4	21	22	18.8	17.9	72.2	73.1
13.	Nagaland	-4	–	24	27	44.4	45.3	64.2	64.8
14.	Sikkim	1	2	2	1	9.5	5.7	66.8	55.3
15.	Tripura	-8	-3	47	59	36.5	43.2	37.1	52.6
	EASTERN REGION	**31**	**26**	**501**	**534**	**10.8**	**10.8**	**70.6**	**82.2**
16.	Andaman & Nicobar Islands	1	2	6	14	6.5	12.9	93.1	73.8
17.	Bihar	6	–	267	267	42.5	42.5	36.1	36.1
18.	Orissa	9	10	129	123	6.7	6.1	77.9	92.6
19.	West Bengal	14	15	99	130	5.0	5.9	78.3	85.2
	CENTRAL REGION	**72**	**65**	**763**	**820**	**13.9**	**12.5**	**82.5**	**82.9**
20.	Chattisgarh	6	5	46	50	31.9	14.2	90.4	77.4
21.	Madhya Pradesh	31	26	185	161	8.8	6.6	93.5	96.3
22.	Uttar Pradesh	32	32	501	577	16.3	15.9	72.6	71.8
23.	Uttarakhand	3	2	30	32	16.4	23.5	94.7	93.7
	WESTERN REGION	**54**	**32**	**2,566**	**2,352**	**20.5**	**19.8**	**79.1**	**67.5**
24.	Goa	0	1	66	61	19.8	15.4	69.2	76.5
25.	Gujarat	6	6	133	105	6.1	4.8	97.3	97.9
26.	Maharashtra	48	24	2,367	2,187	23.6	23.4	73.2	57.2
	SOUTHERN REGION	**8**	**10**	**2,154**	**1,718**	**15.5**	**11.9**	**87.9**	**87.7**
27.	Andhra Pradesh	2	6	1,135	931	18.7	15.6	71.8	72.2
28.	Karnataka	13	10	242	209	10.8	7.4	92.0	91.1
29.	Kerala	-29	-18	504	480	22.9	22.0	87.2	89.4
30.	Puducherry	1	-3	10	18	7.0	9.4	79.8	75.9
31.	Tamil Nadu	22	15	263	80	8.1	2.4	97.7	99.8
	TOTAL	**275**	**185**	**6,704**	**6,168**	**14.2**	**12.8**	**86.0**	**84.6**

P: Provisional. – : Not available

Note: 1. NPA and recovery data for Bihar, Himachal Pradesh and Manipur are not available for 2007-08 and hence are repeated from the previous year.

2. StCBs in Jharkhand is not yet functional and hence, is not included.

Source: NABARD.

Appendix Table V.4: Working Results of District Central Cooperative Banks - State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Region/State	2006-07					2007-08P					2007			2008P		
		No. of DCCBs	Profit		Loss		No. of DCCBs	Profit		Loss		Total NPAs	NPA as (% of Loans Out-standing)	Recovery (Per cent)	Total NPAs	NPA as (% of Loans Out-standing)	Recovery (Per cent)
			No. of DCCBs	Amount	No. of DCCBs	Amount		No. of DCCBs	Amount	No. of DCCBs	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	NORTHERN REGION	**72**	**55**	**119**	**16**	**44**	**73**	**55**	**69**	**16**	**58**	**1,128**	**7.1**	**82.9**	**1,358**	**7.2**	**65.0**
1	Haryana	19	10	11	9	26	19	14	11	5	18	246	4.8	75.7	287	5.1	52.4
2	Himachal Pradesh	2	2	52	–	–	2	–	–	–	–	81	6.7	81.1	81	6.7	81.1
3	Jammu & Kashmir	3	1	0	2	14	3	–	–	3	16	79	21.1	54.4	99	22.2	59.8
4	Punjab	19	16	29	3	2	20	17	35	3	15	403	7.3	92.2	483	6.7	81.2
5	Rajasthan	29	26	27	2	2	29	24	23	5	9	319	9.1	83.6	408	9.5	57.6
	EASTERN REGION	**64**	**45**	**43**	**19**	**59**	**64**	**32**	**39**	**10**	**83**	**1,241**	**20.8**	**64.4**	**1,465**	**22.3**	**53.0**
6	Bihar	22	13	12	9	23	22	–	–	–	–	340	54.5	50.7	340	54.5	50.7
7	Jharkhand	8	3	5	5	20	8	5	6	3	6	92	76.4	18.8	101	75.9	17.2
8	Orissa	17	16	7	1	3	17	13	5	4	46	439	14.0	61.8	618	18.6	49.0
9	West Bengal	17	13	19	4	13	17	14	28	3	31	370	17.6	77.0	407	16.2	66.0
	CENTRAL REGION	**104**	**71**	**121**	**33**	**186**	**105**	**76**	**180**	**27**	**188**	**3,118**	**30.2**	**61.6**	**3,482**	**28.9**	**46.9**
10	Chattisgarh	6	5	18	1	7	6	6	18	–	–	246	30.2	52.5	296	31.9	48.1
11	Madhya Pradesh	38	34	59	4	10	38	36	81	1	2	1,281	28.3	69.6	1,382	26.3	47.1
12	Uttar Pradesh	50	22	23	28	169	50	24	49	26	187	1,473	35.7	52.6	1,610	33.4	44.2
13	Uttarakhand	10	10	20	–	–	11	10	31	–	–	118	13.5	87.8	194	18.3	66.8
	WESTERN REGION	**49**	**37**	**167**	**12**	**242**	**49**	**29**	**181**	**19**	**338**	**6,248**	**22.2**	**60.3**	**6,940**	**22.3**	**44.3**
14	Gujarat	18	12	31	6	68	18	10	50	7	62	1,192	20.7	70.0	1,247	19.2	60.5
15	Maharashtra	31	25	136	6	173	31	19	131	12	276	5,057	22.5	57.0	5,693	23.2	38.7
	SOUTHERN REGION	**80**	**63**	**304**	**17**	**193**	**80**	**42**	**291**	**16**	**158**	**4,760**	**16.6**	**77.6**	**5,484**	**16.7**	**63.8**
16	Andhra Pradesh	22	12	28	10	144	22	–	–	–	–	1,097	13.7	65.8	1,601	19.6	26.7
17	Karnataka	21	17	61	4	27	21	20	67	1	14	816	16.8	74.8	855	16.5	74.9
18	Kerala	14	13	58	1	6	14	10	39	4	46	1,160	17.2	83.3	1,224	14.6	78.8
19	Tamil Nadu	23	21	157	2	16	23	12	186	11	99	1,687	18.5	88.7	1,804	16.4	86.5
	TOTAL	**369**	**271**	**754**	**97**	**724**	**371**	**234**	**760**	**88**	**825**	**16,495**	**18.5**	**71.1**	**18,729**	**18.5**	**55.6**

P : Provisional

– : Not available.

Note: 1. Data for one DCCB in Rajasthan is not available for 2006-07.

2. One DCCB in Gujarat and Madhya Pradesh each was in no profit no loss position in 2007-08.

3. Data on NPAs and recovery for 2007-08 are not available for Bihar and Himachal Pradesh and hence, are repeated from the previous year.

Source: NABARD.

Appendix Table V.5: Select Indicators of Primary Agricultural Credit Societies - State-wise

(As at end-March 2008)

Sr. No.	Region/State	No. of PACS	No. of Villages	Ratio of Villages to PACS	Members (in '000)	Borrowing Members (in '000)	Deposits (Rs. crore)	Borrowings (Rs. crore)
1	2	3	4	5	6	7	8	9
	NORTHERN REGION	**12,768**	**93,414**	**7**	**11,177**	**4,295**	**2,772**	**10,800**
1.	Chandigarh	16	22	1	3	1	0.03	0.1
2.	Haryana	616	7,061	11	2,868	1,791	305	4,003
3.	Himachal Pradesh	2,092	17,495	8	1,053	121	839	84
4.	Jammu & Kashmir	938	7,757	8	607	224	507	260
5.	Punjab	3,979	12,329	3	2,219	16	811	3,647
6.	Rajasthan	5,127	48,750	10	4,427	2,142	310	2,806
	NORTH-EASTERN REGION	**3,511**	**37,599**	**11**	**3,791**	**318**	**130**	**432**
7.	Arunachal Pradesh	31	3,649	118	18	–	–	4
8.	Assam	766	24,590	32	3,034	82	0	0
9.	Manipur	186	–	–	128	200	65	372
10.	Meghalaya	184	5,780	31	186	20	1	7
11.	Mizoram	175	710	4	120	–	–	0.3
12.	Nagaland	1,719	969	1	14	14	64	9
13.	Sikkim	180	861	5	29	2	–	–
14.	Tripura	270	1,040	4	262	–	0.3	41
	EASTERN REGION	**18,385**	**203,891**	**11**	**38,213**	**15,727**	**3,513**	**4,579**
15.	Andaman & Nicobar Islands	46	204	4	11	3	1	2
16.	Bihar	5,969	45,098	8	3,997	305	67	501
17.	Jharkhand	496	6,169	12	1,283	211	16	303
18.	Orissa	3,813	45,954	12	16,350	6,369	2,342	2,241
19.	West Bengal	8,061	106,466	13	16,573	8,839	1,088	1,531
	CENTRAL REGION	**16,123**	**198,233**	**12**	**13,118**	**3,825**	**1,325**	**4,824**
20.	Chhattisgarh	1,257	18,366	15	1,933	897	260	576
21.	Madhya Pradesh	4,633	54,160	12	4,916	2,518	458	2,620
22.	Uttarakhand	1,304	12,903	10	3,509	410	539	657
23.	Uttar Pradesh	8,929	112,804	13	2,759		68	971
	WESTERN REGION	**29,351**	**65,367**	**2**	**13,429**	**5,331**	**407**	**12,884**
24.	Goa	75	296	4	87	3	35	5
25.	Gujarat	8,092	23,976	3	2,495	1,299	248	3,735
26.	Maharashtra	21,184	41,095	2	10,848	4029	124	9,144
	SOUTHERN REGION	**14,804**	**80,083**	**5**	**51,800**	**18,386**	**17,301**	**14,329**
27.	Andhra Pradesh	4,064	29,851	7	22,001	3,101	325	6,534
28.	Karnataka	4,620	30,112	7	4,858	1,298	1,144	2,191
29.	Kerala	1,555	1,582	1	16,400	9,929	13,161	2,268
30.	Puducherry	52	128	2	103	44	59	33
31.	Tamil Nadu	4,513	18,410	4	8,439	4,014	2,613	3,302
	TOTAL	**94,942**	**6,78,587**	**7**	**1,31,529**	**79,408**	**25,449**	**47,848**

Appendix Table V.5: Select Indicators of Primary Agricultural Credit Societies - State-wise *(Continued)*

(As at end-March 2008)

Sr. No.	Region/State	Working Capital (Rs. crore)	Loans and Advances Issued (Rs. crore)		Loans and Advances Outstanding (Rs. crore)		Average Deposits per PACS (Rs. crore)	Societies in Profit		Societies in Loss	
			Short-term	Medium-term	Agri-culture	Non-Agri-culture		No.	Amount (Rs. crore)	No.	Amount (Rs. crore)
1	2	10	11	12	13	14	15	16	17	18	19
	NORTHERN REGION	**19,891**	**14,288**	**698**	**7,425**	**749**	**1.6**	**8,212**	**207**	**3,705**	**167**
1.	Chandigarh	0.2	–	–	–	–	0.01	15	0.03	1	0.001
2.	Haryana	5,733	4,839	49	4,130	327	9.3	365	57	251	54
3.	Himachal Pradesh	1,205	10	190	338	–	0.6	1,672	12	367	4
4.	Jammu & Kashmir	1,933	603	169	362	281	2.1	499	16	365	18
5.	Punjab	5,233	5,850	69	93	–	1.3	2,370	72	1,134	16
6.	Rajasthan	5,787	2,986	222	2,502	141	1.1	3,291	50	1,587	75
	NORTH-EASTERN REGION	**810**	**350**	**23**	**444**	**25**	**0.2**	**653**	**79**	**849**	**107**
7.	Arunachal Pradesh	16	–	1	1	–	0.5	20	0.3	6	0.1
8.	Assam	111	7	1	6	–	0.1	309	76	419	99
9.	Manipur	459	339	21	416	–	2.5	–	–	108	2
10.	Meghalaya	18	2	–	4	–	0.1	51	0.4	128	5
11.	Mizoram	2	–	–	3	–	0.01	59	1	4	0.1
12.	Nagaland	112	2	–	2	4	0.1	–	–	–	–
13.	Sikkim	2	1	–	–	–	0.01	94	0.2	36	0.1
14.	Tripura	90	–	–	13	22	0.3	120	1	148	1
	EASTERN REGION	**10,277**	**4,287**	**910**	**4,615**	**483**	**0.6**	**5,024**	**38**	**12,603**	**142**
15.	Andaman & Nicobar Islands	3	1	–	1	–	0.1	34	0.0002	–	–
16.	Bihar	493	350	–	432	–	0.1	1,180	6	3,962	1
17.	Jharkhand	351	139	47	250	36	0.7	88	1	260	14
18.	Orissa	5,746	2,692	582	2,826	189	1.5	1,300	9	2,450	110
19.	West Bengal	3,683	1,104	281	1,106	259	0.5	2,422	22	5,931	17
	CENTRAL REGION	**7,859**	**3,964**	**211**	**3,843**	**253**	0.5	**7,582**	**141**	**5,403**	**249**
20.	Chhattisgarh	990	491	22	580	56	0.8	779	18	478	28
21.	Madhya Pradesh	4,169	2,172	116	1,809	154	0.9	1,772	77	2,470	209
22.	Uttarakhand	1,441	515	62	654	43	1.1	495	28	487	11
23.	Uttar Pradesh	1,259	786	12	800	–	0.1	4,536	18	1,968	2
	WESTERN REGION	**18,068**	**7,606**	**1,670**	**9,517**	**191**	**0.6**	**12,593**	**1,558**	**16,209**	**279**
24.	Goa	45	2	2	5	–	0.6	55	0.1	20	0.1
25.	Gujarat	5,482	3,311	344	4,056	147	0.7	4,948	78	2,764	275
26.	Maharashtra	12,542	4,293	1,325	5,456	44	0.6	7,590	1,480	13,425	4
	SOUTHERN REGION	**31,200**	**16,895**	**6,740**	**11,665**	**7,737**	**2.1**	**4,237**	**207**	**9,751**	**1,083**
27.	Andhra Pradesh	5,811	2,360	345	3,507	140	1.4	874	16	3,031	226
28.	Karnataka	5,211	2,681	215	2,322	366	1.1	1,822	57	2,464	111
29.	Kerala	13,074	8,528	4,944	3,608	5,397	8.4	759	75	727	165
30.	Puducherry	106	104	9	47	67	2.0	19	1	38	6
31.	Tamil Nadu	6,999	3,221	1,227	2,181	1,766	1.6	763	58	3,491	575
	TOTAL	**88,106**	**47,390**	**10,252**	**37,510**	**9,439**	**0.9**	**38,307**	**2,230**	**48,520**	**5,711**

Appendix Table V.5: Select Indicators of Primary Agricultural Credit Societies - State-wise *(Concluded)*

(As at end-March 2008)

Sr. No.	Region/State	Viable Societies	Potentially Viable Societies	Dormant Societies	Defunct Societies	Others
1	2	20	21	22	23	24
	NORTHERN REGION	**9,058**	**2,748**	**669**	**245**	**48**
1.	Chandigarh	15	–	1	–	–
2.	Haryana	616	–	–	–	–
3.	Himachal Pradesh	433	1,626	33	–	–
4.	Jammu & Kashmir	448	173	96	219	2
5.	Punjab	3,204	277	489	6	3
6.	Rajasthan	4,342	672	50	20	43
	NORTH-EASTERN REGION	**2,011**	**350**	**680**	**390**	**80**
7.	Arunachal Pradesh	31	–	–	–	–
8.	Assam	709	57	–	–	–
9.	Manipur	186	–	–	–	–
10.	Meghalaya	157	12	5	10	–
11.	Mizoram	60	16	19	–	80
12.	Nagaland	457	228	655	379	–
13.	Sikkim	166	14	–	–	–
14.	Tripura	245	23	1	1	–
	EASTERN REGION	**8,907**	**6,209**	**1,561**	**1,188**	**520**
15.	Andaman & Nicobar Islands	35	–	6	3	2
16.	Bihar	1,836	2,840	770	522	1
17.	Jharkhand	202	228	32	–	34
18.	Orissa	2,891	747	31	20	124
19.	West Bengal	3,943	2,394	722	643	359
	CENTRAL REGION	**12,248**	**3,169**	**444**	**177**	**85**
20.	Chhattisgarh	1,160	97	–	–	–
21.	Madhya Pradesh	3,371	1,185	6	–	71
22.	Uttarakhand	602	618	56	14	14
23.	Uttar Pradesh	7,115	1,269	382	163	–
	WESTERN REGION	**17,800**	**10,360**	**678**	**272**	**241**
24.	Goa	56	12	7	–	–
25.	Gujarat	3,988	3,063	639	161	241
26.	Maharashtra	13,756	7,285	32	111	–
	SOUTHERN REGION	**8,448**	**4,611**	**646**	**197**	**902**
27.	Andhra Pradesh	2,713	1,312	6	–	33
28.	Karnataka	2,933	1,199	142	91	255
29.	Kerala	1,331	193	30	1	–
30.	Puducherry	19	33	–	–	–
31.	Tamil Nadu	1,452	1,874	468	105	614
	TOTAL	**58,472**	**27,447**	**4,678**	**2,469**	**1,876**

– : Not available.

Source: NAFSCOB.

Appendix Table V.6: Working Results of SCARDBs - State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	Region / State	No. of Branches	Amount of Profit/Loss		Total NPAs		NPAs as percent-age of Loans Outstanding		Recovery (Per cent)	
		2008P	2007	2008P	2007	2008P	2007	2008P	2007	2008P
1	2	3	4	5	6	7	8	9	10	11
	NORTHERN REGION	**85**	**6**	**68**	**1,409**	**700**	**24.1**	**12.6**	**79.1**	**58.0**
1.	Haryana @	–	-33	28	866	162	45.1	9.5	96.8	74.8
2.	Himachal Pradesh #	33	4	–	98	98	35.9	35.9	52.7	52.7
3.	Jammu & Kashmir*	45	-3	-5	13	11	92.9	96.8	16.0	37.6
4.	Punjab @	0	25	29	1	1	0.03	0.04	91.0	79.8
5.	Rajasthan @	7	13	16	431	427	27.9	27.6	56.2	30.0
	NORTH-EASTERN REGION	**37**	**1**	**-0.03**	**17**	**18**	**57.8**	**59.0**	**22.9**	**71.0**
6.	Assam*	32	1	0.8	10	9	82.4	79.4	5.8	87.9
7.	Manipur*	–	–	–	–	–	–	–	–	–
8.	Tripura*	5	-0.1	-0.8	7	9	40.7	47.3	62.9	66.1
	EASTERN REGION	**158**	**-2**	**-3**	**375**	**452**	**40.7**	**46.2**	**31.3**	**33.0**
9.	Bihar*	151	–	–	83	83	89.7	89.7	16.0	16.0
10.	Orissa @	5	-3	-3	178	179	99.8	101.5	3.5	59.9
11.	West Bengal #	2	2	–	113	190	17.4	26.8	66.0	33.1
	CENTRAL REGION	**349**	**-122**	**-171**	**2,340**	**2,709**	**40.1**	**47.1**	**33.8**	**69.2**
12.	Chattisgarh @	0	-2	-11	59	84	27.2	39.7	40.4	25.1
13.	Madhya Pradesh @	7	–	–	213	206	13.9	13.8	40.5	68.3
14.	Uttar Pradesh*	342	-120	-161	2,068	2,419	50.6	59.7	31.8	70.7
	WESTERN REGION	**181**	**218**	**-184**	**814**	**1489**	**42.4**	**76.0**	**32.5**	**8.3**
15.	Gujarat*	181	23	19	328	358	53.1	53.8	42.9	25.3
16.	Maharashtra @	–	195	-203	486	1132	37.3	87.4	30.1	2.7
	SOUTHERN REGION	**56**	**-13**	**42**	**687**	**924**	**16.9**	**18.8**	**48.8**	**46.8**
17.	Karnataka @	23	1	-15	304	341	23.7	26.3	36.9	33.6
18.	Kerala @	14	14	16	127	161	7.1	9.1	87.2	77.1
19.	Puducherry*	1	–	–	4	3	29.0	26.9	75.1	83.9
20.	Tamil Nadu @	18	-28	41	252	419	26.4	26.4	12.9	12.9
	TOTAL	**866**	**89**	**-247**	**5,642**	**6,292**	**30.3**	**34.5**	**43.9**	**49.4**

* Unitary structure. @ Federal structure. # Mixed structure.

P : Provisional. – : Not available.

Note: 1. NPA and recovery data for Bihar, Himachal Pradesh and Tamil Nadu for 2007-08 are not available and hence, are repeated from the previous year.

2. SCARDB in Manipur is defunct.

Source: NABARD.

Appendix Table V.7: Working Results of PCARDBs - State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	Region/State	2006-07				2007-08P				NPAs		NPAs As Percentage of Loans Outstanding		Recovery (Per cent)	
		Profit		Loss		Profit		Loss							
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	2007	2008P	2007	2008P	2007	2008P
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	NORTHERN REGION	**85**	**32**	**59**	**129**	**94**	**132**	**50**	**57**	**1,985**	**2,160**	**34.4**	**40.1**	**57.7**	**41.2**
1.	Haryana	5	2	14	62	17	100	2	1	869	762	46.2	46.8	69.0	36.9
2.	Himachal Pradesh	1	1	–	–	–	–	–	–	24	24	31.5	31.5	63.3	63.3
3.	Punjab	52	13	36	45	53	21	36	32	617	797	27.6	37.6	54.0	44.6
4.	Rajasthan	27	14	9	21	24	12	12	24	475	578	30.3	37.0	43.1	41.3
	CENTRAL REGION	**20**	**4**	**30**	**53**	**17**	**1**	**33**	**120**	**556**	**744**	**37.5**	**53.4**	**56.7**	**56.8**
5.	Chhattisgarh	7	1	5	2	8	0	4	1	56	71	29.1	38.2	52.6	47.5
6.	Madhya Pradesh	13	3	25	51	9	1	29	118	500	674	38.8	55.7	57.5	57.9
	EASTERN REGION	**11**	**5**	**55**	**22**	**7**	**3**	**63**	**38**	**229**	**201**	**33.6**	**28.5**	**51.0**	**48.7**
7.	Orissa	1	1	41	16	1	1	45	18	75	101	61.8	86.9	33.0	88.4
8.	West Bengal	10	4	14	7	6	1	18	19	154	100	27.5	17.0	53.4	35.4
	WESTERN REGION	**3**	**22**	**26**	**183**	**1**	**2**	**28**	**270**	**456**	**768**	**48.0**	**84.9**	**23.8**	**4.1**
9.	Maharashtra	3	22	26	183	1	2	28	270	456	768	48.0	84.9	23.8	4.1
10.	**SOUTHERN REGION**	**231**	**356**	**172**	**179**	**80**	**32**	**97**	**32**	**1,091**	**1,240**	**33.0**	**38.5**	**53.9**	**46.8**
11.	Karnataka	83	65	94	82	80	32	97	32	291	366	25.5	29.9	54.2	22.7
12.	Kerala	25	38	21	18	–	–	–	–	604	705	33.1	39.0	63.6	66.4
13.	Tamil Nadu	123	254	57	78	–	–	–	–	196	169	57.9	87.2	24.8	30.4
	TOTAL	**350**	**419**	**342**	**566**	**199**	**170**	**271**	**516**	**4,316**	**5,113**	**35.4**	**53.7**	**52.0**	**44.0**

P : Provisional

– : Not available

Note: Data on NPAs and recovery to demand are not available for Himachal Pradesh for 2007-08 and hence are repeated from the previous year.

Source: NABARD.

Appendix Table V.8: NABARD's Interest Rates for Term Loans – 2008-09

(Per cent per annum)

Agency	Effective Date	Rate of Interest on Refinance
CBs	26-May-08	9.5 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand and Jammu and Kashmir; RRBs, StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	26-May-08	9.0 per cent
CBs	3-Jul-08	10.25 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand and Jammu and Kashmir	3-Jul-08	9.75 per cent
RRBs	3-Jul-08	10 per cent
RRBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand and Jammu and Kashmir; StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	3-Jul-08	9.5 per cent
CBs	1-Aug-08	10.75 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; RRBs	1-Aug-08	10.25 per cent
RRBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	1-Aug-08	9.75 per cent
CBs	1-Jan-09	10.25 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; RRBs	1-Jan-09	9.75 per cent
RRBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	1-Jan-09	9.25 per cent
CBs	2-Feb-09	9.5 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; RRBs, StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	2-Feb-09	9.0 per cent
CBs	18-Feb-09	9.0 per cent
CBs in North-eastern States, Sikkim, Andaman and Nicobar Islands, Himachal Pradesh, Uttarakhand, Jammu and Kashmir; RRBs; StCBs; SCARDBs; UCBs; ADFCs; and NEDFi	18-Feb-09	8.5 per cent

Note: 1. CB-Commercial Banks.
2. StCB-State Cooperative Banks.
3. RRB-Regional Rural Banks.
4. UCB- Urban Cooperative Banks.
5. ADFC-Agricultural Development Finance Company.
6. NEDFi-North-eastern Development Finance Corporation Ltd.
7. SCARDB-State Cooperative Agriculture and Rural Development Banks.

Source: NABARD.

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise

(At end-March 2009)

(Amount in Rs. crore)

Name of State	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7	8	9	10	11
Northern Region	**527**	**499**	**792**	**713**	**838**	**753**	**935**	**749**	**868**	**810**
Haryana	27	19	64	62	67	62	53	48	90	80
Himachal Pradesh	14	14	53	53	51	49	88	79	110	108
Jammu & Kashmir	6	6	–	–	36	24	107	103	111	109
Punjab	61	61	63	62	89	85	96	75	103	91
Rajasthan	124	117	152	129	158	140	64	49	132	120
Uttar Pradesh	296	282	461	407	414	389	475	389	317	300
Uttarakhand	–	–	–	–	22	2	51	6	5	–
North-Eastern Region	**9**	**8**	**63**	**61**	**23**	**23**	**117**	**103**	**364**	**270**
Arunachal Pradesh	–	–	–	–	–	–	–	–	25	23
Assam	–	–	63	61	16	16	65	52	186	117
Manipur	2	1	–	–	–	–	–	–	–	–
Meghalaya	3	3	–	–	7	7	9	9	31	31
Mizoram	2	2	–	–	–	–	–	–	54	54
Nagaland	1	1	–	–	–	–	–	–	16	14
Sikkim	–	–	–	–	–	–	21	21	9	9
Tripura	–	–	–	–	–	–	22	21	44	22
Eastern Region	**286**	**257**	**307**	**286**	**432**	**363**	**481**	**392**	**442**	**363**
Bihar	22	13	–	–	58	27	–	–	–	–
Jharkhand	–	–	–	–	4	2	119	82	91	82
Orissa	170	162	151	141	199	172	149	117	128	100
West Bengal	95	82	156	145	171	161	214	193	222	181
Central Region	**241**	**215**	**250**	**239**	**280**	**262**	**242**	**218**	**263**	**245**
Chhattisgarh	82	78	10	6	57	58	69	65	34	32
Madhya Pradesh	159	137	241	233	223	204	173	153	229	213
Western Region	**345**	**322**	**359**	**319**	**408**	**381**	**426**	**380**	**572**	**511**
Goa	7	7	–	–	–	–	9	9	–	–
Gujarat	151	145	127	114	154	135	115	91	222	179
Maharashtra	187	170	232	204	254	246	302	280	350	332
Southern Region	**499**	**460**	**865**	**780**	**752**	**673**	**702**	**640**	**925**	**856**
Andhra Pradesh	227	215	337	308	282	252	287	273	379	359
Karnataka	176	159	195	180	171	162	172	167	173	165
Kerala	96	86	87	73	89	74	64	57	127	117
Tamil Nadu	–	–	246	219	209	186	179	143	246	216
Puducherry	–	–	–	–	–	–	–	–	–	–
All India	**1,906**	**1,761**	**2,636**	**2,398**	**2,733**	**2,454**	**2,903**	**2,482**	**3,435**	**3,055**

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise *(Continued)*

(At end-March 2009)

(Amount in Rs. crore)

Name of State	RIDF VI		RIDF VII		RIDF VIII		RIDF IX		RIDF X	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	12	13	14	15	16	17	18	19	20	21
Northern Region	**1,070**	**1,006**	**1,439**	**1,359**	**1,558**	**1,400**	**1,386**	**1,259**	**1,764**	**1,443**
Haryana	65	62	150	140	267	239	153	125	166	145
Himachal Pradesh	127	128	168	175	169	154	142	111	92	72
Jammu & Kashmir	162	155	217	207	176	158	154	147	49	21
Punjab	229	200	232	206	206	198	287	254	311	281
Rajasthan	254	245	375	347	347	281	140	125	356	232
Uttar Pradesh	233	218	298	269	323	304	218	208	481	407
Uttarakhand	–	–	–	16	70	65	292	289	308	285
North-Eastern Region	**291**	**258**	**101**	**99**	**156**	**131**	**257**	**197**	**84**	**77**
Arunachal Pradesh	103	92	69	69	–	–	15	12	26	23
Assam	50	45	–	–	76	62	190	134	14	11
Manipur	8	8	–	–	–	–	–	–	1	–
Meghalaya	30	29	18	17	16	15	16	14	–	–
Mizoram	4	4	7	7	2	2	14	14	7	7
Nagaland	56	48	1	1	7	7	17	17	29	28
Sikkim	5	5	5	5	5	5	3	3	8	8
Tripura	35	28	–	–	50	41	3	3	–	–
Eastern Region	**512**	**442**	**672**	**544**	**965**	**704**	**538**	**435**	**1,051**	**693**
Bihar	–	–	58	38	199	161	97	59	75	51
Jharkhand	–	–	–	–	–	–	49	39	175	112
Orissa	104	86	149	137	247	211	185	153	376	241
West Bengal	408	356	464	369	519	332	207	184	426	289
Central Region	**372**	**310**	**396**	**322**	**822**	**736**	**708**	**566**	**596**	**462**
Chhattisgarh	51	43	85	70	282	242	433	351	63	35
Madhya Pradesh	321	267	311	253	540	494	275	215	533	427
Western Region	**964**	**881**	**586**	**471**	**743**	**690**	**966**	**952**	**1,407**	**1,336**
Goa	19	9	16	10	16	10	–	–	–	–
Gujarat	506	462	41	22	284	284	899	899	1,312	1,265
Maharashtra	439	410	530	439	443	396	67	53	95	71
Southern Region	**1,279**	**1,174**	**1,388**	**1,256**	**1,706**	**1,480**	**1,784**	**1,462**	**2,818**	**2,189**
Andhra Pradesh	559	511	609	558	904	752	856	647	1,534	1,136
Karnataka	292	275	235	212	220	202	290	254	407	343
Kerala	175	159	192	159	194	168	90	67	219	150
Tamil Nadu	253	229	353	327	388	358	548	494	658	560
Puducherry	–	–	–	–	–	–	–	–	–	–
All India	**4,489**	**4,071**	**4,582**	**4,052**	**5,949**	**5,141**	**5,639**	**4,871**	**7,720**	**6,200**

Appendix Table V.9: Sanctions and Disbursements under Rural Infrastructure Development Fund - State-wise *(Concluded)*

(At end-March 2009)

(Amount in Rs. crore)

Name of State	RIDF XI		RIDF XII		RIDF XIII		RIDF XIV		STATE TOTAL	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	22	23	24	25	26	27	28	29	30	31
Northern Region	**2,208**	**1,585**	**3,374**	**1,994**	**3,685**	**1,530**	**3,964**	**797**	**24,407**	**15,896**
Haryana	178	161	253	186	310	148	301	70	2,145	1,546
Himachal Pradesh	225	151	273	117	299	91	425	113	2,237	1,415
Jammu & Kashmir	80	68	461	287	602	257	342	112	2,503	1,654
Punjab	283	208	553	432	418	190	525	123	3,455	2,465
Rajasthan	605	467	767	471	825	404	1,100	219	5,398	3,347
Uttar Pradesh	788	487	1,035	479	1,092	384	971	71	7,401	4,594
Uttarakhand	50	43	32	22	138	56	300	90	1,269	875
North-Eastern Region	**658**	**395**	**671**	**296**	**407**	**140**	**947**	**142**	**4,150**	**2,202**
Arunachal Pradesh	136	48	139	59	29	11	122	42	665	379
Assam	402	272	283	139	88	27	113	28	1,546	964
Manipur	28	–	7	7	–	–	–	–	45	16
Meghalaya	32	16	32	11	57	38	66	11	318	202
Mizoram	19	19	8	8	22	13	1	–	141	131
Nagaland	34	34	25	18	15	10	240	20	440	200
Sikkim	6	6	16	15	42	26	99	15	220	116
Tripura	–	–	161	39	154	15	305	25	774	194
Eastern Region	**1,423**	**918**	**1,932**	**854**	**2,089**	**756**	**3,034**	**436**	**14,162**	**7,441**
Bihar	459	282	590	149	589	310	752	153	2,899	1,242
Jharkhand	107	85	331	232	407	221	631	72	1,914	928
Orissa	397	232	498	194	509	37	849	32	4,110	2,015
West Bengal	459	319	513	279	584	188	801	179	5,238	3,256
Central Region	**507**	**321**	**780**	**546**	**1,331**	**485**	**1,047**	**289**	**7,834**	**5,214**
Chhattisgarh	117	61	51	16	66	15	72	11	1,471	1,083
Madhya Pradesh	390	260	729	530	1,265	470	975	278	6,363	4,131
Western Region	**960**	**691**	**1,501**	**653**	**1,760**	**935**	**2,293**	**726**	**13,290**	**9,247**
Goa	–	–	–	–	27	8	86	63	180	116
Gujarat	859	657	988	288	649	380	1,085	369	7,391	5,290
Maharashtra	101	34	513	365	1,084	547	1,123	294	5,720	3,842
Southern Region	**2,544**	**1,815**	**2,342**	**1,432**	**3,477**	**1,211**	**3,435**	**623**	**24,515**	**16,051**
Andhra Pradesh	1,286	890	757	408	1,277	492	1,315	273	10,609	7,072
Karnataka	449	353	498	267	956	142	659	–	4,892	2,881
Kerala	205	106	261	129	287	84	501	100	2,586	1,528
Tamil Nadu	604	466	827	628	957	493	905	251	6,372	4,570
Puducherry	–	–	–	–	–	–	55	–	55	–
All India	**8,299**	**5,725**	**10,599**	**5,775**	**12,749**	**5,057**	**14,720**	**3,013**	**88,359**	**56,052**

Source: NABARD.

Appendix Table V.10: Kisan Credit Card Scheme - State-wise Progress

(As at end-March 2009)

(Amount in Rs. crore and Number of cards issued in '000)

Sr. No.	State	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	12
1.	Andhra Pradesh	22	3,594	6,751.0	5	1,853	3,739.2	8,985	27,986.6	14,432	38,476.8
2.	Assam	1	13	14.9	2	123	411.1	327	582.0	463	1,008.0
3.	Arunachal Pradesh	1	1	1.5	1	3	3.4	16	29.1	19	34.0
4.	Bihar	22	796	944.8	4	839	2,936.0	1,493	6,178.0	3,128	10,058.8
5.	Gujarat	18	1,182	18,377.6	3	242	2,590.2	1,377	20,712.0	2,801	41,679.8
6.	Goa $	1	4	17.8	–	–	–	11	130.4	15	148.2
7.	Haryana	19	1,244	7,732.1	2	336	2,907.5	768	7,719.2	2,348	18,358.8
8.	Himachal Pradesh	3	66	318.1	2	40	179.0	219	1,141.7	325	1,638.7
9.	Jammu & Kashmir	4	52	72.5	3	15	122.4	12	76.8	78	271.7
10.	Karnataka	21	1,677	6,872.9	6	1,097	5,376.6	2,266	13,011.3	5,041	25,260.8
11.	Kerala	14	1,295	3,470.7	2	424	1,475.1	1,405	4,885.5	3,124	9,831.3
12.	Madhya Pradesh	38	3,118	13,352.2	8	474	2,415.5	1,559	12,002.2	5,151	27,769.9
13.	Maharashtra	30	5,217	30,802.9	4	276	1,100.0	2,426	10,949.4	7,919	42,852.3
14.	Meghalaya	1	10	13.2	1	21	36.6	37	95.1	68	144.9
15.	Mizoram	1	2	1.3	1	9	43.9	12	23.7	23	68.9
16.	Manipur	1	13	33.6	1	2	2.7	25	61.3	40	97.6
17.	Nagaland	1	2	0.8	1	1	2.9	18	33.4	22	37.1
18.	Orissa	17	3,268	9,587.0	5	597	1,299.5	1,069	3,124.6	4,934	14,011.2
19.	Punjab	19	892	6,199.5	3	119	1,293.9	1,219	13,511.1	2,230	21,004.4
20.	Rajasthan	28	2,851	8,387.0	6	440	3,595.6	1,467	16,573.5	4,757	28,556.1
21.	Sikkim $	1	3	6.3	–	–	–	7	22.8	9	29.1
22.	Tamil Nadu	22	1,803	5,228.9	2	265	588.9	3,741	11,776.4	5,809	17,594.2
23.	Tripura	1	4	5.6	1	41	62.5	52	106.2	97	174.3
24.	Uttar Pradesh	51	6,074	5,910.0	12	3,343	11,167.9	6,005	33,075.3	15,423	50,153.3
25.	West Bengal	20	1,463	5,494.9	3	311	1,357.5	1,334	3,964.4	3,108	10,816.7
26.	Andaman and Nicobar Islands $	1	3	8.3	–	–	–	2	8.0	6	16.3
27.	Chandigarh $	–	–	–	–	–	–	3	15.3	3	15.3
28.	Daman & Diu @	–	–	–	–	–	–	2	13.9	2	13.9
29.	New Delhi $	1	2	8.8	–	–	–	20	173.0	22	181.8
30.	D & N Haveli @$	–	–	–	–	–	–	3	28.4	3	28.4
31.	Lakshadweep @$	–	–	–	–	–	–	1	2.6	1	2.6
32.	Puducherry	1	7	34.3	1	–	–	48	172.2	56	206.5
33.	Jharkhand	8	279	544.3	2	300	340.5	414	1,067.8	992	1,952.7
34.	Chhattisgarh	7	912	2,195.0	3	256	613.4	262	1,296.6	1,430	4,105.0
35.	Uttarakhand	10	298	600.7	2	45	170.4	260	2,433.6	603	3,204.8
36.	Other States	–	–	–	–	–	–	0.05	0.1	0.05	0.1
	Total	**385**	**36,145**	**1,32,988.2**	**86**	**11,471**	**43,832.3**	**37,051**	**1,93,249.5**	**84,667**	**3,70,070.08**

* : Includes 188 cards issued by commercial banks and Rs. 266 crore of credit sanctioned at the all-India level for which State-wise break up is not available.

@ : No Cooperative Banks in these State/UTs.

$: No RRB in these State/UTs.

** : No. of banks implementing the Scheme.

– : Nil.

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 2007-08	
	2007-08		2008-09		2007-08		2008-09		2007-08		2008-09		2007-08		2008-09			
	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)	**16,131**	**15,089**	**29,616**	**28,273**	**–**	**–**	**–**	**–**	**16**	**10**	**29**	**20**	**16,146**	**15,099**	**29,645**	**28,293**	**84**	**87**
1. SIDBI	16,131	15,089	29,616	28,273	–	–	–	–	16	10	29	20	16,146	15,099	29,645	28,293	**84**	**87**
2. IIBI	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–		–
B. Specialised Financial Institutions (3 and 4)	**..**	**..**	**16**	**7**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**16**	**7**		**..**
3. IVCF	–	–	16	7	–	–	–	–	–	–	–	–	–	–	16	7	–	–
4. ICICI Venture	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
C. Investment Institutions (5 and 6)	**5,762**	**6,144**	**9,301**	**5,716**	**33,888**	**22,316**	**55,954**	**51,248**	**20**	**–**	**475**	**122**	**39,670**	**28,461**	**65,731**	**57,086**	**66**	**101**
5. LIC	5,742	6,123	9,241	5,656	32,713	21,141	55,313	50,656	–	–	455	122	38,455	27,264	65,009	56,434	69	107
6. GIC @	20	21	60	60	1,175	1,175	642	592	20	–	20	–	1,215	1,196	722	652	-41	-46
D. Total Assistance by All-India Financial Institutions (A+B+C)	**21,893**	**21,233**	**38,934**	**33,997**	**33,888**	**22,316**	**55,954**	**51,248**	**36**	**10**	**504**	**142**	**55,816**	**43,560**	**95,391**	**85,387**	**71**	**96**
E. State level Institutions (7 and 8)	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
7.SFCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
8. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**21,893**	**21,233**	**38,934**	**33,997**	**33,888**	**22,316**	**55,954**	**51,248**	**36**	**10**	**504**	**142**	**55,816**	**43,560**	**95,391**	**85,387**	**71**	**96**

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	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10
EXIM Bank									
Resources Raised	565	1,098	4,923	6,881	5,301	7,446	10,620	14,558	15,902
Outstandings	4,068	5,303	9,154	12,752	11,771	15,830	21,662	31,716	37,202
SIDBI									
Resources Raised	1,076	1,557	1,547	2,972	2,434	3,489	2,176	5,084	15,797
Outstandings	10,442	10,074	9,607	10,535	9,346	11,030	10,928	14,665	24,487
NABARD									
Resources Raised	1,472	2,548	2,988	5,334	10,642	8,395	10,899	13,620	7,746
Outstandings	3,614	6,078	8,702	11,883	26,429	23,313	31,260	32,630	26,867
NHB									
Resources Raised	500	238	2,984	3,290	3,482	6,562	7,860	11,116	20,005
Outstandings	5,256	4,830	7,932	10,569	12,395	16,344	19,003	17,313	16,503
Total Resources Raised	**3,737**	**5,553**	**12,535**	**18,649**	**21,882**	**25,958**	**31,555**	**44,378**	**59,450**
Total Outstandings	**24,056**	**26,952**	**36,027**	**46,285**	**60,370**	**66,913**	**82,853**	**96,324**	**105,059**

* : Includes long-term (bonds and borrowings), short-term (CP, TDs, ICDs, CDs and Term Money) and foreign currency 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	2007-08								Total		2008-09								Total	
	Quarter ended										Quarter ended									
	Jun-07		Sep-07		Dec-07		Mar-08				Jun-08		Sep-08		Dec-08		Mar-09			
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Sources of Funds	**60,891**	**100.0**	**72,660**	**100.0**	**27,980**	**100.0**	**52,423**	**100.0**	**213,954**	**100.0**	**47,666**	**100.0**	**77,253**	**100.0**	**66,748**	**100.0**	**105,629**	**100.0**	**297,296**	**100.0**
Internal	29,491	48.4	29,573	40.7	16,128	57.6	25,752	49.1	100,944	47.2	32,324	67.8	53,723	69.5	42,204	63.2	65,043	61.6	193,294	65.0
External	31,188	51.2	41,760	57.5	11,308	40.4	26,349	50.3	110,604	51.7	12,429	26.1	20,250	26.2	22,237	33.3	36,398	34.5	91,314	30.7
Others	213	0.3	1,328	1.8	543	1.9	322	0.6	2,406	1.1	2,913	6.1	3,280	4.2	2,307	3.5	4,188	4.0	12,688	4.3
Deployment of Funds	**60,891**	**100.0**	**72,660**	**100.0**	**27,980**	**100.0**	**52,423**	**100.0**	**213,954**	**100.0**	**47,666**	**100.0**	**77,253**	**100.0**	**66,748**	**100.0**	**105,629**	**100.0**	**297,296**	**100.0**
Fresh Deployment	28,110	46.2	39,425	54.3	20,769	74.2	37,217	71.0	125,522	58.7	23,610	49.5	48,371	62.6	40,978	61.4	81,752	77.4	194,711	65.5
Repayment of past borrowings	26,918	44.2	32,460	44.7	3,048	10.9	6,670	12.7	69,096	32.3	13,664	28.7	16,683	21.6	9,910	14.8	16,335	15.5	56,592	19.0
Other Deployment	5,861	9.6	775	1.1	4,161	14.9	8,536	16.3	19,333	9.0	10,392	21.8	12,199	15.8	15,860	23.8	7,542	7.1	45,993	15.5
of which :																				
Interest Payment	1,540	2.5	1,820	2.5	1,728	6.2	1,827	3.5	6,916	3.2	2,349	4.9	1,854	2.4	2,300	3.4	2,306	2.2	8,809	3.0

* : NABARD, NHB, SIDBI and EXIM Bank.

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	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10	11
EXIM Bank										
Weighted Average Cost	12.5	12.2	10.8	8.9	5.9	6.9	6.9	7.8	8.2	9.0
Weighted Average Maturity	4.2	3.6	6.4	6.1	6.7	5.1	4.6	3.7	3.0	2.5
SIDBI										
Weighted Average Cost	9.7	9.8	7.5	6.5	4.9	6.3	5.9	6.9	8.2	6.5
Weighted Average Maturity	2.6	1.3	1.0	2.3	2.8	7.0	3.9	6.5	1.0	3.4
NABARD										
Weighted Average Cost	10.6	9.5	8.0	6.1	5.4	6.6	5.8	8.7	9.5	9.5
Weighted Average Maturity	5.4	3.0	3.0	5.4	5.4	2.1	3.5	5.0	4.0	4.3
NHB										
Weighted Average Cost	11.1	10.2	8.7	6.4	5.4	6.5	6.4	7.4	7.7	7.4
Weighted Average Maturity	9.5	5.8	7.4	4.0	3.2	2.8	2.2	2.4	2.8	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 the Primary Dealer	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Net worth (per cent)
			Interest Income including Discount Income	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expenses	Total Expen-diture			
	1	2	3	4	5	6	7	8	9	10	11	12
1	Securities Trading Corporation	2007-08	56	10	6	72	39	8	48	24	16	3.8
	of India	2008-09	84	90	9	183	62	14	76	107	107	44.2
2	SBI DFHI LTD	2007-08	124	14	5	143	34	13	47	96	86	8.3
		2008-09	162	22	13	197	56	10	66	102	67	6.2
3	ICICI Securities Ltd	2007-08	266	196	55	517	203	103	307	211	140	31.6
		2008-09	309	388	32	729	229	83	312	418	272	53.3
4	PNB Gilts	2007-08	151	-6	28	173	99	7	106	67	45	8.7
		2008-09	112	-29	29	112	67	7	74	38	25	4.7
5	ABN AMRO Securities	2007-08	65	2	39	106	43	9	52	54	35	17.6
	(India) Pvt Ltd	2008-09	–	–	–	–	–	–	–	–	–	–
6	DSP Merrill Lynch Ltd	2007-08	135	10	2	146	106	15	121	25	17	5.8
		2008-09	116	387	3	506	69	22	91	415	271	71.1
7	Deutsche Securities (India) Pvt Ltd	2007-08	75	25	2	103	46	4	50	53	34	17.7
		2008-09	50	15	12	77	30	6	36	41	27	13.3
8	IDBI Gilts Ltd	2007-08	21	-1	1	20	14	4	19	1	1	0.4
		2008-09	45	-30	6	21	33	7	40	-20	-20	-21.4
9	Lehman Brothers Fixed Income	2007-08	21	6	1	28	11	17	27	0	-1	-21.8
		2008-09	–	–	–	–	–	–	–	–	–	–
	TOTAL	**2007-08**	**914**	**255**	**138**	**1,307**	**595**	**180**	**776**	**531**	**373**	**10.8**
		2008-09	**878**	**843**	**104**	**1,825**	**546**	**149**	**695**	**1,101**	**749**	**22.8**

* : Lehman Brothers Fixed Income Securities Pvt. Ltd. was advised not to undertake primary market transactions with effect from September 16, 2008

^ ^ : ABN AMRO Securities (India) Pvt. Ltd. merged with ABN AMRO Bank with effect from December 16, 2008.

– : 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 Dealer	Capital Funds (Tier I + Tier II + eligible Tier III)		CRAR (per cent)		Stock of Government Securities and Treasury bills (Book Value/MTM)		Total Assets (Net of current liabilities and provisions)	
		2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
	1	2	3	4	5	6	7	8	9
1	Securities Trading Corporation of India Ltd.	208	253	22	38	489	1,067	673	1,176
2	SBI DFHI Ltd.	1,095	1,084	81	49	956	1,188	1,794	2,088
3	ICICI Securities Ltd.	647	641	30	36	765	1,421	2,199	2,799
4	PNB Gilts Ltd.	520	546	35	26	1,894	1,824	2,216	2,098
5	ABN AMRO Securities (India) Pvt. Ltd. ^ ^	177	–	26	–	948	–	1,151	–
6	DSP Merrill Lynch Ltd.	370	638	21	29	947	770	1,065	1,016
7	Deutsche Securities (India) Pvt Ltd	196	221	42	25	698	615	769	663
8	IDBI Capital Market Services Ltd.	101	81	30	36	338	420	400	467
9	Lehman Brothers Fixed Income Securities Pvt. Ltd*	297	–	77	–	549	–	615	–
	TOTAL	**3,611**	**3,464**	**38**	**35**	**7,584**	**7,305**	**10,882**	**10,307**

* : Lehman Brothers Fixed Income Securities Pvt. Ltd. was advised not to undertake primary market transactions with effect from September 16, 2008

^ ^ : ABN AMRO Securities (India) Pvt. Ltd. merged with ABN AMRO Bank with effect from December 16, 2008

– : Not applicable.

Source: Primary Dealers' Returns.