**Report of The Review Group on The Working of The Local Area Bank Scheme**

**Reserve Bank of India**
**September 2002**



## Review Group for Local Area Bank Scheme

## Introduction

The Local Area Bank Scheme was introduced in August 1996 pursuant to the announcement of the then Finance Minister. In his budget speech, the Finance Minister referred to the setting up of new private local banks with jurisdiction over two or three contiguous districts. He observed that this would enable the mobilization 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 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) on 24th August 1996. Over a period of about five and a half years, as many as 227 applications for establishment of LABs in the private sector had been received by the RBI of which 214 applications were rejected while 'in-principle' approvals for establishment of 10 LABs were issued and 3 applications are under examination. However, due to the inability of the promoters to fulfill the conditions stipulated in the 'in-principle' approvals, 4 such approvals were withdrawn. 5 banks were licensed under Section 22 of the Banking Regulation Act 1949. Of these, only 4 LABs are functioning at present. 1 application is pending.

As no comprehensive review of the scheme had been made since the issuance of guidelines in 1996, the RBI appointed a Review Group in July 2002 to study and make recommendations on the LAB Scheme. The Review Group comprised the following:

| | | |
|---|---|---|
| i) | Shri G.Ramachandran<br>Former Finance Secretary,<br>Government of India | Chairman |
| ii) | Shri M.G.Bhide,<br>Chairman<br>National Institute of Bank Management | Member |

iii) Shri A.V.Sardesai, Member Secretary
Chief General Manager-in-Charge
Rural Planning and Credit Department,
Reserve Bank of India
Central Office, Mumbai

**Terms of reference:**

The terms of reference of the Group were

1. To examine whether the scheme of Local Area Banks has fulfilled its objectives, and whether the LABs licensed so far have served the purpose for which they were set up.
2. In the light of experience so far, to examine whether the scheme should continue, and whether fresh applications for setting up LABs should be considered by RBI.

**Chapter Scheme of the Report**:

Chapter I of the report deals with the background of the LAB Scheme. Chapter II of the report outlines the approach of the Review Group to the task entrusted to it. Chapter III reviews the LABs and contains the findings and recommendations of the Review Group. Chapter IV is a summary of recommendations of the Review Group.

**Meetings:**

The Review Group held its first meeting at Mumbai and called on the Deputy Governor Shri Vepa Kamesam. The second meeting held at Hyderabad was combined with a field visit to Mahbubnagar for discussions with the Chairman and Managing Director of the Krishna Bhima Samrudhi Local Area Bank Ltd. At the next meeting of the Review Group at Mumbai, discussions were held with academics, faculty members of the NIBM and the Chairman and Managing Director of the South Gujarat Local Area Bank Ltd. Navsari. The fourth meeting was held at Chennai and discussions were held with the Chairman & Managing Director of the Coastal Local Area Bank Ltd., Vijaywada. This was followed by another meeting at Mumbai and discussions with the Chairman and Managing Director, NABARD. The next meeting of the Group was also held at Mumbai and discussions were held with the Chairman and Managing Director of the Capital Local Area Bank Ltd. Phagwara. The report of the Review Group was finalised at two meetings of the group held at Mumbai on 16$^{th}$ and 17$^{th}$ September,2002. The report was adopted and signed by the members of the group at its last meeting at Chennai on September 29, 2002.

**Acknowledgements:**

The members of the Review Group would like to acknowledge the support received from several persons with whom the Review Group held structured and unstructured meetings. The Review Group benefited greatly from their insights and experience. The list of persons met by the Review Group is at Annex I. The Review Group thanks Dr.Bimal Jalan, Governor, Reserve Bank

of India, Shri Vepa Kamesam, Deputy Governor, RBI for having spared time for the members of the Group to meet them and have discussions with them. The Group also extends thanks to the Reserve Bank of India for providing necessary infrastructural facilities and extending support which enabled expeditious completion of the task in hand. In this connection, special thanks are due to Regional Directors of Regional Office, Reserve Bank of India, Hyderabad and Chennai and the concerned General Managers of Rural Planning and Credit Department (RPCD) for coordinating the visits of the Review Group to their respective centres. Shri Ramachandran, Chairman of the Review Group, and Shri Bhide, Member of the Review Group place on record their appreciation of the contribution made to the deliberations of the Group and services rendered by Shri A.V. Sardesai, CGM- In Charge, Rural Planning and Credit Department (RPCD), Member Secretary of the Review Group. The Group is thankful to Smt. Vani J.Sharma, CGM, RPCD for having participated in some of the meetings of the Group held at Mumbai and for giving it the benefit of her views. The Group would also like to place on record and express its appreciation of the assistance rendered by Dr. Smt. Deepali Pant Joshi, General Manager, RPCD in providing all the background material and analysis needed in connection with the Group's work and also for helping the Group in drafting this report. For the help rendered in connection with its work, the Group would also like to thank Shri P.K.Bahinipati, Shri A.G.Saswadkar, Shri S.S.Gaud, Shri R.Sudeep and other staff members of the Rural Planning and Credit Department.

## Chapter-I

### The background of LAB scheme

### 1.1 Objective:

In 1996 it was decided to allow the establishment of local banks in the private sector. These banks were expected to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban areas and provide efficient and competitive financial intermediation services in their area of operation.

### 1.2 Capital:

The minimum start-up capital of a LAB was fixed at Rs.5 crore. The promoters of these banks were required to bring in the entire minimum share capital up-front. It was also decided that a family among the promoter group could hold equity not exceeding 40% of the capital. The NRI contributions to the equity of the bank were not to exceed 40% of the paid-up capital. The entire initial capital subscribed by the promoters (including their friends and relatives/associates) would carry a lock in period of three years from the date of licensing of the bank. Further, the promoters' equity to the extent of 40% of the initial paid- up capital was to be locked in at least for two years beyond the aforesaid period of three years subject to review before expiry of five years from the date of licensing of the bank.

### 1.3 Promoters:

The promoters of a LAB could be individuals, corporate entities and societies. The number of NRI promoters was not to exceed 20% of the total number of promoters.

### 1.4. Voting Rights:

Individual shareholder voting rights were to be restricted to a ceiling of 10% of the total voting rights in terms of Section 12(2) of the Banking Regulation Act, 1949.

### 1.5 Area of operation:

The area of operation of an LAB was restricted to a maximum of three geographically contiguous districts. The activities of an LAB were to be focussed on local customers predominantly in rural and semi-urban areas so as to bridge the credit gap in these areas.

### 1.6 Scope of activities:

LABs were required to finance agriculture and allied activities, SSI, agro-industrial activities, trading activities and non-farm sector. Their lending to priority sector was to be at least 40% of the net bank credit and lending to weaker section was to be at least 25% of their priority sector lending (10% of net bank credit).

### 1.7 Registration, licensing, scheduling:

The bank would be registered as a public limited company under the Companies Act, 1956. It would be licensed under the Banking Regulation Act, 1949 and would be eligible for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934.

### 1.8 Applicability of Statutes:

The bank would be governed by the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and other relevant statutes. However, in regard to liquidity requirements and interest rates, such banks would be governed by the provisions applicable to the Regional Rural Banks (RRBs) established under the Regional Rural Banks Act, 1976.

### 1.9 Prudential norms:

LABs would be subject to prudential norms, accounting policies and other policies as laid down by RBI. The bank would have to maintain capital adequacy at 8% of risk weighted assets and comply with the norms of income recognition, asset classification and provisioning since inception.

### 1.10 Licensing Procedure

As per the procedure followed in such cases the RBI granted an ‘in- principle’ approval for setting up an LAB which laid down the terms and conditions which needed to be fulfilled by the promoters before a licence could be granted for commencement of banking business.

The RBI could, at its discretion, call for any additional information required by it or withdraw/cancel the 'in–principle' approval in the event of non compliance with the conditions laid down in the 'in –principle' approval.

**1.11 Status of LABs functioning:**

Only four LABs are functioning at present. These are, (1) Coastal Local Area Bank Ltd. established on 27th December 1999 with an area of operation comprising three contiguous districts viz. Krishna, Guntur and West Godavari with its head office at Vijayawada (Andhra Pradesh), (2) Capital Local Area Bank Ltd. established on 14th January 2000 with its area of operation comprising three districts viz. Jalandhar, Kapurthala and Hoshiarpur with its head office at Phagwara (Punjab), (3) South Gujarat Local Area Bank Ltd., established on 3rd October 2000 with an area of operation comprising three contiguous districts viz. Navsari, Surat and Bharuch with its head office at Navsari (Gujarat),(4)Krishna Bhima Samruddhi Local Area Bank Ltd. established on 28th February 2001 with an area of operation comprising three contiguous districts of Mahbubnagar in Andhra Pradesh and Raichur and Gulbarga in the state of Karnataka with its head office at Mahbubnagar(Andhra Pradesh). The licence of Vinayak Local Area Bank Ltd., Sikar (Rajastan) established on 21st October 2000 was cancelled by Reserve Bank on 16th January 2002 as major irregularities were noted in its functioning.

**1.12 Branch Licensing:**

The LABs were allowed to open branches in only one urban centre per District and rest of the branches were allowed to be opened in the rural and semi urban centers subject to requisite clearance in respect of rural branches from the District Consultative Committee for the concerned districts.

**1.13 Scheduling of LABs:**

The LABs could be included in the Second Schedule of the Reserve Bank of India Act, 1934 subject to the fulfillment of the eligibility criteria laid down in Section 42(6) of the said Act ibid.

**1.14 Regulatory jurisdiction:**

The regulatory responsibility over the LABs vests with Rural Planning and Credit Department (RPCD) of the RBI. The RPCD issues licence for these banks as per provisions of Section 22 of the Banking Regulation Act, 1949 and grants permission for opening of branches at new places of business as per the provisions of Section 23 of the Act ibid. The financial health of the LABs is monitored through off-site returns and other statements required to be submitted by these banks. The appointment of the CEO and the Chairman of the LAB requires clearance of the RBI as per the provisions of Section 10B of the Banking Regulation Act, 1949 read with Section 35B of the Act ibid. The remuneration of the CEO also requires prior approval of the RBI. The composition of the Board of these banks is to be in accord with the provisions of Section 10A of the Banking Regulation Act, 1949. As LABs are commercial banks in the private sector, banking policies as applicable to commercial banks are made applicable to them except where these pertain to areas of business which LABs are not permitted to undertake.

**1.15 Supervision over LABs :**

Supervision over LABs lies with the Department of Banking Supervision (DBS). During the first year of its operation, an LAB is subjected to quarterly on-site supervisory monitoring visits. The quarterly visits cover areas such as examination of loans and investments, treasury functions, internal checks and controls so as to ensure that the affairs of the bank are not being conducted in a manner detrimental to the interests of the depositors.

Thereafter, the LAB is covered under Annual Financial Inspection (AFI) Programme of DBS. This covers areas such as management functions, functioning of Board of the bank and constitution of various committees of the Board, internal control system, internal audit and inspection, information system, deposit, advance and investment portfolio, NPAs, profitability, capital adequacy and maintenance of statutory norms as CRR and SLR.

## Chapter II

### Our Approach

**2.1** Within the limited time given to it for completion of its work, the Review Group elicited the background information needed for its work from published documents and replies received in response to a questionnaire issued by it. It also held discussions with senior officials of RBI, office bearers and other stakeholders in LABs. It also had the benefit of discussions with a few experts in this area.

**2.2 Questionnaire**

The Review Group sought information relevant to its work on the basis of a questionnaire which was sent to the LABs. A copy of the questionnaire is at Annex III. It will be seen that the questionnaire, inter alia, sought information regarding the performance of the bank in financial and non financial areas. The data assembled by us in regard to the various aspects of the functioning of these banks is based on information furnished by all the four LABs in response to the questionnaire. The information so furnished and gleaned by the Group has been analysed and an analytical note based thereon is at Annex II.

**2.3 Meeting with Promoters/ Chief Executive Officers of the Local Area Banks**

Apart from eliciting information through questionnaires and going through the profiles of the promoters of the LABs, the Review Group held discussions with the promoters of the LABs. The promoters offered suggestions for strengthening the LABs. They also drew attention of the Group to the problems which merited the attention of the regulator. They also indicated the support they expected from the regulator.

## 2.4 Field Visit to the LABs

The Review Group visited the Krishna Bhima Samrudhi Local Area Bank to study at first hand the problems and prospects of the LABs.

## Chapter III

### A Review of LABs- Our findings and Recommendations

**3.1** Agriculture continues to be an important sector in our national economy even now despite the diversification, which the economy has undergone under the stimulus of five decades of planned economic development. Though the contribution of agriculture and allied activities to GDP may have declined from over 50% in the 1950's to only about 23% now, it has to be stressed that about 70% of our population still continues to be dependent on agriculture for gainful employment. Our economy is also still predominantly rural and there is imperative need for creating job opportunities outside agriculture. An expert who met us drew our attention to the fact that a special feature of China's economic policies in recent years has been the stress it has laid on generation of employment in non farm occupations in rural areas.

**3.2** Rural development in general and agricultural development in particular calls for creation of outlets for provision of institutional credit for productive purposes. A conscious policy of augmenting the flow of institutional credit for agriculture has been pursued with vigour in post independent India. Recognising that cooperatives with their local knowledge and local leadership would seem to be the best agency for providing credit with mechanisms for monitoring end use of credit, Government and RBI have promoted cooperative movement on a big scale with access to special credit arrangements, some of them on concessional terms. However, while cooperatives have made tremendous progress, they have failed to come up to the high expectations entertained of them. They are plagued by a variety of problems, **-** poor mobilization of local resources, ineffective leadership, poor monitoring of end use of credit and mounting overdues. The relatively dismal performance of cooperatives led the policy makers to look to commercial banks particularly the Public Sector Banks to step into the breach through their rural branches, which proliferated in the three decades following nationalisation. Commercial banks did bring a new approach to bear on the provision of credit for agriculture with their superior material and human resources. Commercial banks, however, soon encountered problems of overdues and it was felt that their high cost structure could make them inappropriate agencies for purveying of rural credit on a dispersed basis. It was this realization which led to the setting up of Regional Rural Banks (RRBs) in 1976. These banks, in the share capital of which the Central and State Governments participated, were linked to a sponsor bank which also contributed to the extent of 35% of their share capital. These banks, which at the outset adopted lower scales of compensation for their staff than their sponsor banks, were specially mandated to lend to weaker sections at rates of interest with a concessional element. They could initially manage to lend at concessional rates because of their access to subsidised refinance from their sponsor banks and NABARD. But the RRBs were crippled soon enough by several factors among which was a new compensation policy in pursuance of which they had to pay their employees on par with those of their sponsor banks. Their character as low cost institutions specially designed to serve rural areas was thus lost irretrievably. They were also adversely affected by the problems of mounting overdues and uneasy industrial relations.

**3.3** It was presumably due to the set backs encountered in the channelisation of credit through cooperatives, rural branches of commercial banks and RRBs that the new concept of a Local Area Bank emerged. The concept was attractive in that it sought to involve local leadership in mobilization of local resources for profitable lending in a compact area. It sought to combine the kind of local knowledge presumed to be the special feature of cooperatives with the professional ethos of a commercial bank.

**3.4** It is against this back ground that we would like to evaluate the performance of the four LABs which are now functioning. **At the outset, it needs to be emphasized that these banks have been in existence only for a short period thus ruling out a definitive pronouncement on their success or failure**. Obviously, these banks will need a little more time to establish themselves firmly in the areas in which they are functioning and win the confidence of both the investors and the borrowers. But some conclusions can be drawn even at this stage on the long term viability of LABs on the basis of the data which have been made available to us and in the light of our own discussion and analysis.

A brief summary of the working results of the LABs will at this stage be in order (Details are furnished in Annex II).

**3.5** The Coastal Local Area Bank Ltd. established on December 27, 1999 with its head-quarters at Vijayawada has 8 branches in Krishna, Guntur and West Godavari districts of Andhra Pradesh. This is to be compared with 945 branches of various commercial banks in the operational area of this LAB. The deposits and advances of the bank as on March 31, 2002 stood at Rs. 21.90 crores andRs. 17.80 crores respectively. The priority sector advances of the LAB formed 45.45% of the total advances. The bank has been showing profit since inception and posted a profit of Rs. 103.28 lakhs for the year ended March 31, 2002.

**3.6** The Capital Local Area Bank Ltd. established on January 14, 2000 with its head-quarters at Phagwara has 8 branches in Kapurthala, Hoshiarpur and Jalandhar districts of Punjab. As against this, there are 595 branches of various commercial banks in the operational area of this LAB. The deposits and advances of the bank as on March 31, 2002 stood at Rs.47.29 crores and Rs. 30.00 crores respectively. The priority sector advances of the LAB formed 50.05 % of the total advances. The bank has been showing profit since inception and posted a profit of Rs.116.32 lakhs for the year ended March 31, 2002.

**3.7** The South Gujarat Local Area Bank Ltd. established on October 3, 2000 with its head-quarters at Navsari has 6 branches in Navsari, Bharuch and Surat districts of Gujarat. It may be relevant to mention that there are 564 branches of various commercial banks in the operational area of this LAB. The deposits and advances of the bank as on March 31, 2002 stood at Rs.19.10 crores and Rs. 13.89 crores respectively. The priority sector advances of the LAB formed 49.94% of the total advances. The bank has posted a marginal profit of Rs.6.88 lakh for the year ended March 31, 2002.

**3.8** The Krishna Bhima Samrudhi Local Area Bank Ltd. established on February 28, 2001 with its head-quarters at Mahbubnagar has 3 branches in Mahbubnagar district of Andhra Pradesh and Raichur and Gulbarga districts of Karnataka. There are 465 branches of various commercial banks in its operational area and Sangameswara Grameena Bank sponsored by State Bank of India is also operating in the operational area of this LAB. The deposits and advances of the bank as on March 31, 2002 stood at Rs. 0.40 crores and Rs 2.53 crores respectively. The priority sector advances of the LAB formed 98.3% of the total advances. The bank has posted a profit of Rs. 15.12 lakh for the year ended March 31, 2002.

**3.9** As of now, the LABs have opened only 25 branches and of these only 7 were in rural areas. They are mostly operating in the already banked centers. The total volume of business handled was Rs. 153 crores as on 31st March 2002, and the bulk of the business was emanating from the district head-quarters, where the head offices of these banks were located.

**3.10** It is obvious that LABs have not made any impact on the local communities amongst whom they are functioning in terms of any of the significant indicators such as deposit mobilization, number of depositors, number of borrowal accounts and amounts lent, number of rural branches and number of poor people helped. LABs as now constituted and with their present capital base are unlikely to make themselves felt on the rural scene as any significant purveyors of credit in the foreseeable future. A number of measures have to be undertaken to strengthen them and new norms of capital and capital adequacy have to be laid down if the few banks which have come into existence are to survive and grow.

**3.11** We also consider it necessary to draw the attention of the regulators to some disquieting features in the functioning of these banks which have surfaced even during the short period they have been in existence.

**3.12** In examining the working of the existing LABs, we cannot refrain from drawing attention to certain fundamental issues relating to the very concept of an LAB. We are strongly of the view that whether it is rural banking or any other segment of the financial sector, size, whether in terms of capital base or totality of operations as reflected in the balance sheets, is of critical importance. It is size which inspires and retains the confidence of depositors and borrowers alike. It is size of capital which enables a financial entity to cope with unexpected adverse trends in its business and overcome threats to its survival from any panic reaction on the part of its investors. LABs in our view fail to pass this critical test. Their initial capital being only Rs. 5 crores and the capital adequacy requirement being set at 8% , they are handicapped ab initio by the severe restrictions being imposed on their growth. They thus suffer from an inherent inability to absorb the losses which were bound to arise in the course of their business. We should remember that LABs have been mandated to lend to agriculture, priority sector and also weaker sections in the rural areas. The credit portfolio of an LAB will thus tend to be more risk prone than that of other banking institutions. In view of their size and location, they will not also be able to diversify and derisk their business model. Their inability to undertake other activities will also expose them to the risks of concentration. Further, since LABs depend on loan portfolio for their income and do not have diversified income stream, they have to necessarily expand their loan portfolio for generating income. This exposes them to the risk of adverse selection. It is true that none of the LABs has so far posted any non-performing assets. But this is no matter for comfort. The absence of non-performing assets is solely due to the fact that LABs are of recent origin and are not matured sufficiently. Even so, we noticed that stressed accounts are emerging in the books of one of the LABs. This LAB is also engaged in trading in securities income from which outstrips its net profit. Thus if its stressed assets become non-performing and the bank is unable to earn substantial income on its securities portfolio, there will be the worrisome prospect of the bank incurring losses. Given its narrow capital base, it will not take much time for the concerned bank to become weak and sick. There are thus fundamental weaknesses inherent in the business model of the LAB. These need to be addressed without delay. The irregularities noticed in the functioning of the existing LABs need to be dealt with quickly while initiating simultaneously measures to enable them grow on healthy lines and attain viability within a reasonable time frame. Keeping these objectives in view we make some recommendations in the following paragraphs.

**3.13** We have observed that barring one, all other LABs were trading heavily in securities. It was also observed that in one case the transactions were not conducted on DVP basis and that 67% of the transactions were routed through a single broker. Trading in securities is an inherently risky business. These small banks located in areas far removed from main financial centers are likely to fall prey to the machinations of other players in the market. Having carefully considered the risks involved, we recommend that LAB should be prohibited from trading in Government securities and other papers during their formative years, say for a period of five years.

**3.14** In one case it was observed that the LAB had achieved its outreach through the medium of agents and quasi agents. Deficiencies of such a business model and the risks they give rise to are well known in commercial banking. A microfinance agency may have achieved good results by adopting such a strategy. But having regard to the experience in the banking sector, recourse to such strategies should be discouraged. We would like to emphasize that LABs should not be permitted to engage the services of agents and quasi agents for achieving their business out reach.

**3.15** It has also come to our notice that some of the LABs are not maintaining arms length relationship with their group companies and associates. The risks of not maintaining arms length relationship are well known. It may be relevant to mention here that recently when there was a run on a cooperative bank with which the promoters of a LAB was associated, the LAB also experienced a run on its branches. In view of the inherent weaknesses of these banks great care has to be taken to ensure that no "Holding Out" is done by the sponsoring agency and an arms length relationship is maintained with other group entities by the LAB.

**3.16** While drawing attention to some of the disturbing elements in the functioning of the LABs and proposing remedial measures we are aware that the LABs have commenced business only recently and more time needs to be given to observe their performance and help given to overcome their weaknesses.

**3.17** In our view LABs with their present capital base cannot become viable institutions. The existing LABs should, therefore, reach net worth of at least Rs 25 crores over a period of five years.

**3.18** LABs should also be enjoined to maintain a minimum capital adequacy of 15%. This higher capital adequacy norm should not pose a problem for the present. This higher norm of capital adequacy is being proposed because, as pointed out earlier, LABs carry an inherently high-risk portfolio and do not have derisking possibilities. The matrix proposed by us -- a net worth of Rs. 25 crore and capital adequacy norm of 15% would enable LAB to build an asset base of about Rs.150 crore - a level at which their operations would become viable. Everyone of the existing LABs should be asked to submit a suitable road map for achieving the twin objectives of higher capital base and enhanced capital adequacy norm.

**3.19** To facilitate the development of the existing LABs into viable commercial units we feel that it will be appropriate to extend them special treatment in certain respects. Access to refinancing facility will be one such avenue. At present LABs are not eligible for drawing refinance from NABARD and SIDBI as they are not scheduled Banks. The absence of refinancing facility places the LABs under a serious handicap both in managing maturity mismatch and in their ability to lend at finer rates .We therefore suggest that though an LAB may not be "scheduled," it should not be denied access to refinance for its term lendings from NABARD and SIDBI. However, as a precautionary measure we suggest that refinance should be permitted only in respect of such loans where at least one instalment repayable has been recovered by the LAB. Such a proviso would hopefully inculcate credit discipline among the LABs in the sanction of term loans and the refinance facility will not end up as a mere liquidity support.

**3.20** There have been strident demands from the LABs for being accorded the status of scheduled banks. We are of the view that it is too early to confer on them the status of a scheduled bank and a decision on their status may be taken after they have reached higher capital and capital adequacy and after watching their performance for sometime. If our suggestion in the previous paragraph is accepted, denial of scheduled status should not cause any hardship.

**3.21** We also feel that a measure of liberalisation of procedures in regard to the opening of rural branches by LABs is called for. Currently, for opening a branch, an LAB has to go through the same drill as a commercial bank is required to undergo. It is, for example, required to obtain permission of the District Consultative Committee. It has been mentioned to us by the officials of the LABs who met us that this procedure is not only dilatory and cumbersome but also that in many cases the Lead Bank of the District adopts a "dog in the manger" attitude .We feel that since the operations of an LAB are restricted to two or three adjacent districts, LABs should be treated on par with Cooperative Banks in the matter of opening of branches falling within their charter. Other restrictions should be waived and the opening of a branch should be subject only to the granting of a licence by the Reserve Bank of India.

**3.22** Currently LABs are allowed to open only one urban branch per district in the area allotted to them. To enable LABs to expand their business and attain viability we recommend that after an LAB has opened a certain minimum rural /semi urban branches, it could be permitted to open more urban branches. A ratio of one urban branch to 10 rural/ semi urban branches will perhaps be appropriate. While the first urban branch may be allowed to be opened at any time, the second urban branch should be permitted to be opened only after 20 rural/semi urban branches have been opened by the LAB concerned.

**3.23** LABs are new institutions and therefore need to be regulated carefully and supervised closely in the initial stages. They are in every sense of the term commercial banks and need to be treated as such for the purpose of regulation and supervision. We find that responsibility for supervision is vested with the Department of Banking Supervision which oversees the functioning of commercial banks. However, the regulation of the LABs rests with the RPCD. It is the considered view of the Group that regulation and supervision of LABs should be in the same wing of the RBI which regulates and supervises commercial banks. The RPCD should be relieved of its responsibilities of regulating LABs.

**3.24** We have in our report suggested a package of measures for ensuring that the four existing LABs grow on healthy lines and develop into commercially viable banking institutions. **We would urge that till these measures are put through and the existing LABs are placed on a sound basis, there should be no licensing of new LABs.**

## Chapter IV

### Summary of recommendations

**(i) Licensing of new LABs-**Since the current LABs have only recently commenced functioning, some more time needs to be given to observe their performance and help given to overcome their weaknesses. We would urge that till these measures to strengthen the existing LABs are put through and the existing LABs are placed on a sound basis there should be no licensing of new LABs **(Para 3.16 and 3.24).**

**(ii) Capital base-**LABs with their present capital base cannot become viable institutions. The existing LABs should be asked to reach net worth of at least Rs.25 crore over a period of five years **(Para 3.17).**

**(iii) Capital adequacy** –LABs should also be enjoined to maintain a minimum capital adequacy of 15%. This should not be a problem for the present. A higher capital adequacy norm is being proposed because as pointed out earlier LABs carry an inherently high-risk portfolio and do not have derisking possibilities. The matrix proposed by us - a net worth of Rs. 25 crore and capital adequacy norm of 15% would enable LAB to build an asset base of about Rs.150 crore - a level at which their operations would become viable. Every one of the existing LABs should be asked to submit a suitable road map for achieving the twin objectives of higher capital base and enhanced capital adequacy norm **(Para 3.18).**

**(iv) Trading in securities** – Considering the risks involved, LABs should be prohibited from trading in Government securities and other papers during their formative years, say for a period of five years **(Para-3.13).**

**(v) Engagement of agents** – LABs should not be permitted to engage the services of agents and quasi agents for achieving their business outreach **(Para 3.14).**

**(vi) Arms length relationship** – In view of the inherent weaknesses of LABs, great care has to be taken to ensure that no “Holding out” is done by the sponsoring agency and an arms length relationship is maintained with other group entities by the LAB **(Para-3.15).**

**(vii) Scheduling of LABs** – It is too early to confer on LABs the status of a scheduled bank. Scheduling of LABs may be considered after they have reached higher capital and capital adequacy and after watching their performance for sometime **(Para- 3.20).**

**(viii) Refinance**– The absence of refinancing facility places the LABs under a serious handicap both in managing maturity mismatch and in their ability to lend at finer rates .We therefore suggest that though an LAB may not be "scheduled," it should not be denied access to refinance for its term lendings from NABARD and SIDBI. However, as a precautionary measure we suggest that refinance should be permitted only in respect of such loans where at least one instalment repayable has been recovered by the LAB. Such a proviso would hopefully inculcate credit discipline among the LABs in the sanction of term loans and the refinance facility will not end up as a mere liquidity support **(Para 3.19).**

**(ix) Branch licensing -**LABs should be treated on par with Cooperative Banks in the matter of opening of branches falling within their charter. Other restrictions should be waived and the opening of a branch should be subject only to the granting of a licence by the Reserve Bank of India **(Para-3.21).**

**(x) Branch expansion** – To enable LABs to expand their business and attain viability we recommend that after LABs have opened a certain minimum rural /semi urban branches, they could be licensed to open more urban branches. A ratio of one urban branch to 10 rural/ semi urban branches will perhaps be appropriate. While the first urban branch may be allowed to be opened at any time, the second urban branch should be permitted to be opened only after 20 rural/semi urban branches have been opened by the LAB concerned **(Para-3.22).**

**(xi)** LABs need to be treated like any other commercial bank and therefore, regulation and supervision should be entrusted to the same wing of the Reserve Bank which is responsible for Regulation and Supervision of the commercial banks. The RPCD should be relieved of its responsibility of regulating LABs. **(Para 3.23).**

## Annex-I

### List of persons with whom the Review Group held discussions

1. Shri Y. C. Nanda , Chairman, NABARD
2. Dr.N. A. Majumdar , Economist
3. Dr. N.K. Thingalaya , Former Chairman &Managing Director, Syndicate Bank
4. Dr. R. Dasgupta, Member of Faculty, NIBM, Pune
5. Dr. D.P. Khankhoje, MOF, NIBM, Pune
6. Dr. K. Dinkar Rao, MOF, NIBM, Pune
7. Shri Deep Joshi, Chairman, Krishna Bhima Samrudhi Local Area Bank Ltd. Mehbubnagar
8. Shri Vijay Mahajan, M.D., BASIX

9. Shri N.V. Ramana, Director, Krishna Bhima Samrudhi Local Area Bank Ltd., Mehboobnagar
10. Shri Ramesh Ramanathan, GM, Krishna Bhima Samrudhi Local Area Bank Ltd.
11. Shri M. Sudarsan Babu, MD, Coastal Local Area Bank Ltd., Vijayawada
12. Shri V.G.K. Prasad, Director, Coastal Local Area Bank Ltd
13. Shri P.V.V. Satyanarayana, Promoter –director, Coastal Local Area Bank Ltd.
14. Shri V.V. Rawal, M.D, South Gujarat Local Area Bank Ltd., Navsari
15. Shri R.C. Sharma, Director, South Gujarat Local Area Bank Ltd
16. Shri Manyar, GM, South Gujarat Local Area Bank Ltd .
17. Shri A.S. Pooni, MD, Capital Local area Bank Ltd., Phagwara
18. Shri S . S. Samra, Chairman, Capital Local area Bank Ltd
19. Shri Dinesh Gupta, Corporate Advisor, Capital Local area Bank Ltd .
20. Shri B. Ghosh, Regional Director, RBI, Chennai
21. Shri R. Sahadeva, G.M, RPCD, RBI, Hyderabad
22. Shri J.G. Gupta , GM, RPCD,RBI, Chennai.

**Annex-II**

**Profile Of LABs**

**Coastal Local Area Bank Ltd. Vijayawada**

The bank was established on 27th December 1999 with its Head Office at Vijayawada. The area of operation of the bank comprises three contiguous well irrigated districts viz. Krishna, Guntur and West Godavari in the State of Andhra Pradesh.

**Promoters**

The bank has been promoted by three NBFCs (DFL Finance Ltd.,IKF Finance Ltd. and Sibar Finance Ltd.) and 8 individuals (including two NRIs).

**Branch Expansion**

The bank has opened 9 branches (urban-3, semi-urban-5, rural-1) in its area of operation. Approval for opening a rural branch at Takkelapadu has been accorded but the same has not been opened.

**Deposits**

(Rs. in lakhs)

| Year | Projected | Actual | % Growth |
|---|---:|---:|---:|
| 31-03-2000 | 500 | 412 | - |
| 31-03-2001 | 1800 | 1544 | 275 |
| 31-03-2002 | 2300 | 2190 | 42 |

**Advances**

(Rs. in lakhs)

| year | Projected | Actual | % Growth |
|---|---:|---:|---:|
| 31-03-2000 | 400 | 327 | - |

| | | | |
|---|---|---|---|
| 31-03-2001 | 1500 | 1418 | 334 |
| 31-03-2002 | 1800 | 1780 | 25 |

**C.D. Ratio**

| Year | C.D.Ratio |
|---|---|
| 31.03.2000 | 80 |
| 31.03.2001 | 92 |
| 31.03.2002 | 81 |

**Performance under Priority Sector lending** :

| Year | Projected (% to total advances) | Total advances (Rs.in lakhs) | Advances under priority Sector (Rs.in lakhs) | % of priority sector advances to total advances |
|---|---|---|---|---|
| 31-03-2000 | 40% | 327 | 35 | 10.70% |
| 31-03-2001 | 40% | 1418 | 534 | 37.65% |
| 31-03-2002 | 40% | 1780 | 809 | 45.45% |

**Investments**

(Rs.in lakhs)

| Year | Total investment | % to total advances | % to total deposits | % to total paid-up capital |
|---|---|---|---|---|
| 31-03-2000 | 8 | 2.45% | 1.94% | 1.59% |
| 31-03-2001 | 139 | 9.87% | 9.06% | 27.85% |
| 31-03-2002 | 407 | 22.86% | 18.58% | 81.02% |

**Capital Adequacy Ratio**

The bank's capital adequacy was 32% as on 31st March 2002.

**Profit/Loss Position**

(Rs.in lakhs)

| Year | Profit(+)/Loss(-) |
|---|---|
| 1999-2000 | (+)O.06 |
| 2000-2001 | (+)12.90 |
| 2001-02 | (+)103.28 |

**Income and Expenditure**

Income and expenditure for the year ended 31st March 2002 were Rs.386.74 lakh and Rs.386.74 lakh respectively.

**Manpower**

The staff strength as on 31-03-2002 was 49. The bank has no clerical staff. The staff is stated to be well qualified. The average business per employee works out to Rs.82.00 lakhs at present.

**Interest Rates**

Interest rates are decided based on (a) average cost of deposits (b) yield on advances and (c) net interest margin and are influenced by comparitive rates offered by public and private sector banks functioning in the area. Deposit rates offered on term deposits of different maturities ranged between 5.5% and 9.00% as compared to 5% and 8.75% offered by new private sector banks , RRBs and public sector banks operating in the area. Few co-operative banks have been offering deposit rates on term deposits of equivalent maturities ranging between 8% to 13.5%.

**Corporate Governance**

The affairs of the bank are managed by a professional Board of Directors with broad representation from agriculture, industry, management, banking. Board meetings are reportedly held at regular intervals. The Board has set up four committees viz. (i)Investment Committee,(ii) Audit Committee, (iii) Management Committee, (iv) Asset Liability Management Committee. The bank has placed in position the system of internal supervision and control.

**Capital Local Area Bank Ltd., Phagwara**

The bank was established on 14th January 2000 with its Head Office at Phagwara. The area of operation of the bank comprises three contiguous districts of the fertile agriculturally prosperous Doab area viz. Kapurthala, Hoshiarpur and Jalandhar(excluding Jalandhar East and West Blocks, which are industrially developed) in the State of Punjab.

**Promoters**

The bank has been promoted by Shri A.S. Samra and 25 individuals.

**Branch Expansion**

The bank has opened 8 branches(urban-1, semi-urban-3 and rural-4) in its area of operation.

**Deposits**

(Rs. in lakhs)

| year | Projected | Actual | % Growth |
|---|---|---|---|
| 31-03-2000 | 203.00 | 306.73 | - |
| 31-03-2001 | 2158.00 | 1722.06 | 461.43% |
| 31-03-2002 | 5188.00 | 4728.54 | 174.59% |

**Advances**

(Rs. in lakhs)

| year | Projected | Actual | % Growth |
|---|---|---|---|
| 31-03-2000 | 154.00 | 101.98 | - |
| 31-03-2001 | 1514.00 | 1225.88 | 1102.08% |
| 31-03-2002 | 3517.00 | 3000.98 | 144.80% |

**C.D.Ratio**

| Year | CD ratio |
|---|---|
| 31.03.2000 | 33.25% |
| 31.03.2001 | 71.18% |
| 31.03.2002 | 63.46% |

**Priority Sector lending:**

| Year | Projected (% to total advances) | Total advances (Rs.in lakhs) | Advances under priority Sector (Rs.in lakhs) | % of priority sector advances to total advances |
|---|---|---|---|---|
| 31-03-2000 | 40% | 101.98 | 47.40 | 46.48% |
| 31-03-2001 | 40% | 1225.88 | 564.44 | 46.04% |
| 31-03-2002 | 40% | 3000.98 | 1501.95 | 50.05% |

**Investments**

(Rs.in lakhs)

| Year | Total investment | % to total advances | % to total deposits | % to total paid-up capital |
|---|---|---|---|---|
| 31-03-2000 | 76.65 | 75.16% | 24.99% | 12.77% |
| 31-03-2001 | 702.56 | 57.31% | 44.80% | 117.09% |
| 31-03-2002 | 1937.00 | 64.54% | 40.96% | 322.83% |

**Capital Adequacy Ratio**

Capital adequacy ratio as on 31st March 2002 is 19.02%.

**Profit/Loss position**

(Rs.in lakhs)

| Year | Profit(+)/Loss(-) |
|---|---|
| 1999-2000 | (+)4.51 |
| 2000-2001 | (+)3.79 |
| 2001-02 | (+)116.32 |

**Income and Expenditure**

The income and expenditure of the bank for the year ended 31st March 2002 were Rs634.10 lakh and Rs.482.56lakh respectively.

**Manpower**

The staff strength for its Head office and eight branches taken together as on 31-03-2002 was 144 of which 90 were in the officer category and 54 belonged to sub-staff category. The average business per employee was Rs.72.00 lakhs at present.

**Interest Rates**

Interest rates are decided based on the average cost of deposits, yield on advances, net interest margin and are influenced by comparative rates offered by public and private sector banks functioning in the area.

The thrust is on mobilization of low cost retail deposits. Interest rates on advances ranged from 12 to 13.50 %. It charges interest at 12% on lendings to weaker section. The deposits rates of the bank on deposits of different tenures range between 5.5 and 8.75%. Interest rates ranged between 8.25 and 9.00 % for NRI deposits of different tenures.

**Corporate Governance**

The affairs of the bank are managed by a professional Board of Directors with broad based representation from different fields like agriculture and co-operation, industry, banking.The Board meetings are held at regular intervals. The Board has since set up committees viz. Credit sanctioning committee, Investment Committee, Audit Committee, Management Committee, Asset Liability Management Committee. There is an internal audit department for audit of branches at half-yearly intervals.

**South Gujarat Local Area Bank Ltd., Navsari**

The bank was established on 3rd October 2000 with its head office at Navsari. The area of operation of the bank comprises three contiguous districts viz. Navsari ,Bharuch and Surat in the State of Gujarat.

**Promoters**

The bank has been promoted by Shri Kanaksinh M. Mangrola and 9 others.

**Branch Expansion**

The bank has so far opened six branches (1 urban, 2 semi urban, 3 rural) in its area of operation.

**Deposits**

(Rs. in crore)

| Year end | Projected | Actual |
|---|---:|---:|
| 2000-01 | 12.00 | 13.16 |
| 2001-02 | 25.00 | 19.10 |
| 2002-03 | 50.00 | 20.08 (upto 30-06-2002) |

**Advances**

(Rs. in crore)

| Year end | Projected | Actual |
|---|---|---|

| | | |
|---|---|---|
| 2000-01 | 7.00 | 10.51 |
| 2001-02 | 18.00 | 13.89 |
| 2002-03 | 40.00 | 15.40<br>(upto 30-06-2002) |

**C.D. Ratio**

The bank's C.D. ratio as at the end of 2001-02 was 72%.

**Priority sector lending**

| Year | Projected (% to total advances) | Total advances (Rs.in lakh) | Advances under priority sector(Rs. in lakh) | % of priority sector to total advances |
|---|---|---|---|---|
| 2000-01 | 40% | 1051.72 | 247.65 | 23.54 |
| 2001-02 | 40% | 1389.97 | 694.14 | 49.94 |

**Investments**

(Rs. in lakh)

| Year | Total investment | % to total advances | % to total deposits | % to total paid-up capital |
|---|---|---|---|---|
| 2000-01 | 179.16 | 17.03 | 13.60 | 38.83 |
| 2001-02 | 448.99 | 32.30 | 23.51 | 89.80 |

**Capital Adequacy Ratio**

Capital adequacy ratio was at 32.94% on 31-03-2002.

**Profit/Loss position**

| Year | Profit(+)/Loss(-) (Rs.in lakh) |
|---|---|
| 2000-01 | (-)38.21 |
| 2001-02 | (+)6.88 |

**Income and Expenditure**

The income and expenditure of the bank for the year ended 31st March 2002 have been reported as Rs.426.64 lakh and Rs.373.16 lakh respectively.

**Manpower**

The bank's staff strength as on 30-06-2002 was 48. (l) Business operations: The bank financed small-scale entrepreneurs, agriculture and allied activities, professionals and self-employed persons.

**Interest rates**

Interest on deposits are determined by the bank's Board taking into account rates of interest offered by co-operative, public & private sector banks in the area. Interest on advances are determined considering cost of deposits and operating cost.

Other rates on advances are linked to PLR. The deposits rates of the LAB for different tenures ranged from 5% p.a. to 11% p.a. Interest charged by commercial banks operating in the area ranged between 5% and 8% p.a. for comparable tenures. For term deposits of 3 to 5 years maturity the bank offers higher rates of interest. The lending rates of the LAB for different purposes range between 14% and 17.5% whereas the lending rates of some of the commercial banks including SBI ranges between 11.5% and 14% p.a. as stated by the bank.

**Corporate Governance**

The affairs of the bank are managed by professional Board of Directors with broad based representation from different fields like agriculture, industry, banking, etc. Board meetings are held at regular intervals. The Board has set up six committees viz. Management Committee, Loan Committee, Investment Committee, Internal Inspection Committee, HRD Committee, Audit Committee of the Board. The bank has introduced an internal supervision and control system.

**Krishna Bhima Samruddhi Local Area Bank Ltd., Mahbubnagar**

The bank was established on 28th February 2001 with its Head Office at Mahabubnagar .The area of operation comprises three districts Viz. Mahbubnagar in Andhra Pradesh and Gulbarga and Raichur in Karnataka.

**Promoters**

The bank has been promoted by an NBFC viz. Basix which is a holding Company with 2 subsidiaries viz. Bhartiya Samruddhi Finance Ltd. (BSFL) and Sarvodaya Nano Finance Ltd.(SNFL).

**Branch Expansion**

The bank has opened three branches of which one at Mahbubnagar is an urban branch and the remaining two at Yadgir and Manvi are rural branches.

**Deposits**

(Rs.in lakh)

| Year | Projected | Actual |
|---|---|---|
| 2001-02 | 150 | 40 |
| 2002-03 (Up to 30.6.2002) | 570 | 61 |

**Advances**

(Rs.in lakh)

| Year | Projected | Actual |
|---|---|---|
| 2001-02 | 378 | 253 |
| 2002-03 (Up to 30.6.2002) | 1041 | 257 |

**C.D. Ratio**

| Year | C.D.Ratio |
|---|---|
| 2001-2002 | 640% |
| 2002-2003 (Up to 30.6.2002) | 419% |

**Priority sector advances**

(Rs.in lakhs)

| Year | Projected | Actual |
|---|---|---|
| 2001-02 | 378 | 251 |
| 2002-03 (Up to 30.6.2002) | 1041 | 255 |

The bank's priority sector advances constituted 98.30% of the total advances as on 31st March 2002.

**Investments**

(Rs. in lakhs)

| Year | Amount |
|---|---|
| 2000-01 | 500 |
| 2001-02 | 257 |

The investments of the bank constituted 101.58%, 642.50% and 51.40% of total advances, total deposits and total paid-up capital of the bank respectively as on 31st March 2002.

**Capital Adequacy Ratio**

Capital adequacy ratio was 151% on 31st March 2002.

**Profit/Loss Position**

(Rs. in lakhs)

| Year | Amount |
|---|---|
| 2000-01 | 0.46 |
| 2001-02 | 15.12 |

**Manpower**

The bank has total staff strength of 19 and several Customer Service Agents.

**Business operations**

The bank focusses on micro finance. The major part of its advances comprise lending to priority sector and weaker sections. The bank has adopted a system of extending outreach to the poorer borrowers through customer service agents. These agents are also stated to be facilitators for timely recovery of bank'' dues from the borrowers. They are paid commission which is linked to recovery ranging from 1/8$^{th}$ to 1/6$^{th}$ of interest collected.

**Interest rates**

Interest rates are decided based on the average cost of deposits, yield on advances , net interest margin and are influenced by comparative rates offered by public and private sector banks functioning in the area.

The bank determines the interest rate structure based on cost of funds, cost of operation, provision for risks and bad debts etc. The bank's lending rates range between 15% and 21% based on nature of advances, as the costs of operation, transaction costs of lending to micro entrepreneur/small & marginal farmers are high.

**Corporate Governance**

The affairs of the bank are managed by a Professional Board of Directors with broad representation from agriculture, rural development, micro finance. The Board has set up Audit Committee, Executive Committee and ALCO. The bank has reportedly introduced internal inspection system and periodic branch visit system.

**Annex-III**
**Questionnaire**
**Bank Profile**

**Part A**
**The Bank**
1. Name of the bank
2. Date of Establishment
3. Address of the Head Office
4. Name of the Managing Director and date of his appointment
5. Area of operation of the Bank
6. No.of branches and classification(Rural/semi-urban/Urban)
7. No.of branch licences pending
8. Total staff strength

Level of Banking Business

*Projected at the time of submission of Business Plan, Actual achievement there against.
*Budgeted for the current year, actual achievement for the current year.

1. Deposits (Last three years)

| Year | Projected | Actual |
|---|---|---|
| Year 1 | | |
| Year 2 | | |
| Year 3 | | |

2. Growth of deposit (%)
3. Advances (last three years)

| Year | Projected | Actual |
|---|---|---|
| Year 1 | | |
| Year 2 | | |
| Year 3 | | |

4. Growth of advances (%)
5. C.D. ratio (last three years)

| Year | Projected during the time of Business Plan | CD Ratio |
|---|---|---|
| Year 1 | | |
| Year 2 | | |
| Year 3 | | |

Priority Sector Advances

1. Advances under priority sector (last three years) (Budget, Actual)
2. Growth in priority sector
3. Details of priority sector advances
4. Interest rates charged on priority sector lending
5. % of priority sector to total advances
6. Advances to weaker sections (last three years)
7. % of weaker section advances to total advances

Investment

1. Investments (last three years)
2. % to total advances
3. % to total deposits
4. % to total paid up capital
5. Exposure to capital market, if any
6. Advances to real estate sector

Statutory requirements

1. Amount of CRR and SLR maintained

2. Whether as per statutory requirements
3. Capital Adequacy Ratio (CAR)
4. Profit/loss (last three years

**Non Performing assets**

1. % of NPAs to total advances
2. Nature of NPAs

- Whether due to large exposure to any one account.
- Whether due to connected and related lending.

3. Classification of NPAs
- Age wise/Amount wise/Industry wise

**Part-B**
Corporate Governance

1. Composition of Board of Directors of the Bank
2. Whether the Board has professional directors (Details)
3. Committees set up- Investment, Audit/Credit/ALCO etc.
4. Number of meetings held in the last three years, year wise.
5. Frequency of the Board Meetings with Business Transacted

Internal supervision and control

1. System of internal control
2. Whether internal inspection system introduced
3. Whether system of branch visit by MD is in place
4. Whether the bank has formulated various policies viz., Loan Policy, investment policy, ALM policy etc. Whether the same have been approved by the Board

Interest Rate

1. How does the bank decide the interest rate structure?
2. What is the interest rate charged by the bank on advances.
3. Whether the same is competitive?
4. Whether the bank has made any survey to assess the business potential in its area of operation? If so, whether the bank has identified potential centres?
5. Whether the bank considers the area of operation (3 districts) adequate to ensure long term viability and profitability?
6. How does the bank identify potential borrowers?
7. Information system put in place
8. Infrastructural arrangements made by the bank. Whether the branches are fully computerised?

Recovery

1. Recovery mechanism followed by the bank. What is the experience of the bank in regard to recovery under priority sector advances and advances to weaker sections?
2. Suggestions, if any, for improvement in the scheme.

**Part- C**

1. Have the employees of the Local Areas Banks attained sufficient experience and expertise as to say that they are of the same calibre and on par with their counterparts in the sponsor banks in the rural Area?

2. To what extent are the duties and responsibilities of employees of LABs now comparable with those of other Banks, RRBs, Cooperative Bank, Public Sector Banks operating in the same area?

3. What was the workload of each Local Area Bank employee in regard to business per employee during 1995-96?

i) Vouchers per day per employee
ii) Loan applications processed per officer per day
iii) Average business per employee (deposit plus advances, divided by the total number of employees in all LAB).

4. What are the projects prepared for or by LAB with the object of financing small-scale entrepreneurs, village artisans and small farmers?

5. How many such projects are taken up in each region and the quantum of loans sanctioned to them under the NABARD schemes or projects/LABs own schemes?

6. Are there projects and schemes other than those implemented for purposes of helping the village artisans, etc. and small articulturists? If yes, please state the amounts lent and their proportion to total lending 2000-2001, 2001-2002.

7. Is there any significant difference in the procedure (documentation etc.) adopted in the matter of granting loans between LAB branches and other Cooperative Banks, RRBs, Commercial Bank operating in the area.

8. Income

a) Interest/discount on advances/bills
b) Interest on money at call and short notice
c) Commission, exchange and brokerage
d) Other receipts (specify)

Expenditure

a) Interest on deposits
b) Interest on borrowings
c) Other expenditure
d) Salaries
e) Directors' fees, allowances and expenses
f) Rent, Taxes and Lighting
g) Law Changes (if any)
h) Postage, telegrams and telephones
i) Auditor's fees and expenses
j) Depreciation on bank's property
k) Repairs and maintenance
l) Advertisement
m) Insurance
n) Printing and Stationery
o) Other expenditure (specify)

| Working Results | 1994 | 1995 | 1996 |
|---|---|---|---|
| Gross income | | | |
| Gross expenditure | | | |
| Profit/loss | | | |
| (% of profit/loss of working capital) | | | |
| (% of profit/loss to gross income) | | | |

9. Is there any productivity-linked incentive to any category of staff in the LAB? If yes, please describe norms adopted for the purpose.